



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**