



**Sub-Regional Workshop on Fostering Structural Transformation and Export Diversification in Selected Asian
LLDCs
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Exports Diversification, Transformation and Employment Creation in Developing Economies

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OUTLINE

- Why has export and output growth not led to adequate employment creation in poor developing countries?
- What accounts for the low level of export diversification in poor developing countries?
- How can we foster export diversification and structural transformation in LLDCs?
- How do we ensure that export diversification and transformation contribute to employment creation in LLDCs?
- What are the Lessons for LLDCs from experiences of other developing countries?



I. Context

- One of the main goals of development policy is to eliminate poverty and enhance living standards.
- While some progress has been made in reducing poverty in most developing countries, significant challenges remain, particularly in:
 - Africa and South Asia
 - LDCs and LLDCs.



Poverty rates across regions (1990 and 2015)

	Poverty rate (%)		Number of poor (millions)	
	1990	2015	1990	2015
Sub-Saharan Africa	54.3	41.1	277.5	413.3
East Asia and the Pacific	61.6	2.3	987.1	47.2
Europe and Central Asia		1.5		7.1
Latin America and Caribbean	14.2	4.1	62.6	25.9
Middle East and North Africa	6.2	5	14.2	18.6
South Asia	47.3	16.2* (in 2013)	535.9	
World	35.9	10	1894.8	735.9



Structural Change in Employment

Figure 8: Employment Shares by Sector (in %)

	Agriculture		Industry		Services	
	2000	2012	2000	2012	2000	2012
World	40.4	31.9	20.5	23	39.1	45
Developed Economies and EU	5.5	3.6	27.2	22.5	67.3	73.9
Central and South Eastern Europe	25.3	20.1	25.1	24.0	49.6	55.9
East Asia	47.4	31.0	23.7	30.9	28.9	38.1
South East Asia and Pacific	49.8	39.2	16.4	19.8	33.9	41.1
South Asia	59.5	48.5	15.6	22.2	25.0	29.3
Latin America and Caribbean	21.5	15.7	21.2	21.1	57.3	63.2
Middle East	22.9	14.9	23.9	27.2	53.2	57.9
North Africa	33.8	30.1	20.1	21.5	46.1	48.3
Sub-Saharan Africa	65.5	61.1	8.1	8.9	26.3	30.0

Source: ILO, Key Indicators of the Labor Market

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- Against this backdrop, one of the issues policymakers in LDCs and LLDCs are grappling with is how to address the challenge of poverty reduction.
 - Promotion of exports is seen as a viable way to tackle the poverty challenge
 - Export is desirable but it is a means and not an end in itself. Why?
 - Economic theory suggests that export is an engine of growth and has the potential to create employment and reduce poverty.
 - Historically, this potential of exports has been realized in most developed and emerging economies. However, in most LDCs and LLDCs export growth is accompanied by higher output growth, but often no significant change in employment (**Jobless Growth**).



Why has export and output growth not led to adequate employment creation in poor developing countries?

- There are structural problems with the pattern of growth in LDCs and LLDCs both on the demand and on the supply sides of the economy
 - Demand: growth mostly driven by consumption which is often met through imports
 - Supply: growth driven by low productivity services rather than the production sectors. AND in some LLDCs it is driven by commodities



What accounts for the low level of export diversification in developing countries?

- Various explanations have been offered
 - Foreign aid dependence
 - Natural resource abundance
 - Geographical barriers
 - Macro policy (inflation or RER overvaluation)
 - Poor infrastructure
 - Quality of education
- I tested the impact of these factors on diversification in Africa and found some evidence that aid, quality of infrastructure, and resource endowments are important determinants.



	GMM Estimation Results
Diversification (t-1)	0.766 *** (0.000)
Aid (% of gross capital formation)	-0.008 ** (0.014)
Oil endowment	-2.539 * (0.077)
Level of development	-0.001 (0.264)
Inflation rate	-0.011 (0.368)
Education	-0.015 (0.667)
Quality of infrastructure	0.169 *** (0.000)
Durability of political regime	0.068 (0.117)
Geography	-0.001 (0.873)

How can we foster export diversification and structural transformation in LLDCs?

- Enhance the contribution of investment to the growth process through
 - Boosting the rate of investment
 - Improving the productivity of existing investment
 - Ensuring that investment goes to strategic sectors
- Need deliberate government efforts to induce structural transformation through industrial policy
- Lift binding constraints to productive transformation
- Make macroeconomic policies consistent with the goal of structural transformation.



How can we ensure that diversification and transformation contribute to employment creation?

- Structural transformation is a necessary but not sufficient condition for employment creation. For it to create adequate employment, it has to go hand in hand with;
 - Adoption of labour intensive production processes
 - Strengthening linkages between activities and sectors
 - Some of the increase in productivity associated with transformation has to accrue to workers to create additional demand and hence employment.
- Need to address binding constraints to employment creation (infrastructure, workforce skills, etc)



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- Promoting rural development should also be an integral part of the structural transformation agenda
 - Mainstream South-South Cooperation more effectively into national development strategies
 - The rise of emerging economies and their growing partnerships with Africa presents challenges for labour-intensive industries and employment in LLDCs and should be explicitly taken into account in formulating national development strategies.



What are the Lessons for LLDCs from Experiences of other Developing Countries?

1. LLDCs have to diversify and transform the structure of their economies to reap more benefits from trade
 - The nature of diversification and transformation matter for achieving national development goals
2. Export diversification has to go hand in hand with the development of productive capacities
3. Manufacturing export has a vital role in employment creation
 - Employment elasticity of manufacturing exports is more than three times that of services export



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