



Division for Africa, Least Developed Countries and
Special Programmes (ALDC)
UNCTAD



Asia-Sub-regional Meeting on Fostering Structural Transformation and Export Diversification in Selected Asian Landlocked Developing Countries

Mussie Deleegn,
Chief, LLDCs' Section,
Division for Africa, Least Developed Countries and
Special Programmes, UNCTAD

16-17 October 2018, Ulaanbaatar, Mongolia



Division for Africa, Least Developed Countries and
Special Programmes (ALDC)
UNCTAD



Challenges, Opportunities and Prospects for selected Asian LLDCs to diversify out of the Energy Sector

Outline of the presentation

- I. Why diversification matters for LLDCs?
- II. Prospects and opportunities for diversification in Asian LLDCs;
- III. Scope for diversification and potential export markets;
- IV. Factors limiting or undermining diversification efforts;
- V. Conclusions with some implications for policy making

I. Why diversification matters for LLDCs?

Economic diversification is key to:

- boost economic growth and generate positive externalities;
 - mitigate external shocks, build resilience and stave off fragility of growth;
 - Improves terms of trade (ToT) and reduce trade imbalance;
 - enhance the import content of exports with improved overall balance of payments (BoP)
 - create jobs, maximize export earnings, and build international competitiveness of nations by reducing unit cost of trade;
 - effective use of scarce resources, enhance dynamic gains from international trade, and ensure inclusive and sustainable development in LLDCs;
- ❖ ***For LLDCs, diversification has become persuasive more today than ever before!***

II. Prospects and opportunities for diversification in Asian LLDCs

- There is scope for diversification in Asian LLDCs
- Agro-processing, light manufacturing, tourism, dairy products, textile and clothing, footwear, leather and leather products offer opportunities for diversification in the region;
- In Asia, dynamic regional markets and growing household incomes offer new scope for diversification
- At policy level, there is a recognition of diversification as important policy objective (although there is no single blueprint how to do it);

(Continued)..Prospects and opportunities for diversification

- Some advocate for vertically integrated industries while others successfully transformed their economies through RVCs and GVCs
- Some others recommend to diversify within existing economic or export structure (Intensive Margin)
- Still many others suggest gradual, step by step, horizontal diversification (Extensive margin);
- ❖ ***Irrespective of diversification avenues, East Asian experience suggest that developing countries need to adopt export-led growth strategy with labor-intensive manufacturing as a starting point.***

III. Scope for diversification and potential export markets

(a) Kazakhstan

Metals (copper, zinc and aluminum) ferrous metals, wheat and processed cereals, oil seeds and light machinery offer export potential of **US\$ 5 billion in a year**

Potential markets

China, Russia, Turkey, Germany, Japan (metals), Iran (wheat), Uzbekistan (oil seeds), USA

b) Turkmenistan

Plastics and rubber, cotton fabric, home textiles apparel, pistachios, beans and black tea offer export potential of about **US\$ 500-600 million a year**

Potential markets

Russia, Turkey, China (cotton fabric, UAE, U.K., USA (apparel)

Scope for diversification and export markets

(C) Mongolia

Wool and animal hair (fabric), Cashmere, pine nuts, equine meat, copper and cathodes, apparel including jerseys and pullovers offer export potential of

about US\$ 100 million a year

Potential markets

Italy (wool and animal hair), Sri Lanka, Vietnam and Taiwan Province of China (pine nuts), Indonesia (copper cathodes), Switzerland, Belgium and France (equine meat)

(d) Bhutan

Ferrous metals, spices, raw sugar cane, legumes (dried and shelled), palm oil, Portland cement among the top products with export potential

US\$ 100 million a year

Potential markets

India, Italy, Germany (Ferrous metals), India and Bangladesh (spices)

V. Factors limiting or undermining diversification efforts

- Each of the countries studied has specific or unique limitations. However, the following appear to be common across the countries examined
- All the countries are landlocked and face geographical challenges
- The four countries also depend on extractive sectors with all the risks and pitfalls.
- Kazakhstan and Turkmenistan transition from planned economies to mixed economic system. The reforms that follow posed daunting challenges on institutional capacities
- The private sector is weak and the business environment though improved still along way to go.

..Continued (Factors limiting or undermining)...

- Distance from export markets and high trade cost hampered competitiveness;
- Absence of **modern trade logistics, cumbersome customs procedures**, and in some cases, small size of the domestic market limit the potential for diversification;
- Weak capacities to **comply with international** sanitary and phytosanitary standards (for meat and other food stuff); and
- **Technical standards (for manufacturing)** restrict the realization of potential export markets

V. Conclusions with some implications for policy making

- Export diversification requires building productive capacities. LLDCs need to pay particular attention to this in formulating and implementing domestic trade policies
- It requires enabling macro and microeconomic policies with diversification in export-oriented manufactures;
- Successful export diversification strategy also needs coherent trade, investment and industrial policies;
- LLDCs need to take advantage of potential existing in the regional markets, which are less demanding in terms of standards.

(Continued)...Conclusions with some implications for policy making

- The provision of targeted incentives to firms and industries that:
 - ✓ generate jobs with decent income,
 - ✓ innovate, lead to technological upgrading and catch-up,
 - ✓ with a clear drive to export diversification need to be examined;
- LLDCs need to identify regional or global value chains in the sector where they have comparative and competitive advantages
- Business and trade facilitation measures including modernizing customs clearance procedures, trade logistics and infrastructure (soft and hard) are key for successful diversification.
- Public Private Partnerships in the provision of trade services and logistics can enhance diversification prospects