



## **Sub-regional Workshop**

# **Fostering Structural Transformation and Export Diversification in Selected Asian Landlocked Developing Countries**

### **Concept Note**

#### **Background**

The group of Landlocked Developing Countries (LLDCs) has seen impressive growth rates exceeding 7% on average between 2000 and 2013, allowing many of them to make significant strides in terms of human development and poverty reduction. However, a subsequent sharp slowdown of growth down to 2.6% in 2016 (0.4% in per capita terms) revealed their persistent vulnerabilities resulting from heavy commodity dependence or lack of economic diversification. While previous windfall gains from commodities exports allowed the LLDCs to achieve poverty reduction through investments and social programs, the slowdown also affected the rate of poverty reduction. Even during the period of high growth, the pace of poverty reduction was below what could be expected.

The reason for the skewed performance of LLDCs is their high dependence on commodities – 26 out of the 32 LLDCs depend on primary commodities for more than 60% of their exports. This means that growth is highly concentrated in a sector that is not very labour-intensive, and the gains of growth are not automatically shared broadly. Furthermore, growth is highly vulnerable to external shocks, such as changes in world prices of commodities. Overcoming commodity-dependence requires achieving structural economic transformation, from traditional, low productivity sectors towards new and dynamic, higher productivity sectors, and diversifying exports away from primary commodities.

To date, the LLDCs have only made limited progress towards achieving structural transformation: The share of the manufacturing sector in LLDCs has remained constant at around 13-14% of GDP since the year 2000. Similarly, there has been no improvement in the diversification index (measuring the degree to which the export structure of LLDCs differ from the global average). And until recently, the degree of commodity dependence of LLDCs has increased, rather than decreased.

The same trend can be observed in the Asian LLDCs: While the LLDCs as a whole have seen the level of their export concentration rise from 0.21 in 2000 to 0.4 in 2008, and subsequently decrease back to 0.22 in 2016, in Asian LLDCs, the level of export concentration has remained at the high average of 0.4 throughout. Indeed, within Asian LLDCs, countries like Turkmenistan and Kazakhstan have some

of the highest degrees of export concentration, with their index measuring 0.7 and 0.5, respectively. A similar picture arises with regard to the diversification index, where the level for the LLDCs as a group has remained broadly constant at 0.63, while the level for Asian LLDCs continues to be 0.75, with a small rising trend. Also, the average number of export products in Asian LLDCs has been rising slowly between 2000 and today but remains at only half the average number of all LLDCs. Considering the share of manufacturing value added in total GDP – a key measure of structural transformation – we see that the manufacturing sector in Asian LDCs, on average, accounts for a higher share of GDP than in LLDCs (about 13.5% in 2016), but has been on a declining trend since 2000, when it stood at 16%.

The continuing commodity-dependence of LLDCs and Asian LLDCs in particular is also affecting their trade balance. The decline in commodities prices since 2011 has brought about a deterioration in the average trade balance of LLDCs from a surplus of 18.6% of imports in 2011 to a deficit of 21.8% of imports in 2016. In Asian LLDCs, the average trade balance has consistently been more negative, starting from a high of a surplus of 2.8% of imports in 2011, and falling to a deficit of 26% of imports in 2016. While the averages hide wide disparities among countries, the trend towards trade deficits hides the vulnerabilities of commodity-dependent countries to global price shocks.

The low performance of LLDCs in terms of structural transformation is partly explained by the fact that their trade disadvantages make it more difficult to achieve their socioeconomic development objectives. Their high trade costs render imports of manufacturing inputs expensive, and make manufactured exports uncompetitive, especially compared to lucrative commodities exports. For this reason, there is an urgent need to foster diversification and structural transformation as a key first step towards inclusive and sustained development.

## **Objectives**

The objective of the sub-regional workshop is to identify the most pressing trade and development challenges facing the countries of the Asian sub-region and build consensus on policies and strategies to address them. The workshop will provide opportunities to share successful experiences and best practices from other developing countries. It will identify the main opportunities and challenges faced by Central Asian LLDCs in achieving structural transformation. In particular, the workshop will closely examine the cases of four Asian energy (electricity)-exporting LLDCs: Bhutan, Kazakhstan, Mongolia and Turkmenistan. The workshop will examine in which sectors each of the four countries has potential for economic diversification. In doing so, it will draw on economic studies of existing comparative advantages, production technologies and product linkages. It will also consider for which products each country has unexplored potential in export markets. In the case of Bhutan, tourism and the ICT sectors have shown potential for diversification. In Kazakhstan and Mongolia, agribusiness and tourism have been identified as higher-productivity-growth sectors with export potential. In Kazakhstan, light manufacturing could also be considered. Finally, in Turkmenistan, the textiles sector, tourism and agriculture hold diversification potential.

Beyond identifying sectors for diversification and fostering structural transformation, the workshop also aims to discuss the policies and measures needed to promote strategic sectors in each country. These can range from specific sector or company-specific incentive measures to general policies to support education and skills-levels, fostering an enabling environment for the private sector, and building trade and transport infrastructure. Particular attention will be paid to the energy sector,

which can play an important role in supporting structural transformation. While each of the four Asian LLDCs studied is a major energy-exporter, some of them are still facing challenges in providing domestic firms access to cheap electricity and thus must rely on electricity imports.

The workshop will also introduce UNCTAD's Productive Capacities Index and assess the performance of Asian LLDCs in building productive capacities using this new tool. It will serve to promote sharing of experiences, lessons learnt and best practices among Asian LLDCs in promoting structural transformation and export diversification.

The outcome of the sub-regional workshop will feed into the Asian regional, as well as the global mid-term review of the implementation of the Vienna Programme of Action for the LLDCs for the decade 2014-2024.

Key questions to be addressed during the workshop are:

- What are the policies and instruments that should be pursued to foster productive capacities, diversification, employment and inclusive development?
- What are the policy options and strategies to enable countries of the sub-region to facilitate their effective participation in regional and global commodity value chains in sectors where they hold comparative advantages?
- How can impact financing enable diversification away from commodity dependence in countries of the sub-region?
- What are the policy lessons from recent successful experiences and best practices from other developing countries in fostering diversification and structural transformation?
- What are key priorities for the Asian sub-region in the context of the Mid-term review of the Vienna Programme of Action and beyond?