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STRUCTURAL TRANSFORMATION AND RESILIENT INFRASTRUCTURE FOR SUSTAINED ECONOMIC GROWTH, POVERTY ALLEVIATION AND DECENT WORK FOR ALL

Whilst LDCs in Asia and the Pacific continue to make efforts to enhance several areas of overall economic performance, trade and human development, they continue to face deep-rooted structural impediments and are exposed to multiple pre-existing vulnerabilities. Most Asia-Pacific LDCs have achieved only limited structural transformation, leading to modest gains in their productive capacity development^[1] and in building resilience against internal and external shocks and crises. The COVID-19 pandemic has highlighted these vulnerabilities.

The importance of structural transformation was reflected in the Istanbul Programme of Action (IPoA) for the LDCs for the decade 2011-2020^[2]. Structural transformation involves the process of creating new areas of activities and redeploying factors of production to higher value activities. Structural transformation influences productivity growth and employment creation, and ultimately reduces poverty.

The state of structural transformation in Asia-Pacific LDCs

The contribution of various sectors to GDP among Asia-Pacific LDCs since between 2011 and 2019 suggests little change. Structural transformation has traditionally been linked to a growing contribution of manufacturing to the economy. The average share of manufacturing value-added in GDP declined from 9.5 per cent of GDP over the period 2008–2010 to 9.0 per cent over the period 2017–2019, thereby remaining almost unchanged or declined for all Asia-Pacific LDCs, except in Bangladesh, Cambodia and Myanmar. These three countries have in common an extensive apparel exporting capacity. In the Pacific LDCs (except Solomon Islands for which relevant data are not available), manufacturing value-added accounted for less than 5 per cent of GDP for period 2017–2019^[3].

The agricultural sector continues to employ on average more than half of the national labour force and 67 per cent of the population lives in rural areas in 2020. Despite the importance of agriculture, average annual growth of the sector was only 2.2 per cent between 2011-2019 in Asia-Pacific LDCs (compared with 3.2 per cent for all LDCs). The average share of agriculture in GDP in Asia-Pacific LDCs declined from 26.4 per cent over the period 2008–2010 to 21.3 per cent over the period -

[1] ESCAP (2021): Strengthening the resilience of Least Developed Countries in the wake of the Coronavirus Disease Pandemic. Asia-Pacific Countries with Special Needs Development Report.

[2] <http://unohrrls.org/UserFiles/File/IPoA.pdf>

[3] ESCAP (2021): Strengthening the resilience of Least Developed Countries in the wake of the Coronavirus Disease Pandemic. Asia-Pacific Countries with Special Needs Development Report.



2017–2019, while the corresponding share of services value-added rose by 2.6 percentage points to 55 per cent of GDP during the period 2017–2019. The gains in services value-added were mostly in low productivity informal services[4].

While the productive capacities of Asia-Pacific LDCs improved during the IPoA's implementation period, the gap between LDCs and other developing countries in the region did not narrow, notwithstanding the rapid economic growth of LDCs[5]. In a similar manner, the provision of physical infrastructure has improved across most Asia-Pacific LDCs. However, according to the access to physical infrastructure index, which was developed by ESCAP in 2017, the average index value of nine of the LDCs, for which the information is available, was 0.19—far below the region's developing country average of 0.43[6].

Availability of and access to affordable and uninterrupted energy supplies is a critical factor for developing productive capacity. Access to electricity among Asia-Pacific LDCs rose sharply from 55.4 per cent in 2010 to 87.3 per cent in 2018; the current global average for LDCs is just 51.6 per cent[7]. However, ensuring an energy supply that is uninterrupted, affordable, reliable and clean remains a significant challenge. Inefficiencies in production and transmission and distribution systems result in a significant proportion of energy being wasted at different stages of the generation and transmission system.

Despite general progress made by Asia-Pacific LDCs with respect to private sector development, limited access to finance, particularly for women and SME's, regulatory deficiencies, shortages of skilled labour and the high costs of trading all continue to hamper private sector development in most Asia-Pacific LDCs.

Challenges of structural transformation in Asia-Pacific LDCs

The process of structural transformation in Asia-Pacific LDCs is hampered by several factors. Challenges are manifold and include difficulties in integrating in the global value chains, limited productive capacities, undiversified economies, gaps in infrastructure development and maintenance, limited availability of human capacities and lack of skilled labour, insufficient private investments, challenges in accessing credit, unfavorable legal and regulatory frameworks, poor capacities of the public sector, and challenges in adopting and utilizing digital technologies.

Seven of the Asia-Pacific LDCs are commodity dependent, making them vulnerable to price volatility and external shocks. Among the region's LDCs, the average share of commodity exports of total merchandise exports increased from 55 per cent during 2009–2010 to 60 per cent in 2017, not pointing towards a reduction of commodity dependency and diversification of the economic base[8].

In addition, four of the twelve Asia-Pacific LDCs are landlocked and five of them are remote small islands, putting them amongst the most vulnerable and structurally disadvantaged countries in the region. susceptibility to natural disasters, such as earthquakes, tropical cyclones and climate change-related consequences, remain a major challenge for most of these countries. According to ESCAP (20159) Asia-Pacific LDCs are losing on average \$592 million per year (almost 1 per cent of their GDP) due to natural disasters.

[4] ESCAP (2021): Strengthening the resilience of Least Developed Countries in the wake of the Coronavirus Disease Pandemic. Asia-Pacific Countries with Special Needs Development Report.

[5] UNCTAD (2020): LDC Report 2020: Productive Capacities for the New Decade.

[6] ESCAP (2017): Asia-Pacific Countries with Special Needs Development Report 2017: Investing in Infrastructure for an Inclusive and Sustainable Future.

[7] World Bank, World Development Indicators database.

[8] ESCAP (2021): Strengthening the resilience of Least Developed Countries in the wake of the Coronavirus Disease Pandemic. Asia-Pacific Countries with Special Needs Development Report.





Technology as a driver of structural transformation

Looking ahead, new technologies have enabled a number of services and agro-industries that share characteristics with the traditional move towards a higher share of manufacturing[10].

Information and communication technologies (ICT) have become key and should be considered as critical infrastructure to LDCs. Technology development offers a variety of opportunities for improving the value of production processes, such as the potential to generate high-yield and climate-change proof seed varieties in the agricultural sector, advance production techniques in the manufacturing sector, etc. The digital economy has become increasingly inseparable from the functioning of a modern economy in general and may hold great potential for LDCs in the Asia-Pacific Region[11].

However, the low levels of physical and human capital in LDCs may make the expansion of structural transformation via these areas more challenging, given that emerging technologies also lead to more capital and skill intensity.

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. Leapfrogging requires functioning digital ecosystems, with the right connectivity, and relevant digital skills in place[12]. Internet access in LDCs overall stands at only 19 per cent in 2019 (and at 17 per cent in Asia-Pacific LDCs[13]). This results from low internet coverage especially in rural and remote areas, the cost of using the internet, lack of local content and inadequate relevant skills in LDCs. In 2019, only 14 per cent of women in LDCs were using the internet as compared to 25 per cent of men. There is need to promote affordable broadband connectivity and the right digital access and skills in LDCs. Without technological capabilities and the right connectivity, LDCs are at risk of falling behind again - this time in the global digital transformation race[14]. The importance of closing this digital divide has been vividly exposed during the COVID-19 pandemic.

The way forward

For the 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 which sectors can contribute most 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 and sustainable structural transformation in LDCs.

While manufacturing will continue to be important, growth in ICT services and sustainable tourism in LDCs might have the potential to better drive growth. Key sectors of strategic interest in LDCs, such as agriculture, manufacturing, and services, need a reset and technologies represent an unrealized opportunity[15].

[10] Page, J. (2018): Rethinking Africa's Structural Transformation – The rise of new industries, Brookings Institute.

(<https://www.brookings.edu/research/rethinking-africas-structural-transformation/>)

[11] UNCTAD (2020): LDC Report 2020: Productive Capacities for the New Decade.

[12] OECD (2021): Africa's Development Dynamics: Digital Transformation for Quality Jobs.

[13] ESCAP (2021): Strengthening the resilience of Least Developed Countries in the wake of the Coronavirus Disease Pandemic. Asia-Pacific Countries with Special Needs Development Report.

[14] ITU (2019): Measuring digital development – Facts and Figures.

[15] UNCTAD (2020): LDC Report 2020: Productive Capacities for the New Decade.





Asian LDCs need to deepen and broaden their structural transformation, and further build their entrepreneurial and technological capabilities, in order to maintain the process of growth-enhancing structural transformation¹⁶.

It is clear that achieving structural transformation by LDCs require a multifaceted but well-coordinated approach involving several stakeholders. There is no “one size fits all” approach or a single pattern of structural transformation. Strategies geared towards increasing trade and developing productive capacities must address the context-specific realities of LDCs and harness their respective comparative advantages.

Guiding questions:

- **What are the potential sources for enhanced economic diversification in Asia-Pacific LDCs over the next decade as well as to facilitate COVID-19 economic recovery?**
- **How can the emerging technologies be leveraged to support sustainable production in Asia-Pacific LDCs and enhance structural transformation endeavors of Asia-Pacific LDCs?**
- **How can infrastructure development be accelerated to become an enabler for structural transformation?**
- **What policies, both at national and international level, should be adopted by Asia-Pacific LDCs to enhance growth of their services sector and to ensure services sector are drivers of growth and structural economic transformation in Asia-Pacific LDCs?**
- **What are some of the best practices for promoting entrepreneurship, innovation, value addition, and closing the digital divide in Asia-Pacific LDCs?**

[16] UNCTAD (2020): LDC Report 2020: Productive Capacities for the New Decade.

