
Structural Transformation and Economic Diversification: The Lessons from the Asia-Pacific Success Stories for Landlocked Developing Countries

Andrzej Bolesta
Economic Affairs Officer
Macroeconomic Policy and Financing for Development Division
United Nations Economic and Social Commission for Asia and the Pacific

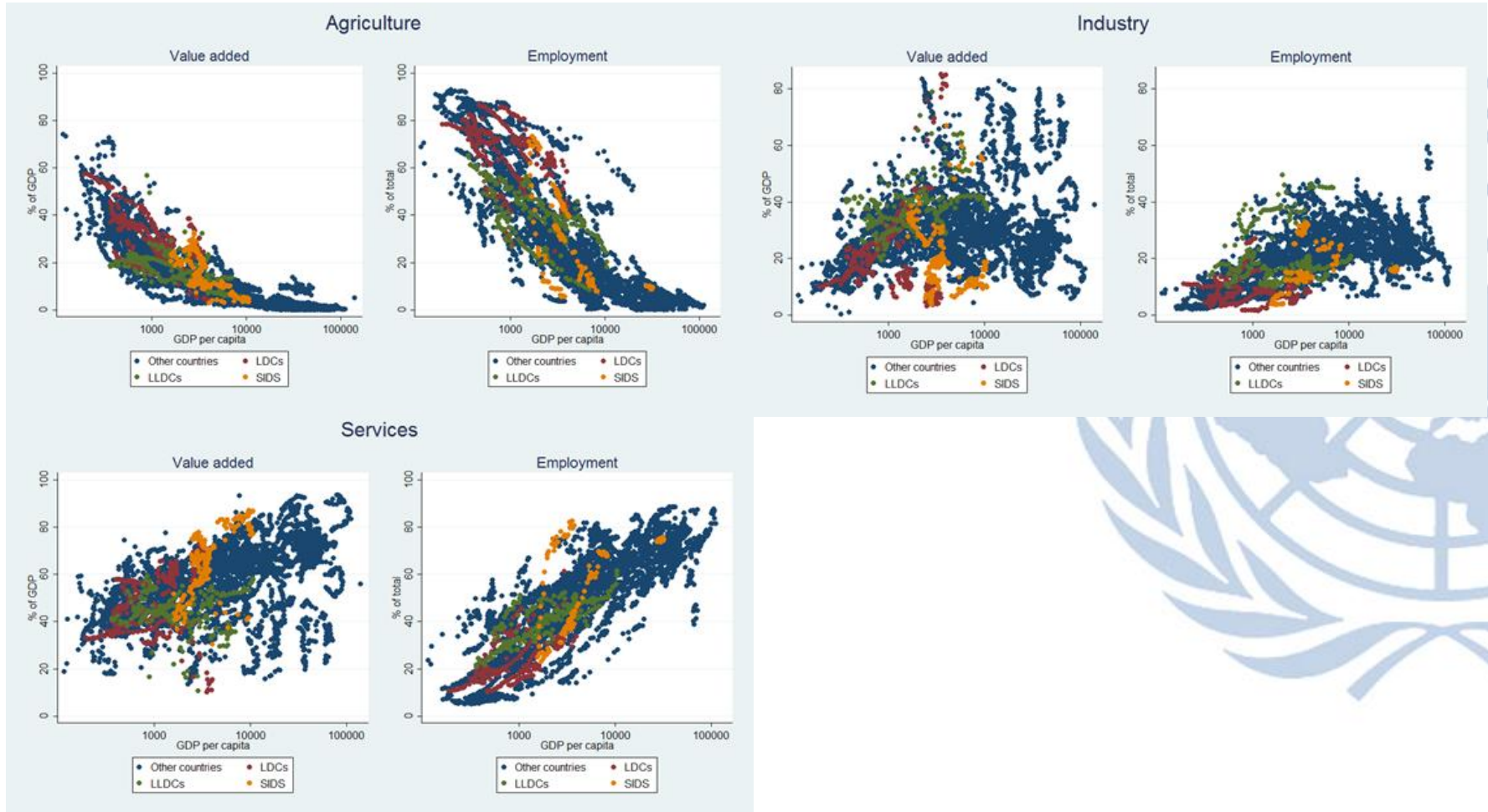
Sub-regional Workshop
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in Selected Asian Landlocked Developing Countries”**
Ulan Bator, Mongolia, 16-17 October 2018

Priority 5 of Vienna Programme of Action for LLDCs

- In the simplest terms, structural transformation is a process of reallocating factors of production from low value-added economic activities to higher value-added ones. It is thus an indispensable component of socio-economic development;
- “One of the earliest and most central insights of the literature on economic development is that development entails structural change. The countries that manage to pull themselves out of poverty and get richer are those that are able to diversify away from agriculture [and commodities] and other traditional products. As labour and other resources move from agriculture into modern economic activities, overall productivity rises and incomes expand” (McMillan and Rodrik 2011 p. 49);
- Priority 5 of the Vienna Programme of Action for Landlocked Developing Countries acknowledges the importance of structural transformation and calls for:
 - (a) Increasing value addition in the manufacturing and agricultural sectors, with the aim of achieving inclusive growth and sustainable development;
 - (b) Increasing economic and export diversification;
 - (c) Promoting service-based growth, including from tourism, with a view to increasing its contribution to the national economy;
 - (d) Encouraging the inflow of foreign direct investment in high-value added sectors.

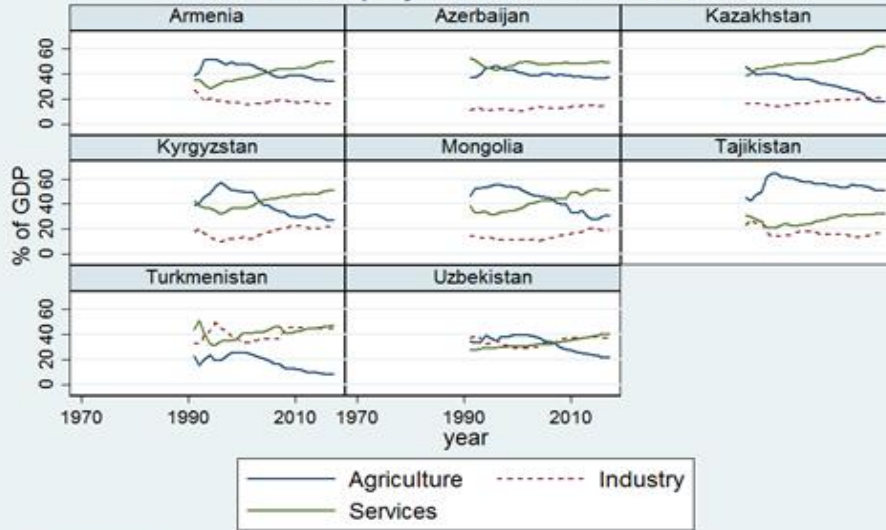
Structural Transformation (I)

Sectoral shares of value-added and employment, 1970-2017



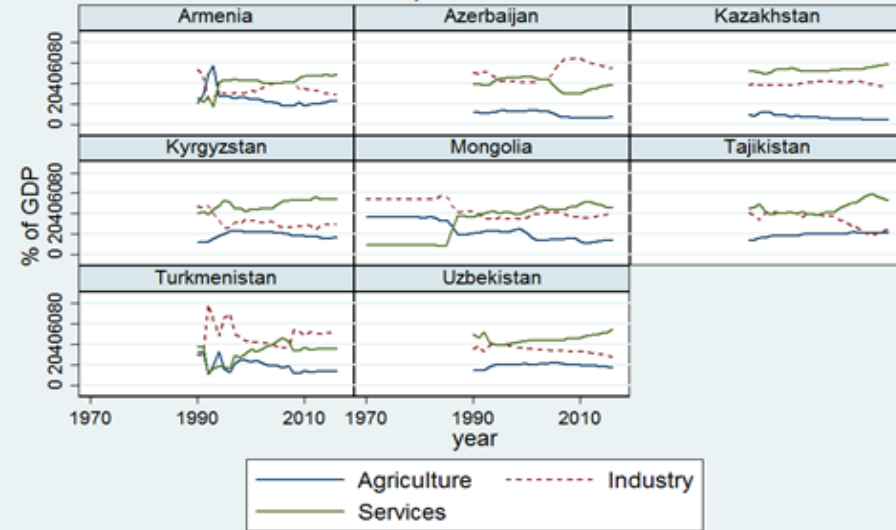
Structural Transformation (II)

Sector employment shares: LLDCs



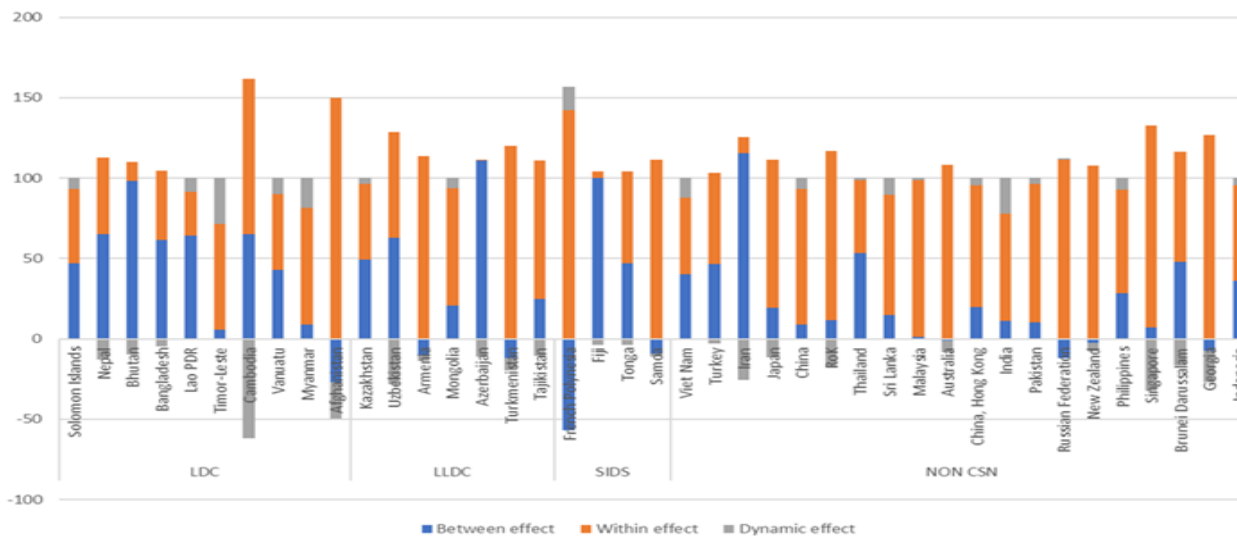
Graphs by country

Sector output shares: LLDCs

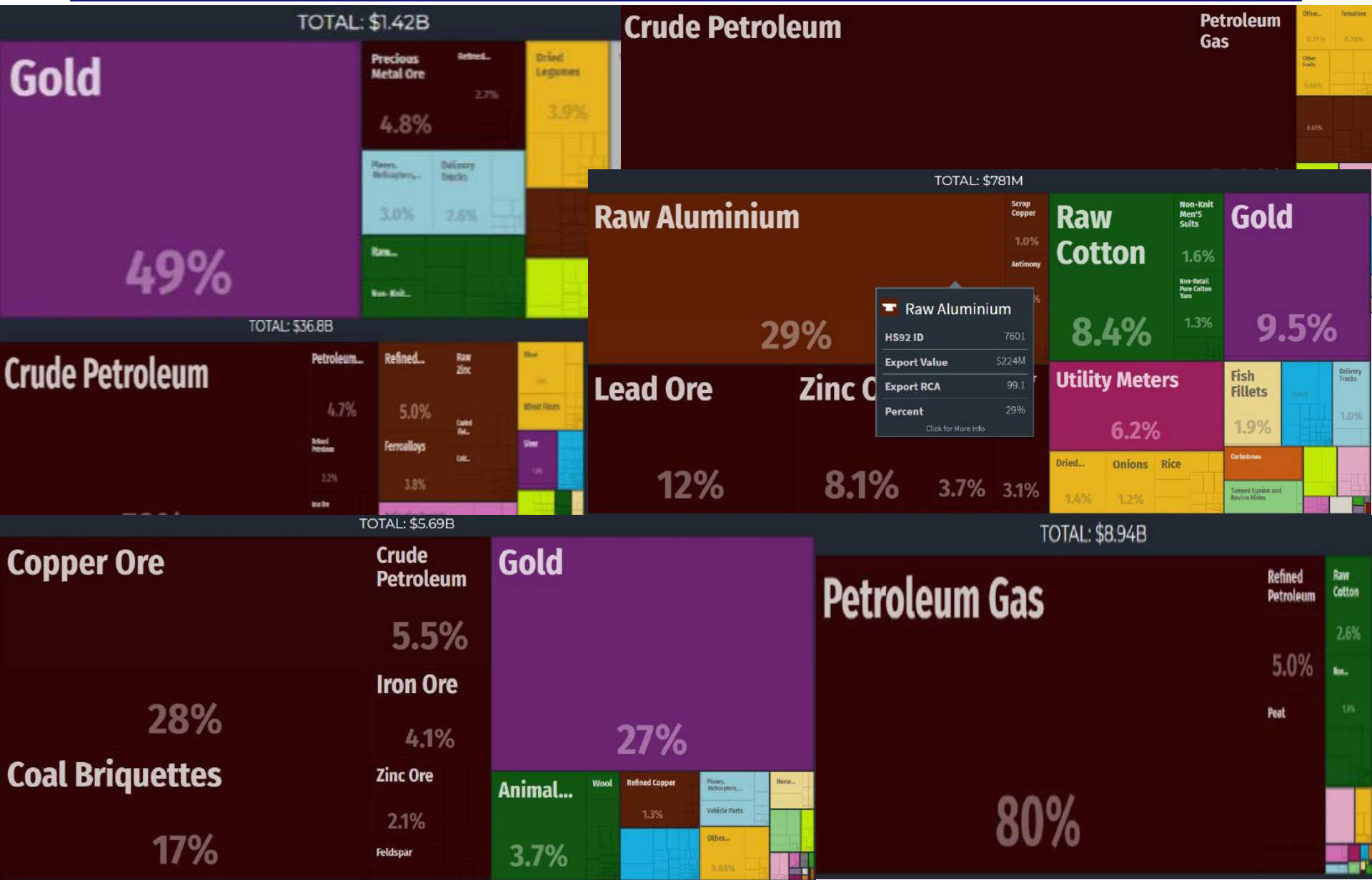


Graphs by country

Decomposition of labour productivity growth, 1991-2016



(Lack of) Export Diversification



The Success Stories (Japan)

The Targeting:

- In the 1950s, Japan focused on coal, iron and steel as a part of the ‘priority production programme’ (Kuchiki, 2007), partly a result of a pre-war tradition of heavy industry development then focused on military equipment, which would accompany the expansion of textile production;
- In the 1960s, the focus change to electric power building and shipbuilding, as well as petrochemicals to produce synthetic fiber and chemical fertilizer, among other things;
- In the 1970s, Japanese targeting focused on machine production, car industry and electronic industries, including the computer industry;
- From the late 1970s, high-tech products became the main sectoral target.

The external conditions significantly different than now.

The Success Stories (Korea)

The targeting:

- 1960s – focus on textile industry;
- 1973, Park Chung Hee announced the strategy of heavy-chemical industrialization (Jeon, 1995). HCI became a priority sector (Haggard and Moon, 1986; Amsden, 1989). As much as in Japan during the 1950s, the production of iron, steel, petrochemicals and non-ferrous metals became strategically important. The government also promoted the construction of shipyards (Kim, 1985);
- In the late 1970s, the Koreans accelerated the development of HCI, with the emphasis on industrial machinery, steel and electric equipment;
- In the 1980s, similar to Japan, Korea redirected their attention to knowledge- and information intensive industries (see Cho et al, 1996; Mah, 2010).

The Success Stories (China)

The targeting:

- The policy of targeting in China shows certain similarities with and differences from Japan and Korea;
- The 1950s the targeting was characterized by heavy industry development. This strategy was only marginally adjusted during the late state-command period, when the machinery sector for rural industrialization became a more visible element of industrial targeting;
- ‘After 1978, China diversified into a range of relatively low technology, labor-intensive consumer goods that had been neglected under the planned economy’ (Naughton, 2007), including textile industry. Heavy industry was not abandoned;
- Mid-1990s focus: the automobile industry, electronics, machinery;
- The subsequent strategies encompassed broad range of sectors and have been gradually turning towards knowledge intensive industries
 - (a) agriculture;
 - (b) HCI;
 - (c) Machinery & electronics;
 - (d) Energy & environment;
 - (e) High tech & space technology.

The external conditions very different from those during the high growth of Japan and Korea.

Lessons from Asia-Pacific Success Stories

- **Market vs. Control:** There is no alternative to a market-based system;
- **Engagement vs. Isolation:** There is no alternative to engagement with the global economy, no alternative to increase export;
- **Transition vs. Stagnation:** There is no alternative to constant transition and modernization;
- **Industrialization:** There is no alternative to transforming the economy away from agriculture and towards industry; no alternative to going away from extractive industries to a diversified industrial base. Only a few could jump from agriculture to services;
- **Do the gradual targeting:** start with labor intensive, climb the ladder of value addition;
- **Go beyond comparative advantage!**
- **Strategy vs. Chaos:** There is no alternative to a good industrial strategy;
- **Wise State vs. No State:** There is no alternative to the state presiding over structural transformation;
- **Natural resources are good! At the beginning of the development trajectory. There is no alternative to economic diversification.**

UNESCAP's Role

- Knowledge products and research: ***Asia-Pacific Countries with Special Needs Development Report 2019*** will focus on structural transformation and poverty eradication.
- Capacity building
- Platform for multilateral cooperation



Thank you!