

Structural Transformation in Landlocked Developing Countries



2ND UN CONFERENCE
ON LANDLOCKED DEVELOPING COUNTRIES
VIENNA · NOVEMBER 2014

Despite an impressive decade of real GDP growth and trade performance during 2003-2013 in landlocked developing countries (LLDCs), the pace of poverty reduction has been slow and the impact of growth on job creation and export diversification has been limited.

Though the overall GDP growth rate for the LLDCs increased from 4.5% in 2002 to 6.3% in 2013, there are wide disparities across the countries and the positive economic growth rates have not translated to job-creation nor rapid reduction in extreme poverty. The average GDP per capita for the LLDC group increased from US\$ 697 in 2003 to US\$ 1,423 in 2012, but in 20 out of 32 LLDCs the GDP per capita it is still well below US\$ 1,000. Total trade by LLDCs as a group increased from \$123 billion in 2004 to \$434 billion in 2012, representing a 17 percent average annual increase.

Despite the general improvements in trade and the social and economic conditions that have been achieved by the LLDCs over the past decade, they still experience major development challenges. The LLDCs have limited productive capacities and structural weaknesses which impede their growth prospects and constrain their ability to produce efficiently and competitively. They heavily rely on natural resource-based commodities (such as oil, minerals, agricultural products) thereby making them highly vulnerable to commodity price fluctuations. LLDCs manifest higher export concentration ratios that have increased over the decade. The export concentration ratios of LLDCs increased from 0.20 in 2003 to 0.37 in 2013 whereas that of the developed countries increased from 0.13 to 0.18 respectively. This shows their high dependency on exports of primary commodities that are highly vulnerable to commodity price volatility.

LLDCs have also been experiencing declining agricultural productivity and deindustrialization. Total value addition from agriculture for LLDCs declined from 22.8 per cent in 2001 to 18.2 per cent in 2011. Manufacturing, as a relative share of GDP steadily declined from around 13 percent in 2003 to an average 10.7 percent between 2010 and 2012. Besides slowing down economic diversification, deindustrialization undermines productive capacity and reverses structural transformation, isolating the LLDCs further. It also prevents their effective and meaningful participation in global value chains and international trade.

Other development challenges faced by LLDCs include low level of skills and technological base and the high trade costs of LLDCs. According to the World Bank's Doing Business 2014 Report, the average costs of exporting a container for LLDCs are higher than transit countries and have increased from US\$ 2200 in 2006 to US\$ 3200 in 2014, while transit developing countries are only paying 50% of this cost.

Why Focus on Structural Transformation of the LLDCs?

While many LLDCs have been able to make some progress in overall economic performance, trade and on some aspects of social development, they have not been able to initiate a sustained process of structural transformation of their economies. Structural transformation involves the process of creating new areas of activities and the shifting of resources from low value-added and low productivity to higher value-added and high productivity activities. For example from a traditional economy dominated by primary activities into a modern economy where high-productivity activities in manufacturing assume an important role. This is an essential feature of any development process and one that all developed countries have gone through and developing countries need to undergo in order to shift to fast and sustained growth.

The record of structural transformation in the post-Altamty period is rather disappointing for the majority of LLDCs and marked by decline in agricultural productivity and de-industrialization. There is a lack of economy-wide improvement in terms of productivity, value-addition by domestic producers

and long-term structural transformation. The production base in LLDCs continues to be narrow with a heavy dependence on primary commodities, and technology intensity is also very low, which is a major reason for the low productivity in most sectors, especially agriculture and manufacturing. Furthermore, the LLDC's economic growth has not necessarily been associated with strengthened capacity to adapt to the environmental hazards associated with climate change and other global crises.

Achieving sustained and inclusive economic growth for sustainable development remains the major means of eradicating poverty and attaining shared prosperity in the LLDCs. Since there is no simple, uniform and universal blue print that enables LLDCs to address their persistent and emerging development challenges, it is important that LLDCs design their home-grown development policies and strategies based on their specific socio-economic circumstances, resources base, institutional capability and overall local conditions.

In order to achieve structural transformation some of the key enablers include: building a critical mass of viable and competitive productive capacity, accelerated industrialisation, increased agricultural productivity, promotion of the services' sector, enhanced role of the private sector and increased science and technology. Structural transformation can take place in an enabling environment that has appropriate policies, supportive regulatory and institutional framework, adequate investment, and technological acquisition and innovation.

Regional integration and cooperation, particularly close cooperation with transit neighbours is crucial for improving LLDCs' international competitiveness and their overall development. In other words, beyond improving transit transport, reducing related costs and achieving trade facilitation objectives, regional cooperation provides important avenues for LLDCs to harmonize and coordinate policies to build their productive basis, accelerate structural transformation and enhance their socio-economic development. International support is important in helping the LLDCs to strengthen their productive capacities, enhance value addition and diversification of their production base. ■