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Session 3
23 February 2021

- 17:00 - 18:45 Lilongwe
- 18:00 - 19:45 Addis Ababa
- 16:00 - 17:45 Paris
- 10:00 - 11:45 New York

SESSION 3

RETHINKING STRUCTURAL TRANSFORMATION IN AFRICAN LDCs IN THE ERA OF TECHNOLOGICAL ADVANCEMENT AND INNOVATION

Structural transformation - the ability of an economy to constantly generate new dynamic activities characterized by higher productivity and increasing returns to scale - is very important for LDCs in achieving sustainable development. This importance is reflected in the Istanbul Programme of Action (IPoA) for the LDCs for the decade 2011-2020*, where expanding productive capacity is the first priority. Increased productive capacities enable structural transformation towards more productive activities and sectors, ideally creating enough decent jobs to contribute towards poverty eradication**.

Despite the importance of structural transformation in achieving sustainable development, the contribution of various sectors to GDP among African LDCs since 2000, suggests minimal structural change3. Structural transformation has traditionally been linked to a growing contribution of manufacturing to the economy. Between 2011 and 2019, the contribution of manufacturing to GDP remained relatively constant, at about 10%. The share of agriculture during the IPoA period rose moderately (from 21% to about 24%), while that of services shows a declining trend (by 4 percentage points from about 43% to 39%) towards the end of the IPoA implementation period. The inadequate ability of LDCs to constantly generate new dynamic activities, which are characterized by higher productivity and increasing returns to scale contributed to the subdued growth experienced during the IPoA period.

If the African LDCs do not invest more in manufacturing, there is a risk of early de-industrialization where LDCs begin to experience not just the falling manufacturing shares in employment, but also, falling manufacturing value added, as a share of GDP. This is a phenomenon that Rodrik (2015) highlighted in his empirical paper where he observed that some developing countries were running out of industrialization opportunities sooner and at much lower levels of income compared to the experience of early industrializers4. Compared to Asian-Pacific LDCs, the African LDCs are exhibiting less growth in manufacturing, industry, and services.

Several challenges have contributed to the African LDCs failure to meaningfully enhancing manufacturing. Unfortunately, these challenges have only been exacerbated by the COVID-19 pandemic, which reversed some of the progress made and reduces the prospects for reaching the Sustainable Development Goals (SDGs) by 2030. Challenges include difficulties in integrating in the global value chains, poor infrastructure and, the dependence on raw commodities.

* http://unohrlls.org/UserFiles/File/IPoA.pdf
** Additionally, SDG 8 (Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all) and SDG 9 (Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation) refers directly to enhancing structural transformation.

Looking ahead, the low levels of physical and human capital in LDCs may make expansion of structural transformation more challenging, given that emerging technologies in manufacturing could lead to this sector being much more capital and skill intensive. Future development of productive capacities is becoming more difficult to achieve due to the digital divide – vividly exposed during the COVID-19 pandemic.

Digital developments raised hopes of leapfrogging, and in some instances LDCs have been successful in developing digital strategies and making use of emerging technologies. However, transforming firms and sectors into digital enterprises is a costly and successive process that requires capacities, skills, and industrial policies that strengthen and develop the technological capabilities of firms.

For the African LDCs to meet the SDGs by 2030 and be on a sustained path towards convergence with other developing countries, it is important to critically assess whether other sectors could contribute much more to higher productivity, enhance growth and ultimately, create decent jobs and eradicate poverty. In addition to technological advancements, initiatives for green growth to “build back better” after the COVID-19 pandemic also call for a discussion on different paths for sustainable development in LDCs. Manufacturing will of course continue to be important, but the recent significant growth in services such as ICTs and tourism in LDCs have the potential to drive growth in African LDCs. Finally, the potential for agroindustry is enormous, given the expected population growth on the continent.

Speakers in this session will respond to the following questions:

- **What are the potential sources of growth in African LDCs over the next decade, given the technological and structural changes across the world?**
- **How will the emerging technologies affect the industries in LDCs and how can African LDCs be enabled to tap into these new technologies?**
- **What role can services such as ICT and tourism, or agroindustry play as drivers of growth for LDCs?**
- **Can tradeable high-productivity services have the potential to drive growth in African countries?**
- **What is missing most urgently in African LDCs to fully capitalize on technological advancement and ICT-related services?**
- **What are some of the best practices for promoting entrepreneurship, innovation, value addition, and closing the digital divide in LDCs?**