



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

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# Challenges and opportunities for Asian LLDCs in integrating in to Regional and Global Commodity Value Chains

# Structure of the presentation

- I. What are Value Chains? Concept and definitions
- II. Why do Value Chains matter for LLDCs?
- III. What are the key drivers and determinants of VCs
- IV. What opportunities do exist for LLDCs in Asia?
- V. What are the most pressing challenges undermining LLDCs participation in RVCs and GVCs?
- VI. Conclusions with some implications for policy making

# I. What are Value Chains? Concept and definitions

- There is no single universally accepted definition (Value Chains are conceptualized and defined differently).
- For some, VCs are **trade in intermediate goods and services** along fragmented networks of production
- For others they refer to “**unbundling or spatial breaking up of production systems**”
- Still for others they represent a sequence of adding value along production lines and across borders
- **However some communalities emerge or** Most definitions underline:  
“Fragmentation of production process”, “international dispersion of activities and tasks”, “borderless production systems” or simply “globalization of production of goods and services”- with more sophistication along web of networks.

# The definition commonly used in UNCTAD

*“The fragmentation of production processes and the international dispersion of tasks and activities, which led to borderless production in sequential chain or complex networks”*

*In terms of scope, Value Chains can be domestic, regional or global*

## II. Why do Value Chains matter for LLDCs?

- LLDCs are heavily dependent on commodities for exports (27/32);
- Resources based goods (Commodities + manufactures) account for 75% of exports of good and services in LLDCs;
- The top three exports in 19 LLDCs are commodities; in 8 LLDCs two of the three leading exports are commodities
- Such a heavy dependence makes LLDCs' economies vulnerable to shocks with characteristics of “jobless growth” with little or no poverty outcomes;
- Lack of structural economic transformation, unemployment, “Dutch Disease” and weak export competitiveness become challenges facing LLDCs;

# (.....Continued) Why Value Chains matter.....?

- Primary commodities' driven economy makes economic diversification indispensable in LLDCs;
- About 60 % of global trade today is in intermediate goods, with potential scope for LLDCs participation;
- Therefore, Global or Regional Value Chains can provide an important avenue for diversification and jobs creation in LLDCs;
- GVCs or RVCs are important to determine a country's positioning in global production networks;
- Domestic value-added activities have become important components of a country's GDP

# III. Drivers of Regional and Global Value Chains?

## (a) Drivers

- Spread of international production networks and systems;
- Technological advances and revolution in ITCs;
- Internationalization of factors of production;
- Declining costs of production and the quest for optimum cost of factors of production, including labour;
- Ease of market and production-based information flows;
- Growing role of transnational corporations (TNCs) and cross-border mergers and acquisitions;
- Increasingly strong ties between investment and trade;
- Shifts in patterns of imports and exports;



## (b) Determinants of RVCs and GVCs

Key determinants of successful participation in RVCs and GVCs include

- Micro and macroeconomic environment,
- Size of the economy, composition of exports and position in RVCs & GVCs
- Suitability and quality of skilled labour force
- Distance and access to markets including size of market
- Availability and quality of soft and hard infrastructure including efficient trade logistics
- Coherent investment, trade and industrial policies as well as capable institutions
- Technology, innovation and R&D facilities
- Availability and quality of raw materials and Governance of VCs

## IV. What opportunities do exist for LLDCs in Asia?

- Asian LLDCs are more commodity dependent than the group of LLDCs;
- Diversification and commodity concentration indices are higher in Asian LLDCs than the group average;
- There exists huge scope for diversification and participation in RVCs and GVCs in **extractive sectors, light manufacturing, agri-food , dairy products, textiles and clothing, as well as leather and leather products**
- The top 5 recipients of FDI are from the region (Kazakhstan, Mongolia, Turkmenistan and Azerbaijan account for more than 55% of flows to LLDCs);
- Dominant investors in LLDCs are countries from the region (China, India, Malaysia, Russian Federation and South Korea with potential for RVCs
- Dynamic regional markets offer scope for increased participation in RVCs and GVCs;
- Countries that made the most out of RVCs and GVCs are within the Asian region, which is key for policy lessons

## V. What are the most pressing challenges undermining LLDCs' participation in RVCs and GVCs ?

- Overdependence on extractive sectors and difficulty to manage natural resources;
- Technical complexity and capital intensive nature of extractive sectors;
- Dominance of multinational or transnational corporations and weak negotiating capacities of governments;
- Volatility of revenues from extractive resources (unpredictability of budgetary sources);
- Poor quality of trade logistics and transport infrastructure;
- Distance and high cost of trade, limited size of domestic markets; and
- History of public polices and restricted role for the private sector.

## VI. Conclusions with some implications for policy making

- All countries including LLDCs participate in RVCs and GVCs
- Generally developed countries have higher share of foreign value added in exports ( high import dependence of exports)
- Except in East Asia and L. America (where export processing is high), developing countries **have lower foreign value added** (less import dependence of exports)
- What is more important is a **country's positioning and how it hooks** into the RVCs and GVCs;

## ..... (Continued) Conclusions with policy...

- **LLDCs' integration is through primary commodities and hence, they are locked in the lowest echelon along the value chains;**
- Participation in RVCs and GVCs involves risks and opportunities;
- Countries should carefully **weigh the cost-benefit** of their participation;
- **Fostering productive capacities and structural economic transformation are key for successful integration into RVCs and GVCs;**
- **LLDCs need to put in place micro and macroeconomic conditions**
- **They also need to ensure formulation and implementation of coherent trade, investment and industrial policies**
- **Such policies must be complemented by modern transport and trade logistics**