Regional Expert Group Meeting on the Midterm Review of the Vienna Programme of Action

Session 5: Structural Transformation

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18-19 September 2018
Almaty, Kazakhstan
Outline of Presentation

1.) The concept of structural transformation
2.) The performance of LLDCs in structural transformation
3.) The performance of Asian LLDCs compared to all LLDCs
4.) The concept of Productive Capacities
5.) The Productive Capacities Index (PCI)
6.) The Performance of LLDCs on Productive Capacities
7.) Policy conclusions
1.) The concept of Structural Transformation

Shifting resources and policy focus:

FROM
- traditional sectors
- traditional activities
- low-productivity
- low-technology

New sectors
New activities
Higher productivity
Higher technology

Structural transformation takes place:

- **within** sectors
- **across** sectors
1.) The concept of Structural Transformation

- Structural Economic Transformation = Basis for sustainable, inclusive growth and the SDGs

- Growth without Structural Transformation (e.g. based on natural resource exploitation):
  - Concentrated in one or two sectors
  - Vulnerable to shocks/reversals
  - Unsustainable

- Development Policy has usually recommended fostering Structural Economic Transformation to achieve sustainable developmental progress
1.) The concept of Structural Transformation

Structural Economic Transformation affects the shares of the three core sectors in the overall economy over the development process.

Figure 1
Labor Shares in the United States

Percent of Labor

2.) The Performance of LLDCs in Structural Transformation

- Structural Transformation (esp. Industrialization), especially difficult to achieve for LLDCs due to their high trade costs:
  
  - Imports of machinery and raw materials is expensive
  
  - Exports of manufacturing output uncompetitive
  
  - Competition from profitable natural resource exploitation
2.) The Performance of LLDCs in Structural Transformation

Manufacturing Value Added (percentage of GDP)

- **LDCs (Least developed countries)**
- **LLDCs (Landlocked developing countries)**

Graph showing the trend of manufacturing value added as a percentage of GDP for LDCs and LLDCs from 2000 to 2016.
2.) The Performance of LLDCs in Structural Transformation

![Graph showing the Diversification Index for LDCs (Least Developed Countries) and LLDCs (Landlocked Developing Countries) over the years 2000 to 2016.]
3.) The Performance of Asian LLDCs compared to all LLDCs

![Graph of Export Concentration Index for Asian LLDCs, LDCs, and LLDCs (Landlocked developing countries)]
3.) The Performance of Asian LLDCs compared to all LLDCs

![Graph showing Diversification Index for Asian LLDCs, LDCs (Least developed countries), and LLDCs (Landlocked developing countries) from 2000 to 2016. The graph indicates a steady diversification index for Asian LLDCs, slightly lower for LDCs, and even lower for LLDCs throughout the period.]
3.) The Performance of Asian LLDCs compared to all LLDCs

Number of Export Products

- Asian LLDCs
- LDCs (Least developed countries)
- LLDCs (Landlocked developing countries)
3.) The Performance of Asian LLDCs compared to all LLDCs

Manufacturing Value Added
(percentage of GDP)

- Asian LLDCs
- LDCs (Least developed countries)
- LLDCs (Landlocked developing countries)
3.) The Performance of Asian LLDCs compared to all LLDCs

![Graph showing the manufacturing value added for Asian LLDCs, LDCs, and LLDCs over the years from 2000 to 2016. The graph compares the performance of Asian LLDCs to all LLDCs, with a focus on trends in manufacturing value added in constant 2010 US$ million.]
4.) The concept of Productive Capacities

Productive Capacities:

“The productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop” (UNCTAD, 2006)

Productive capacities:
• determine *what* (and how much) a country can produce, which determines its long-term growth and development prospects. (e.g. exporter of raw materials versus exporter of consumer electronics).
• Are a key determinant of structural transformation and export diversification.
• Facilitate the achievement of broader socio-economic goals.
4.) The concept of productive capacities

The 3 components of productive capacities:

- **Productive resources**
  - Natural resources
  - Human resources
  - Financial capital
  - Physical capital

- **Entrepreneurial capabilities**
  - Core competencies
  - Technological capabilities

- **Production linkages**
  - Backward and forward linkages
  - Flows of information and exchange of experience
  - Resource flows (human capital, financial capital)
  - Territorial production clusters
  - Global value chains
  - Links between FDI and domestic entrepreneurs
  - Links between large firms and SMEs
5.) The Productive Capacities Index (PCI)

UNCTAD’s Productive Capacities Index (PCI):
• Aims to ‘operationalize’ the concept of productive capacities for policy-makers.
• Is a tool to measure the levels of productive capacities in a given economy, and can be used to assess performance over time, and compare across countries.
• Simplification, but provides practical applicability.

Composition of the PCI:
• 8 categories: Natural Capital, Energy, Human Capital, Information and Communications Technology (ICT), Institutions, Private Sector, Structural Change, and Transport.
• 58 indicators
• Covering 190 countries from year 2000 until today.
• Scores between 0 and 100, though results are compressed: Highest performing country: 64.7, while lowest performer: 40.5.
6.) The Performance of LLDCs on the PCI

Overall PCI performance of LLDCs:

PCI (all)
3.) The Performance of LLDCs

PCI performance of LLDCs by component:
4.) Policy Conclusions

• LLDCs, and Asian LLDCs in particular lag behind in terms of structural transformation, which holds the key to sustained inclusive growth and achieving the SDGs

• Policy-efforts should therefore concentrate on promoting structural transformation, including through:
  – targeted incentives for sectors/firms delivering higher value-added production(exports/higher-skilled employment
  – Identifying and addressing the binding constraints on structural transformation in the domestic economy
  – Creating an enabling environment for the private sector
  – Using windfall gains from commodities exports to support infrastructure, education, and science and technology/ICT