



LDC5
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CONFERENCE ON THE
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High-level Thematic Round Table 3

Structural transformation as a driver of prosperity in the LDCs

March 6, 2023

Doha time: 14:00 - 17:00

Thematic Roundtables Hall

Concept Note

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Structural transformation is critical to achieve prosperity in the Least Developed Countries (LDCs). This long-term process consists of a country's economic activities moving from primary sectors such as resource extraction and agriculture to activities further along the productive chain, such as manufacturing and services. Despite the focus put by the previous programme of action on structural transformation, progress fell short of the goals and targets set out, including the achievement of sustained inclusive economic growth at a 7 per cent rate, and doubling LDC's share in global trade. Manufacturing and trade gains were limited and concentrated in only a handful of countries. LDCs progress towards sustainable industrialization has been insufficient, and the COVID-19 shock, coupled with the escalating climate, food and energy crises, threaten to thwart even the few cases of incipient structural transformation.

Levering structural transformation as a driver for prosperity is one of the key pillars of the Doha Programme of Action for the least developed countries (DPoA). To do so, the DPoA aims to enhance productive capacity building, infrastructure development, integration of the LDCs into global and regional value chains, and private sector development.

The state of structural transformation in LDCs

Transformation to more modern economic structures has mostly been restricted to a handful of LDCs, especially Bangladesh, Cambodia, Ethiopia, Lao People's Democratic Republic, Myanmar, Nepal, and Rwanda¹. The agriculture sector continues to employ more than half of the population in the LDCs, constituting the primary source of income in rural areas. Given the significant share of total employment in many LDCs, there is a high potential to advance structural transformation by creating links with the industrial and service side of agricultural activities. Nevertheless, the scale of the agriculture sector also reflects the need for LDCs to achieve greater economic diversification to create more resilient economies.

Enhancing greater labour productivity is one of the most salient aims of structural transformation. During the past decade, the contribution of manufacturing to GDP has remained relatively constant at about 10 per cent², while the average share of value-added services as a percentage of GDP for LDCs grew from about 43 per cent in 2011 to about 45 per cent in 2017. These aggregated values mask the heterogeneity among different subsectors, as well as the disparities among LDCs³. In African LDCs, the bulk of tertiary employment is concentrated in less knowledge-intensive services such as retail trade, accommodation, and food, which are typically low-productivity and low value-added activities and often carried out in the informal sector⁴.

The Asian LDCs are undergoing what resembles a more classical process of industrialization characterised by a rising share of manufacturing in output and employment, specialization in manufacturing exports, and the attendant reduction of poverty levels⁵. However, the African LDCs are exhibiting less growth in

¹ UNCTAD (2020): LDC Report 2020: Productive Capacities for the New Decade.

² WDI, World Bank. The share of agriculture 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.

³ In terms of manufacturing, value added (% of GDP), countries such as Bangladesh, with a level of 21.4% score slightly higher than the average for Middle Income countries (21.3%) in 2021 – whereas countries such as Ethiopia and Nepal, with levels of 4.61% and 4.67% respectively, score far lower than the LDC average (14.9%). World development indicators

⁴ UNCTAD (2020): LDC Report 2020: Productive Capacities for the New Decade.

⁵ The importance of manufacturing has been increasing in Asian LDCs. The sector accounted for 19% of GDP and 12% of employment in 2017, up from 12% and 8% in 2001, respectively. UNCTAD (2020)

manufacturing, industry, and services, compared to the Asian-Pacific LDCs⁶. While Asian LDCs need to broaden their structural transformation and further build their productive capabilities to maintain the process of growth-enhancing structural transformation⁷, African LDCs face early de-industrialization, a situation where despite their low levels of industrialization, they experience falling shares of manufacturing employment and diminishing value-added manufacturing as a share of GDP - running out of industrialization opportunities sooner and at much lower levels of income compared to the early industrializers.

Challenges for structural transformation in LDCs

Transport and energy infrastructure are essential for the efficient operation of existing productive assets in the LDCs. However, infrastructure in the LDCs continue to face severe challenges. According to the 2021 SDG 7 tracking report, the share of LDCs' population with access to electricity stood at 53 per cent in 2019, having increased from 33 per cent in 2010⁸. In addition, while the international financial flows to developing countries in support of clean and renewable energy have doubled since 2010, only 12 per cent reached the LDCs⁹. During the past decade, LDCs have presented steady gains in this regard¹⁰. Nevertheless, the rate at which these gains have been achieved has been slowing down in recent years. Moreover, the access to electricity in LDCs is still far lower than that of middle-income countries - where 94.1% of the population had access to electricity in 2020, compared to 54.7% in LDCs.

Improving connectivity through better transport infrastructure would integrate LDCs further into regional and global value chains, creating new productive activities and jobs¹¹. Moreover, Several LDCs are endowed with natural resources and commodities that hold high potential for value addition if they create forward links further along the economic chain. Currently, most of these resources are exported in unprocessed form, limiting the participation of LDCs in these upstream activities¹² on global and regional value chains, depriving them of domestic value enhancement and further industrialization¹³.

While the role of the state remains vital to facilitate structural transformation, developing a dynamic private sector that supports inclusive growth, reduces poverty, creates job, and provides access to critical goods, basic services, and tax revenues is also vital to achieve structural transformation. Private sector development in LDCs has been constrained by access to finance, especially for micro-, small-, and medium-sized enterprises (MSMEs), limited supply and high costs of energy, skill gaps, and limited ICT capacities. Many LDCs have embarked on numerous reforms to make it easier for companies to do business, but opportunities related to digitalization and modernization of bureaucratic processes are yet to be seized¹⁴.

⁶ Rodrik, D. (2015): Premature Deindustrialization, NBER Working Paper Series, Working Paper 20935.

⁷ UNCTAD (2020): LDC Report 2020: Productive Capacities for the New Decade.

⁸ Rural energy access remains even lower at around 40 per cent in 2019.

⁹ SDG 7 Tracking Report, 2020.

¹⁰ Access to electricity (% of population) has been steadily rising in LDCs, going from 38.3% in 2012 to about 54.7% in 2020. World development indicators

¹¹ OECD (2021): Africa's Development Dynamics: Digital Transformation for Quality Jobs.

¹² OHRLLS (2020): Secretary-General Report on the Implementation of the Istanbul Programme of Action (IPoA).

¹³ The value of the product concentration of exports index for LDCs as a group halved from 0.42 in 2011 to 0.21 in 2019 but was still three times higher than the world's value. The product concentration index shows to which degree exports and imports of individual economies or of groups of economies are concentrated on a few products rather than being distributed in a more homogeneous manner among several products.

¹⁴ OHRLLS (2020): Secretary-General Report on the Implementation of the Istanbul Programme of Action (IPoA).

Separately, enrolment and completion rates for tertiary education remain low, which has far-reaching implications that hamper the structural transformation agenda of the LDCs.

The way forward and further considerations

Achieving structural transformation in the LDCs requires a multifaceted and well-coordinated approach involving several stakeholders. There is no “one size fits all” approach or a single pattern of structural transformation. For the LDCs to meet the SDGs by 2030, it is vital to critically assess which sectors can contribute most to achieving higher productivity, enhancing growth, and ultimately, in creating decent jobs and eradicating poverty. Key sectors of strategic interest in LDCs need a reset and technologies represent an unrealized opportunity¹⁵.

As such, the first action area of the DPoA with regard to structural transformation, is aimed towards the generation of inclusive quality employment and the increase of labour productivity by 50 per cent for 2031. Particular attention is attached to the integration of women, young people, and those in vulnerable situations. Furthermore, it seeks to substantially increase the economic and export diversification of LDCs, promote inclusive and sustainable industrialization, and double industry’s share of employment and GDP in LDCs by 2030.

Moreover, creating the right conditions for industry development also requires building the right legal and institutional infrastructure. Sustained economic development requires a comprehensive theoretical understanding of the institutional functions that are necessary for a well-functioning market, followed by an objective assessment of which institutional functions are currently being met, and finally by the formulation of a plan that builds on existing social structures and cultural values to create an infrastructure capable of sustaining market-led growth.

The development of infrastructure is a critical component of structural transformation, embodied in the second action area. This focuses on advancing progress particularly in the areas of transport and energy, both of which are key components for ensuring successful structural transformation. For the transport component, it aims to significantly expand the access to safe, affordable, and sustainable transport infrastructure, improve connectivity, and strengthen institutional capacities to manage transport services. Regarding the energy sector, the aim is to primarily ensure universal access to affordable, reliable, sustainable, and modern energy services, seeking to increase the share and use of renewable energy in LDCs.

Augmenting global connectivity is equally important to boost structural transformation. Thus, the third action area seeks to better connect least developed countries to global and regional value chains and strengthening their services economy and trade. Purposely, it aims to significantly increase the value added and manufactured component of the exports of least developed countries.

Lastly, the private sector’s role to enhance structural transformation has untapped potential. Thus, the fourth action area targets the support of private sector development. It is important to create an enabling environment for private sector development and ensure full and equal access to financial services and products for MSMEs.

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

Against this backdrop, the round table will focus on exploring the implications that the current context has for enhancing productive capacities and structural transformation in the LDCs. The panel will also discuss how the DPoA can achieve the goals of structural transformation and sustainable development.

Guiding questions:

1. Which industrial policies should be adopted by LDCs to drive economic growth and promote structural transformation?
2. How can infrastructure development be accelerated to become an enabler for structural transformation in LDCs, and what role can the private sector play towards this?
3. What are the key enablers for integrating LDCs into regional and global value chains and how can LDCs be supported for this, including by trade policies?
4. How can the collaboration between the government and private sector best harness the process of structural transformation?
5. What are some of the best practices for promoting entrepreneurship, innovation, value addition, and closing the digital divide in LDCs?