



**Workshop on Resource Mobilization for Sustainable Development
in Vanuatu and in the Asia-Pacific SIDS**

Session 7 – Structural transformation and poverty reduction in Asia-Pacific

Overview of the Asia-Pacific Countries with Special Needs
Development Report 2019

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Introduction

Countries with special needs (CSN)

- Include LDCs, LLDCs and SIDS
- Continue to face structural challenges and vulnerability to external shocks

The Asia-Pacific CSN Development Report

- 2015: Building productive capacities to overcome structural challenges
- 2016: Adapting the 2030 Agenda for Sustainable Development at the National Level
- 2017: Investing in infrastructure for an inclusive and sustainable future
- 2018: Preventing conflict and sustaining peace to foster sustainable development
- **2019: Structural transformation and its role in poverty reduction**

Introduction

What is ST?

- Defined as the change in the long-term composition and distribution of economic activities
- Traditionally from agriculture to manufacturing and then to services
- Involves both within- and across-sector changes as well as diversification and sophistication of production and export structures

What causes ST?

- Pull/Demand Side (utility based explanation): Income growth and increasing demand for income-elastic goods, changes in resource availability, etc.
- Push/Supply Side (technological explanation): Capital stock, productivity, technology

Why is it important?

- ST results in higher productivity gains, higher wages and stable sources of incomes, thereby reducing poverty and closing productivity gaps across sectors

Introduction

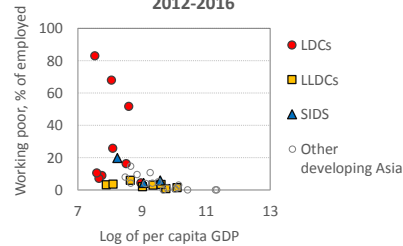
What is the relevance to CSN?

- Poverty, productivity gaps across sectors, rural-urban gaps
- ST in CSN is still in its formative stages

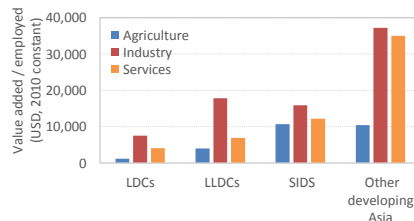
➔ Potential gains of ST may be significant for CSN

- SAMOA Pathway refers to “promoting development of cultural and creative industries, including tourism”
- Some CSN have recently faced unconventional structural shifts – *premature deindustrialization*

Poverty and GDP per capita, average of 2012-2016



Labour productivity, by sector and by country group, average of 2007-2016

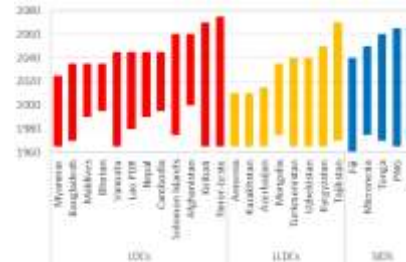


Introduction

The *Report* aims to:

- Assess the trajectory of ST and its role in eradicating poverty in CSN
- Identify the appropriate channels and conditions under which ST contributes to poverty reduction
- Address whether the traditional approach of ST is still a valid pathway for CSN given:
 - Increasing pace of technological advancement
 - Youth bulge and prospects for creating conditions for decent job opportunities
 - Broader objectives of social inclusiveness and environmental sustainability in the SDG era

Years in which working age populations are growing



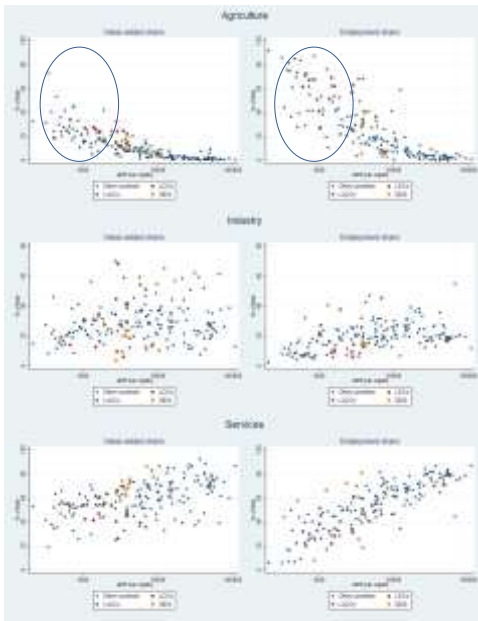
Growth of employment and GDP, 2000-2016



Some preliminary observations

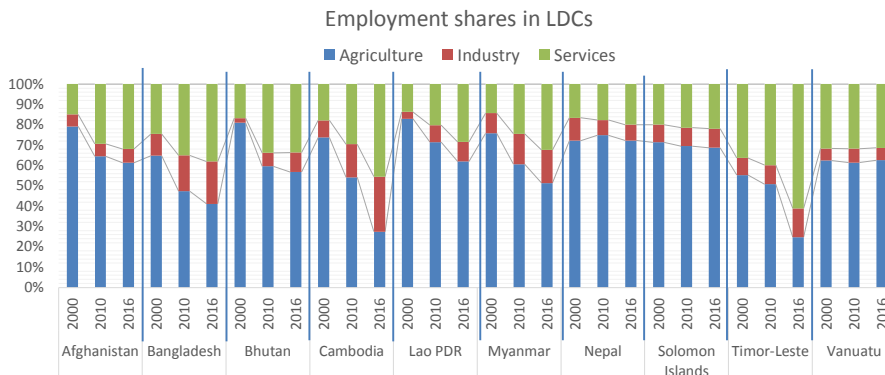
- The pace of ST has been slow and moderate in most SIDS
- Successful cases of ST from Asia were all exceptions and cannot be replicated in other developing countries, certainly not in SIDS
 - No one-size-fits-all pathway
- Agriculture upgrading and diversification towards rural non-farm economy will be effective for poverty reduction initially.
- Continued efforts at developing a few niche sectors to upgrade may offer potential to enhance productivity through improved within-sector upgrading
- International support is crucial for SIDS with limited resources for development.

Structural transformation in Asia and the Pacific



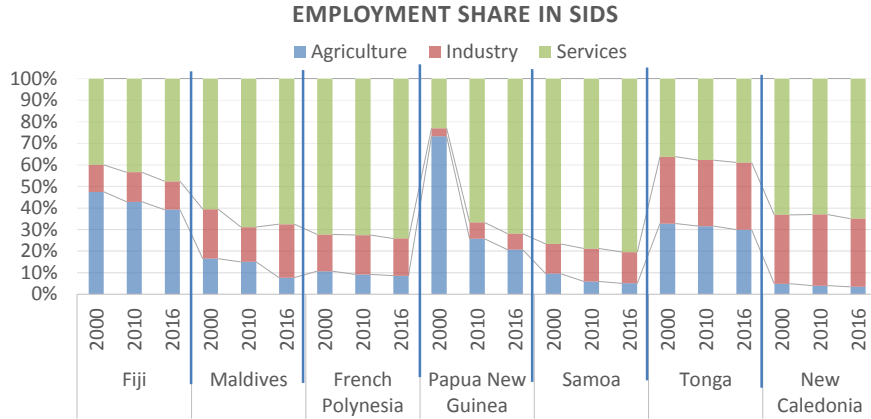
- Two common measures of ST: employment shares and value-added shares, but with some caveats
- As per capita incomes rise, the decline in the employment and value-added share of agriculture and the increase in the share of services is a visible and consistently observed phenomenon.
- Industry exhibits more of a reverse U shape
- Lower income countries suffer from an asymmetry between the low output share of value added and high share of employment in Agriculture

Most LDCs are structurally underdeveloped



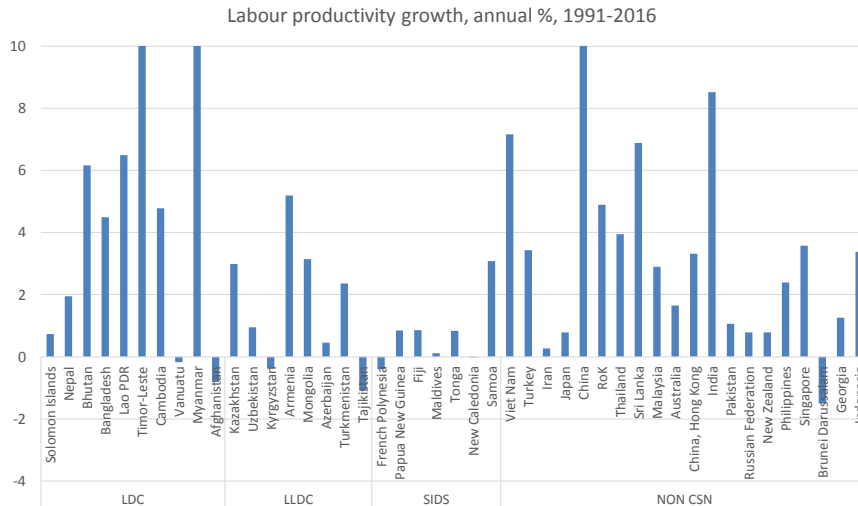
- Most LDCs are still “structurally under-developed” as agriculture is the largest sector in terms of the number of employed.
 - Movement out of Agriculture is still slow
 - Nepal, Solomon Islands, Vanuatu have been particularly slow
- Cambodia and Timor-Leste are outliers where the service sector is particularly large
 - In the case of the former employment in industry and agriculture are also comparable

SIDS are structurally developed and developing



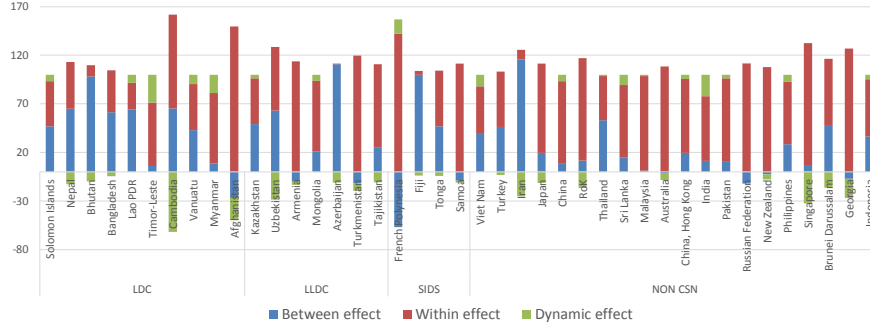
- SIDS are a combination of “structurally developing” and “developed”.
 - Fiji and PNG are still “developing” with large service sectors
 - In Maldives, French Polynesia, Samoa, Tonga and New Caledonia, Industry although small is larger than the very small Agriculture sector

Labour productivity growth in CSN and non-CSN



Sources of labour productivity growth in Asia-Pacific

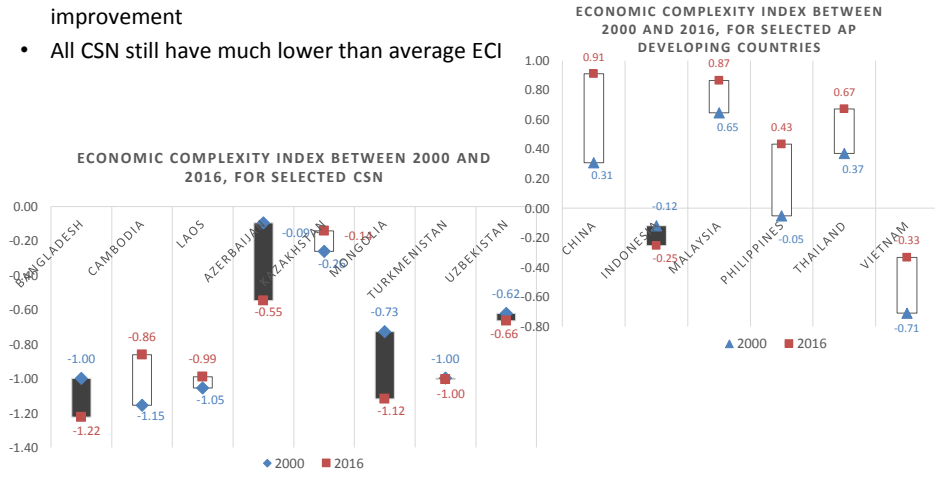
Decomposition of labour productivity growth, 1991-2016



- **Non CSN:** Perhaps the structural transformation dividend was realized earlier and does not show up in the data for this time period.
- **CSN:** Between effect is strong. Perhaps this suggests that more capital deepening or upgradation is needed in CSN.
- **In some CSN:** a negative contribution of structural transformation; perhaps labour moved to lower productivity sectors like in Afghanistan where conflict may have induced this outcome.

Are CSN upgrading their product sophistication?

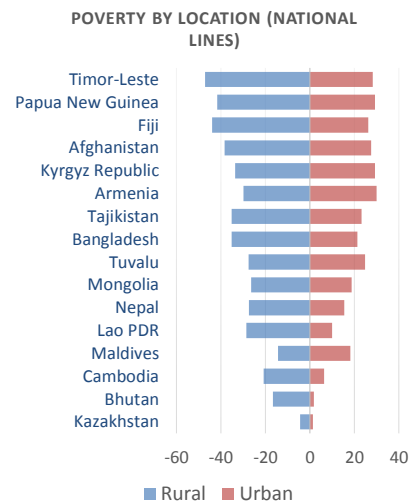
- Unfortunately, ECI has decreased for quite a few
- Cambodia, which also has higher share of industry in GDP has shown the most improvement
- All CSN still have much lower than average ECI



The poverty reduction-ST nexus

- Impacts depend on employment elasticity of growth in sectors and growth elasticity of poverty reduction
- Unskilled labour intensive sectors contribute the most as unskilled labour is the input the poor can offer to the production process
- Rural poverty in CSN is much higher: No country has reduced rural poverty quickly without fast rural transformation
- **Growth in agriculture and agri-business is on average more effective in reducing income poverty**

➔ Economic growth on its own is not sufficient and the composition of ST matters for poverty reduction



Policy Recommendations

The main question

- We are asking: What specific policy and institutional measures, by who (policy makers / international community) and in which (group of) countries (LDCs, LLDCs, SIDS, resource-rich, in systemic transition) should/could be introduced in terms of structural economic transformation to more effectively eradicate poverty in Asia-Pacific CSN;
- The threat: too broad approach and too generic policy recommendations.

Types of policy:

- (A) Macroeconomic policy;
- (B) Industrial policy;
 - Functional policies
 - Selective policies.
- (C) The role of the international community (e.g. the UN system) and regional mechanisms (e.g. BRI)

Policies and strategies

Context Driven

- In the case of LDCs, there will be a need to enable faster growth in improving job-creating productive capacity building with a specific set of policies for selective investment in domestic industries;
- SIDS, that are likely to face difficulty in setting up robust manufacturing sectors, will need to implement policies to focus on **developing niches in some services such as eco-tourism, agro-tourism and adventure-tourism**, where the labour intensity and spillover effects are perhaps higher than manufacturing would permit in such contexts;
- **Enhancing productivity of the agriculture sector** in addition to **facilitating growth of the non-farm economy** will be critical for poverty reduction initially.

Some preliminary observations

- The pace of ST has been slow and moderate in most SIDS
- Successful cases of ST from Asia were all exceptions and cannot be replicated in other developing countries, certainly not in SIDS
 - No one-size-fits-all pathway
- Agriculture upgrading and diversification towards rural non-farm economy will be effective for poverty reduction initially.
- Continued efforts at developing a few niche sectors to upgrade may offer potential to enhance productivity through improved within-sector upgrading
- International support is crucial for SIDS with limited resources for development.

Questions for discussion

- What are the **challenges** for SIDS in promoting ST?
- What is the **Government's role** to support the country's ST, particularly rural transformation?
- How can SIDS take advantage of the increasing pace of **technological advancement** (e.g. more tradable services, outsourcing, automation, etc.) to steer ST towards more effective poverty eradication?
- What are the **niche markets/sectors/products** that SIDS can target to develop for rural transformation?
 - What is the role of the government in promoting niche markets?
 - What is the role of the international community?
 - Are there any **case studies** that ESCAP should develop or cover in its Report?