STRUCTURAL TRANSFORMATION AND ITS ROLE IN REDUCING POVERTY

Findings and perspectives of the
Countries with Special Needs Development Report 2019

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  • Structural transformation in countries with special needs and changes in recent years
  • Sectoral changes

Structural transformation and poverty reduction
  • Poverty profiles of countries with special needs
  • Structural transformation and poverty

Policy considerations
What are ‘Countries with special needs’?

**Landlocked developing countries**
- Armenia
- Azerbaijan
- Kazakhstan
- Kyrgyzstan
- Mongolia
- Tajikistan
- Turkmenistan
- Uzbekistan

**Least developed countries**
- Afghanistan
- Bhutan
- Lao PDR
- Nepal
- Bangladesh
- Cambodia
- Myanmar

**Small island developing States**
- Fiji
- Maldives
- Marshall Islands
- Micronesia (Fed. States)
- Nauru
- Palau
- Papua New Guinea
- Samoa
- Singapore
- Tonga
- American Samoa
- Cook Islands
- French Polynesia
- Guam
- New Caledonia
- Niue
- Northern Mariana Islands

**Least developed countries**

**Small island developing States**
Why is structural transformation important?

Structural transformation (ST):
• Defined as the change in the long-term composition and distribution of economic activities

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
• It is a key feature of broad-based and inclusive economic growth

What causes ST?
• Push/Supply Side
• Pull/Demand Side
Where do countries stand?

Least developed countries

- Structurally underdeveloped: Agriculture > Industry and services
- Structurally developing: Services > Agriculture > Industry
- Structurally developed: Services > Industry > Agriculture

Landlocked developing countries

Small island developing States

- Agriculture
- Industry
- Services
Structural transformation: relocating from agriculture

Countries in the upper right quadrant stand to gain the most from reallocation

- Employment and GDP shares are higher than average.
- Labour productivity in agriculture is often low -> to be boosted
Move to services

Landlocked developing countries

- Armenia
- Azerbaijan
- Kazakhstan
- Kyrgyzstan
- Mongolia
- Tajikistan
- Turkmenistan
- Uzbekistan

Small island developing states

- Fiji
- Maldives
- Papua New Guinea
- Samoa
- Tonga

Least developed countries

- Afghanistan
- Bangladesh
- Bhutan
- Cambodia
- Lao PDR
- Myanmar
- Nepal
- Solomon Islands
- Timor-Leste
- Vanuatu

Change in employment share vs. Change in labour productivity

- Mostly low productivity and informal
Decomposing productivity changes (1991-2016)

- Demographic change
- Inter sector shift
- Total change in gross value-added per capita (right axis)

Least developed countries

Landlocked developing countries

Small island developing States

- Employment rate
- Within sector improvement
Structural Transformation and Productive Capacities

Economic complexity index
(changes between 1991/1992 and 2016)

Countries with special needs

From MIT Media Lab
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ST and poverty reduction: A conceptual framework

Drivers of structural transformation
(new technology, changes in resource availability, changes in input prices, etc.)

- Reallocation of factors of production (labour and capital)
- Within-sector upgrading, product sophistication and diversification

Productivity enhancement

Direct impact
- Increases in real income

Induced impact
- Spillovers to other sectors
  - Job creation
  - Production linkages

Indirect impact
- Changes in prices of goods and services

CONDITIONS

Poverty reduction
(income poverty reduction, improved nutrition status, health and education)
How have earnings and employment shares evolved?

A. Bangladesh

B. Fiji

C. Mongolia

Percentage change in employment share between 2005 and 2015
Pairwise correlations between the measures of structural transformation and poverty headcount ratio at the $3.20 per day international poverty line, average for 2012-2016, Asia-Pacific developing countries

Correlations between labour productivity and poverty headcount ratio at the $1.90, $3.20 and $5.50-per-day international poverty lines, average of 2012-2016, Asia-Pacific developing countries
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Policy Considerations (I)

- The State must occupy the central position in structural economic transformation and poverty reduction efforts;

- Industrial Policy, either selective or functional, is the State’s instrument for ST;

- Targeting depicts State’s comprehensive support for a given industrial sector it chooses to develop.
Policy Considerations (II)

Least Developed Countries:

- Rural modernization
- Human capital
- Foreign direct investment / Special Economic Zones
Policy Considerations (III)

Landlocked Developing Countries:
• Stopping premature deindustrialization
• Preventing the resource curse;
• Restructure capital-intensive industries
• Promote modern business services

Small Island Developing States:
• Targeting specific sectors
• Sustainable ocean management and fisheries
• Environmentally sustainable tourism
• High-value agriculture
Policy Considerations (IV)

Cooperation and the Role of the International Community

• Asia and the Pacific is the place of various integration and cooperation efforts: e.g. BRI, EAEU;

The International Community must:
• Support cooperation between Landlocked Developing Countries and transit countries to ensure the former access to the global economy;
• Augment productive capacities of Least Developed Countries so that they can join the global economy through GVC and RVC;
• Mitigate the consequences of and altogether stop the climate change to allow the Small Island Developing States to survive.
THANK YOU FOR YOUR ATTENTION 😊

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