
Reconnecting economic and human development – The role of structural transformation

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The contribution of structural transformation to meeting sustainable development goals
Short course for Permanent Missions in Geneva
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This presentation

- I. Divergence in MDG performance

- II. Reconnecting economic and human development

- III. Policies to reach the SDGs



I. Divergence in MDG performance

2015 - A pivotal year in development policy

2000-2015

The MDG era

2015-2030 The SDG era

September 2015 - UN General Assembly to adopt SDGs

But also:

July 2015 - Financing for Development

December 2015 - UN Climate Summit



I. Divergence in MDG performance

Evaluation of the MDG process

Why?

- to glean lessons from the 2000-2015 period
- to guide post-2015 development design and implementation
- to strengthen the effectiveness of SDGs



I. Divergence in MDG performance

Goals and Targets	Africa		Asia				Oceania	Latin America and the Caribbean	Caucasus and Central Asia
	Northern	Sub-Saharan	Eastern	South-Eastern	Southern	Western			

GOAL 1 | Eradicate extreme poverty and hunger

Reduce extreme poverty by half	low poverty	very high poverty	moderate poverty	moderate poverty	very high poverty	low poverty	very high poverty	low poverty	low poverty
Productive and decent employment	large deficit	very large deficit	moderate deficit	large deficit	very large deficit	large deficit	very large deficit	moderate deficit	moderate deficit
Reduce hunger by half	low hunger	high hunger	moderate hunger	moderate hunger	high hunger	moderate hunger	moderate hunger	moderate hunger	moderate hunger

GOAL 2 | Achieve universal primary education

Universal primary schooling	high enrolment	moderate enrolment	high enrolment	high enrolment	high enrolment	high enrolment	moderate enrolment	high enrolment	high enrolment
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GOAL 3 | Promote gender equality and empower women

Equal girls' enrolment in primary school	close to parity	close to parity	parity	parity	parity	close to parity	close to parity	parity	parity
Women's share of paid employment	low share	medium share	high share	medium share	low share	low share	medium share	high share	high share
Women's equal representation in national parliaments	moderate representation	moderate representation	moderate representation	low representation	low representation	low representation	very low representation	moderate representation	low representation

GOAL 4 | Reduce child mortality

Reduce mortality of under-five-year-olds by two thirds	low mortality	high mortality	low mortality	low mortality	moderate mortality	low mortality	moderate mortality	low mortality	low mortality
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GOAL 5 | Improve maternal health

Reduce maternal mortality by three quarters	low mortality	very high mortality	low mortality	moderate mortality	moderate mortality	low mortality	moderate mortality	low mortality	low mortality
Access to reproductive health	moderate access	low access	high access	moderate access	moderate access	moderate access	low access	high access	moderate access

GOAL 6 | Combat HIV/AIDS, malaria and other diseases

Halt and begin to reverse the spread of HIV/AIDS	low incidence	high incidence	low incidence	low incidence	low incidence	low incidence	low incidence	low incidence	low incidence
Halt and reverse the spread of tuberculosis	low mortality	moderate mortality	low mortality	moderate mortality	moderate mortality	low mortality	high mortality	low mortality	low mortality

GOAL 7 | Ensure environmental sustainability

Halve proportion of population without improved drinking water	high coverage	low coverage	high coverage	moderate coverage	high coverage	high coverage	low coverage	high coverage	moderate coverage
Halve proportion of population without sanitation	high coverage	very low coverage	low coverage	low coverage	very low coverage	moderate coverage	very low coverage	moderate coverage	high coverage
Improve the lives of slum-dwellers	moderate proportion of slum-dwellers	very high proportion of slum-dwellers	moderate proportion of slum-dwellers	high proportion of slum-dwellers	high proportion of slum-dwellers	moderate proportion of slum-dwellers	moderate proportion of slum-dwellers	moderate proportion of slum-dwellers	—

Evaluation of the MDG process

Target achievement by region

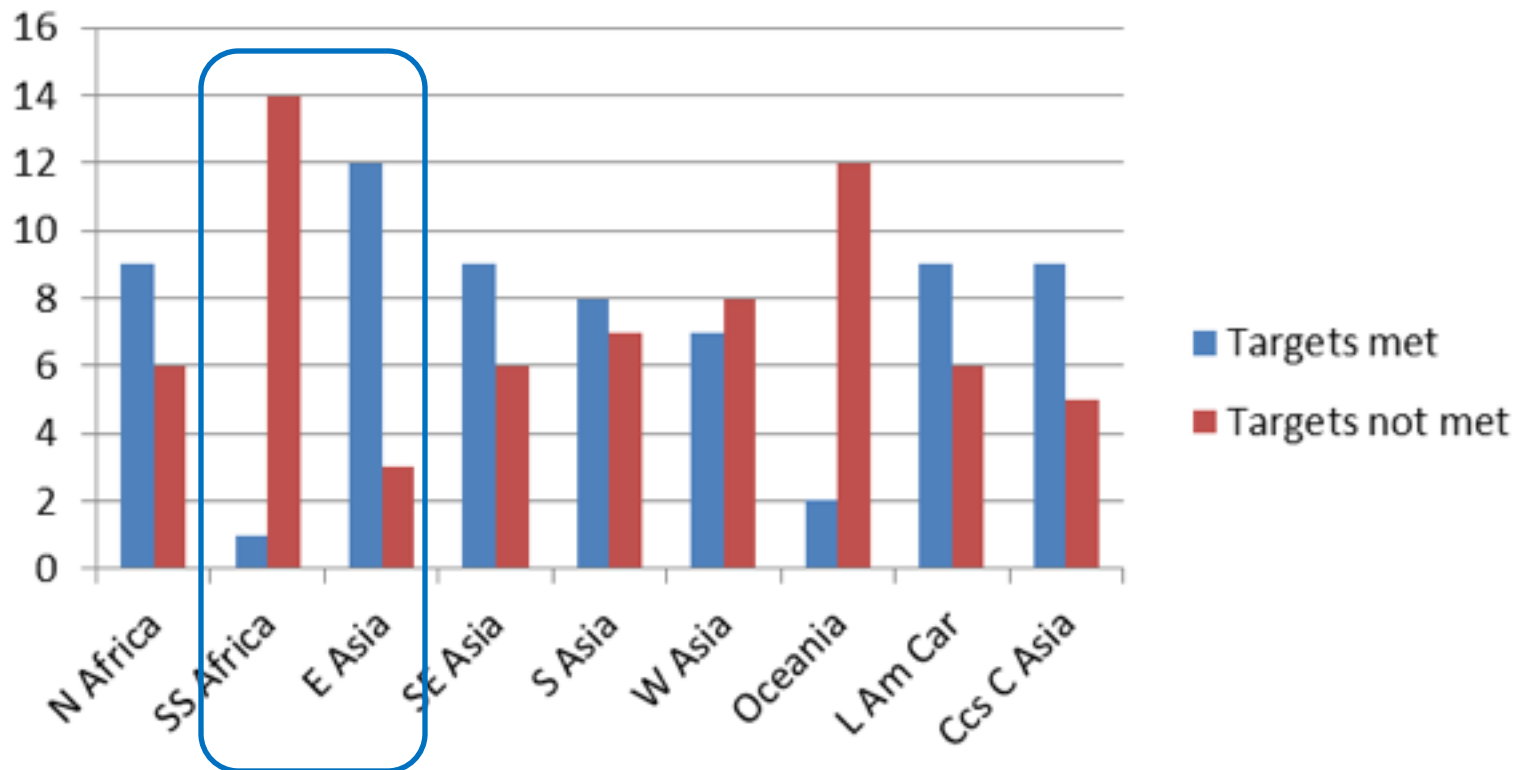
I. Divergence in MDG performance

Evaluation of the MDG process

Two regions stand out

Summarizing achievements

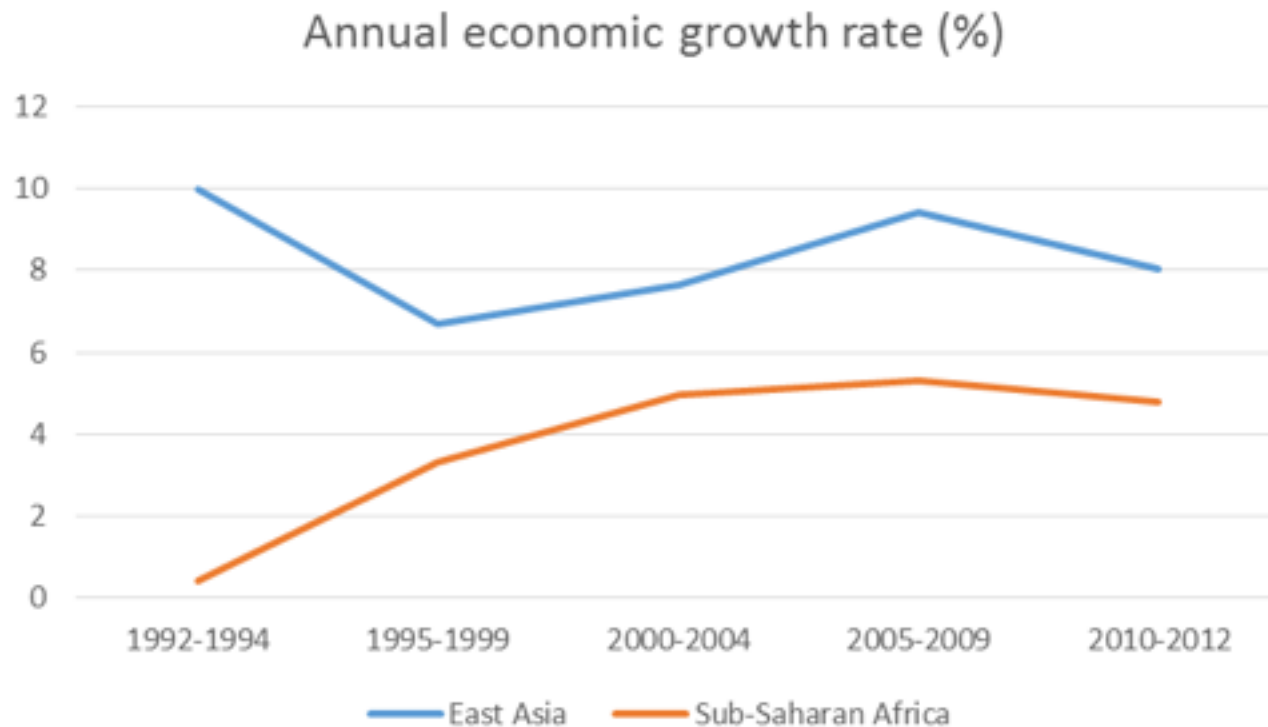
Number of MDG targets (not) met



I. Divergence in MDG performance

What explains this divergence in MDG performance?

1. Economic growth?



⇒ Some difference, but not enough to explain the divergence in MDG performance



I. Divergence in MDG performance

What explains this divergence in MDG performance?

2. Structural transformation?

What is it?

⇒ Several dimensions:

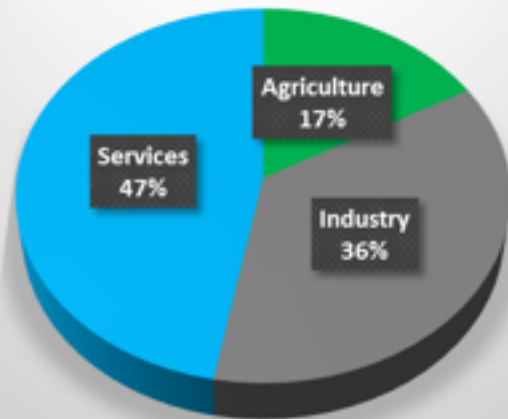
- ❖ Change in the composition of production
- ❖ Change in the composition of employment



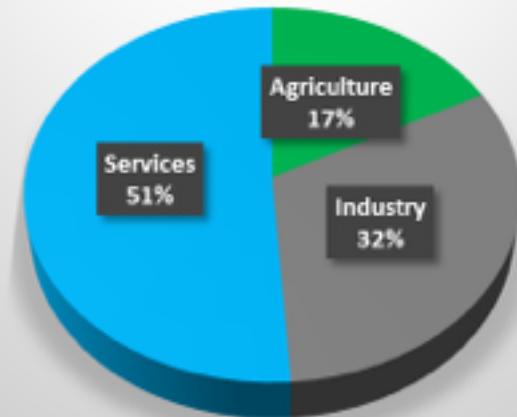
I. Divergence in MDG performance

Structural transformation of production in the two regions

Sub-Saharan Africa - Production 1991



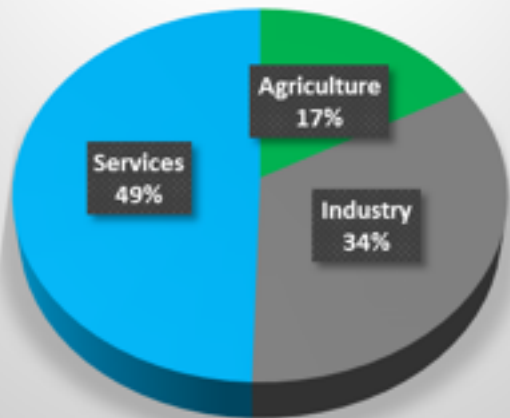
Sub-Saharan Africa - Production 2012



I. Divergence in MDG performance

Structural transformation of production in the two regions

East Asia - Production 1991



East Asia - Production 2012

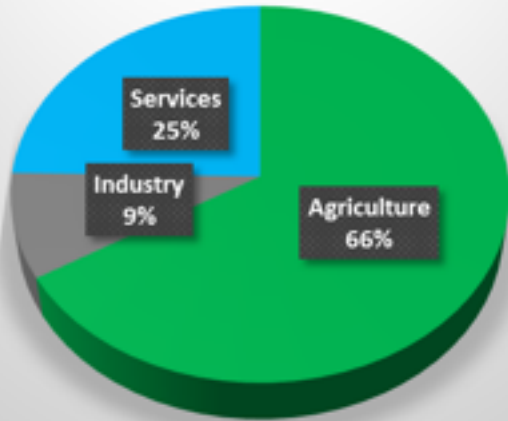


Composition of production is changing faster in East Asian than in Sub-Saharan Africa

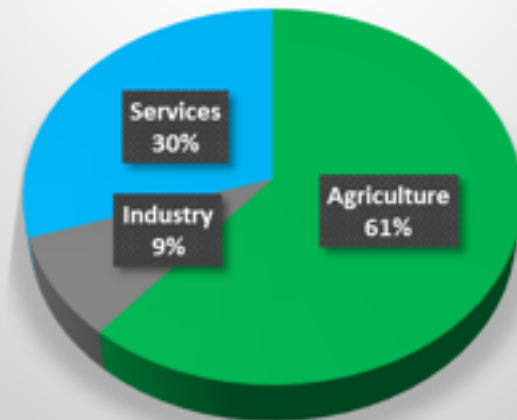
I. Divergence in MDG performance

Structural transformation of employment in the two regions

Sub-Saharan Africa - Employment 1991



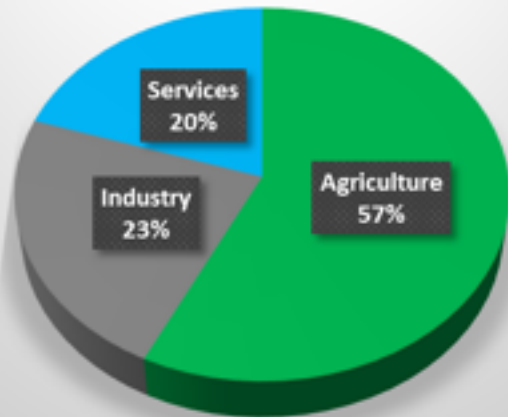
Sub-Saharan Africa - Employment 2012



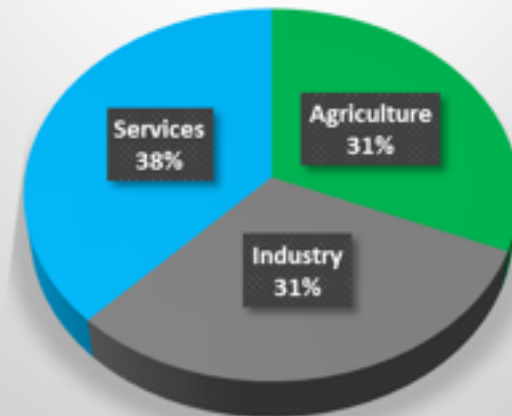
I. Divergence in MDG performance

Structural transformation of employment in the two regions

East Asia - Employment 1991



East Asia - Employment 2012



Composition of employment is changing much faster in East Asian than in Sub-Saharan Africa

I. Divergence in MDG performance

What explains this divergence in MDG performance?

2. Structural transformation?

What is it?

⇒ Several dimensions:

- ❖ Change in the composition of production
- ❖ Change in the composition of employment
- ❖ ↑ labour productivity



How does labour productivity increase?

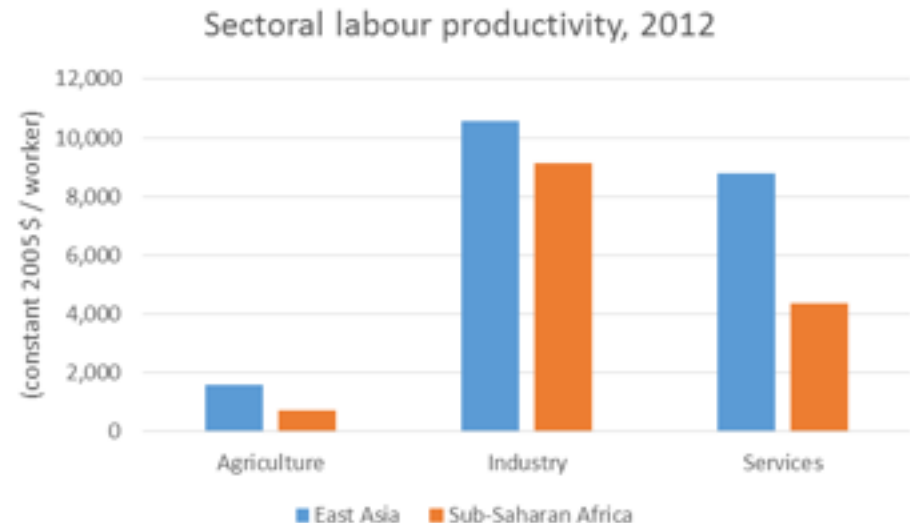
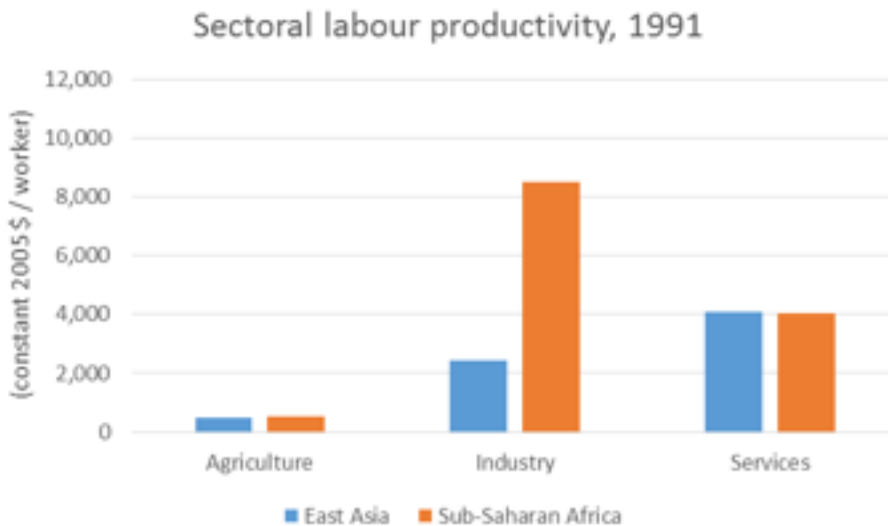
Two processes:

- Increasing **productivity within sectors** through technological change and innovation; and
- Increasing **productivity between sectors**, i.e. a shift of resources from less to more productive sectors / activities



I. Divergence in MDG performance

Labour productivity change in the two regions



I. Divergence in MDG performance

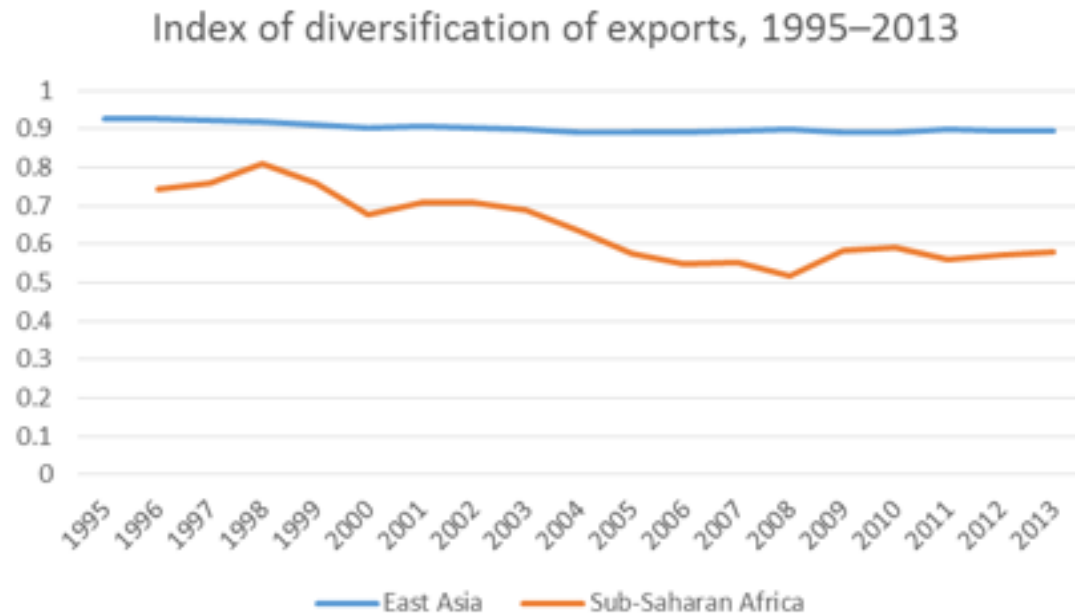
What explains this divergence in MDG performance?

2. Structural transformation?

What is it?

⇒ Several dimensions:

- ❖ Change in the composition of production
- ❖ Change in the composition of employment
- ❖ ↑ labour productivity
- ❖ ↑ export diversification



THE LEAST DEVELOPED COUNTRIES REPORT 2014

Growth with structural transformation: A post-2015 development agenda



I. Divergence in MDG performance

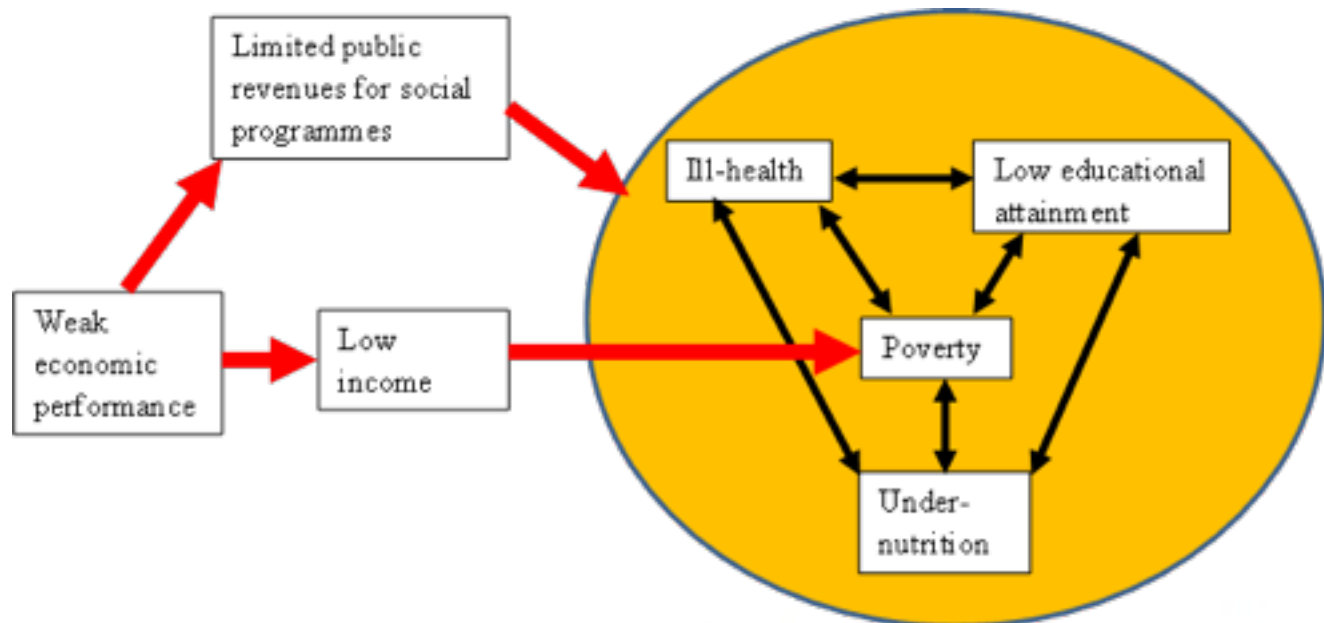
What about LDCs?

- Only one LDC will achieve seven selected MDG targets: Lao PDR
- Despite strongest economic growth since 1970s

⇒ **The LDC paradox**

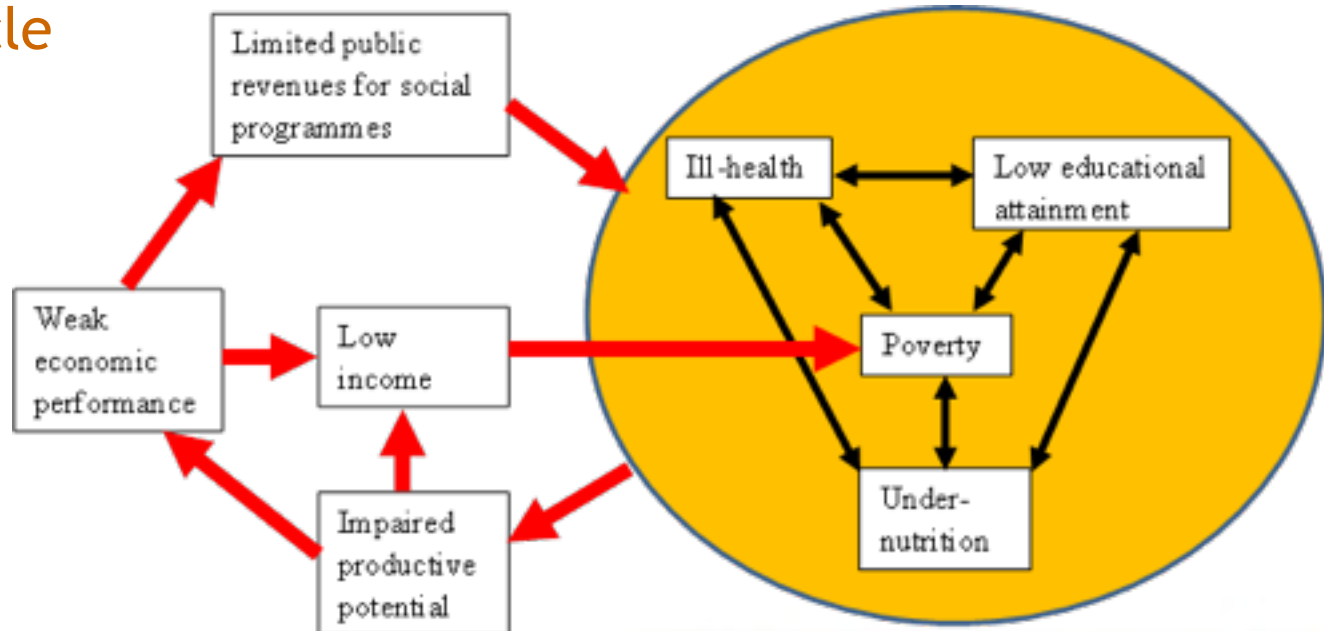
II. Reconnecting economic and human development

- Economic and human development (ED and HD) are interdependent
 - From ED to HD: weak economic performance limits the ability of a country to achieve poverty reduction



II. Reconnecting economic and human development

- Economic and human development (ED and HD) are interdependent
 - From ED to HD: weak economic performance limits the ability of a country to reduce poverty
 - From HD to ED: poverty limits human development, undermining labour productivity, and reducing investment
 - This weakens economic performance, creating a **vicious circle**



II. Reconnecting economic and human development

The inability of the majority of Sub-Saharan African countries and LDCs to meet most of the MDGs mostly reflects:

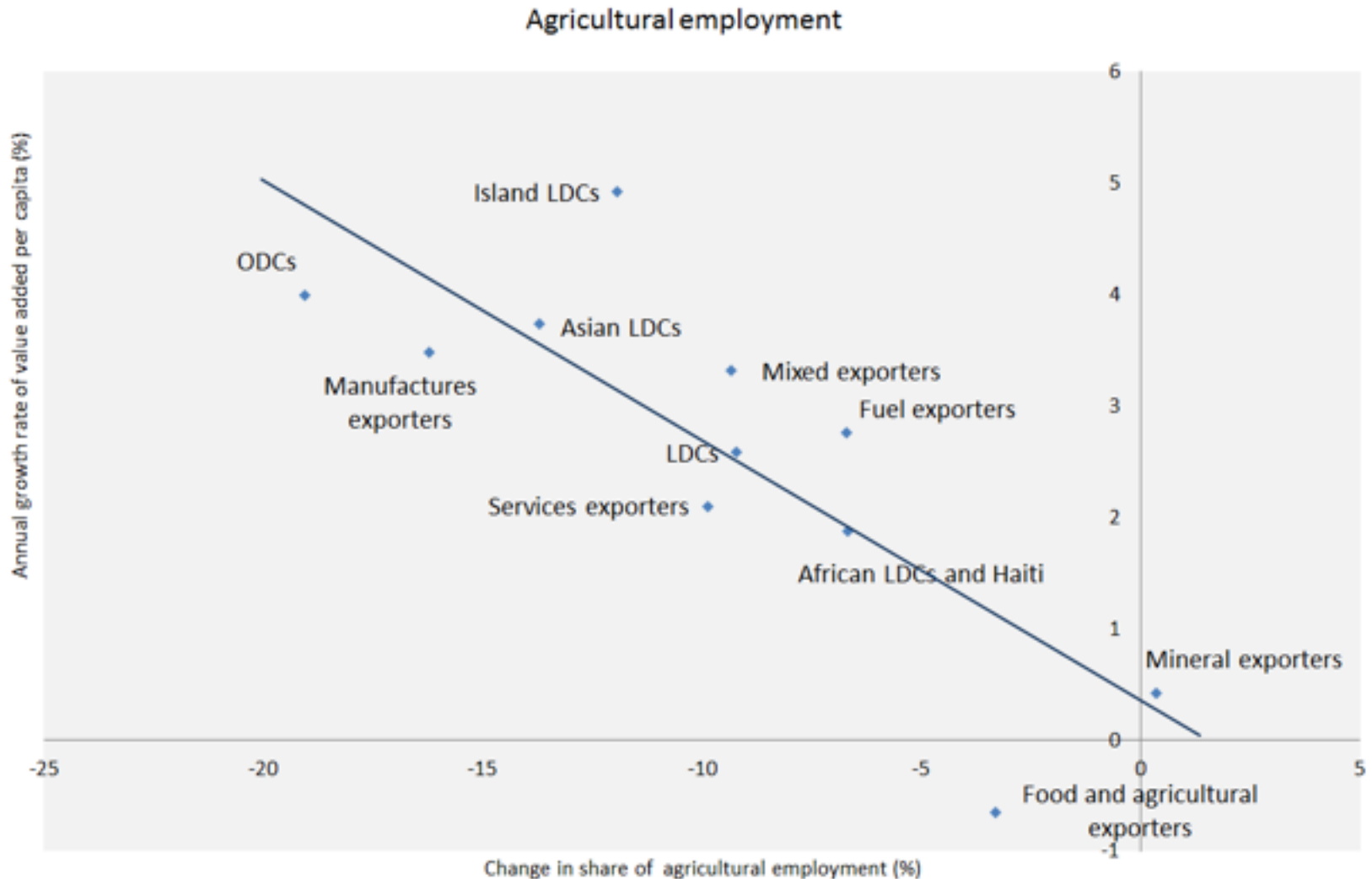
1. These countries' **failure to break out of this vicious circle**

2. MDGs' strong focus on **human outcome indicators**, with little consideration of the **means of achieving** them (i.e. economic development \Rightarrow structural transformation)



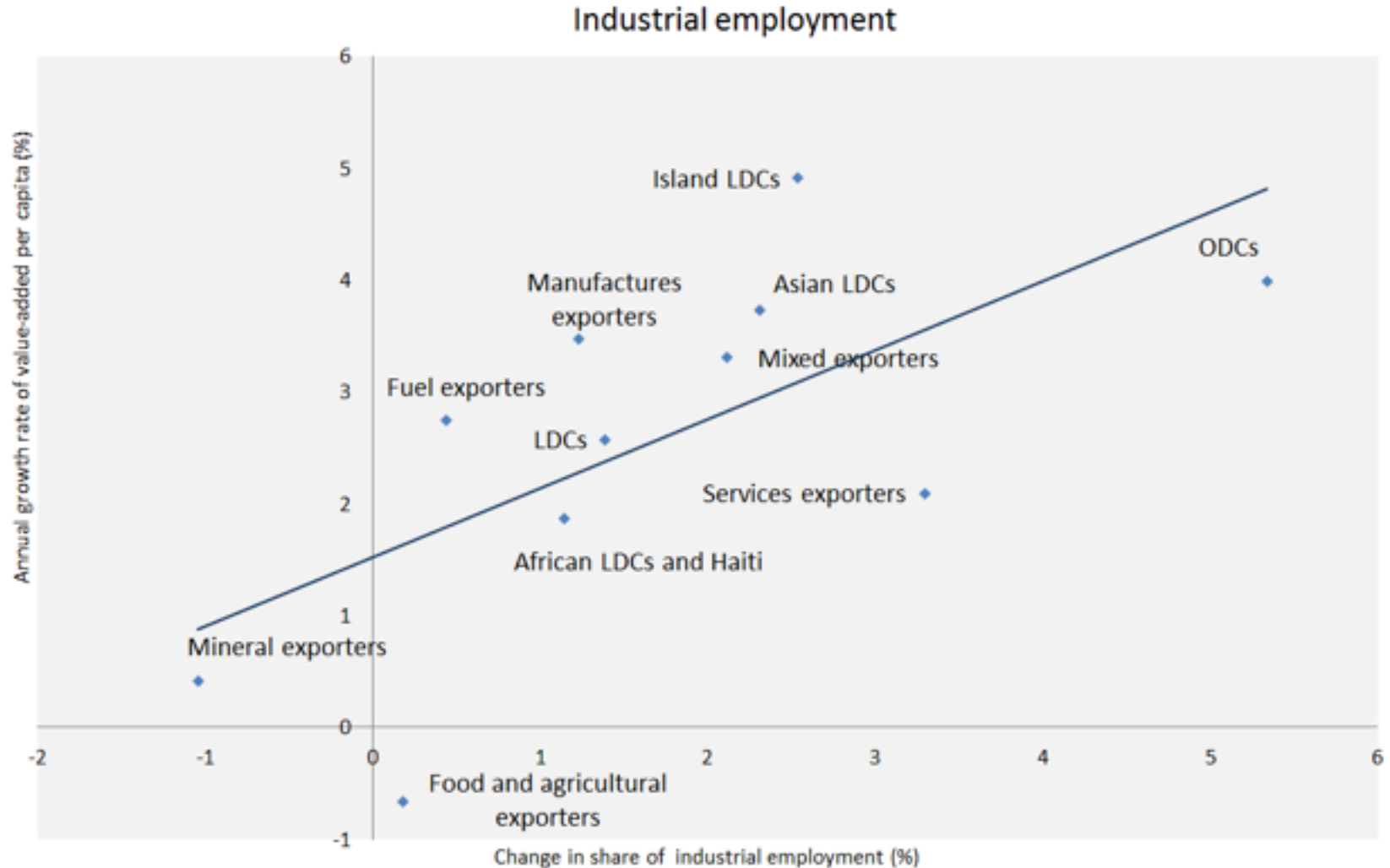
II. Reconnecting economic and human development

The less labour moves out of agriculture, the more slowly overall productivity increases



II. Reconnecting economic and human development

The more labour moves into industry, the faster overall productivity increases

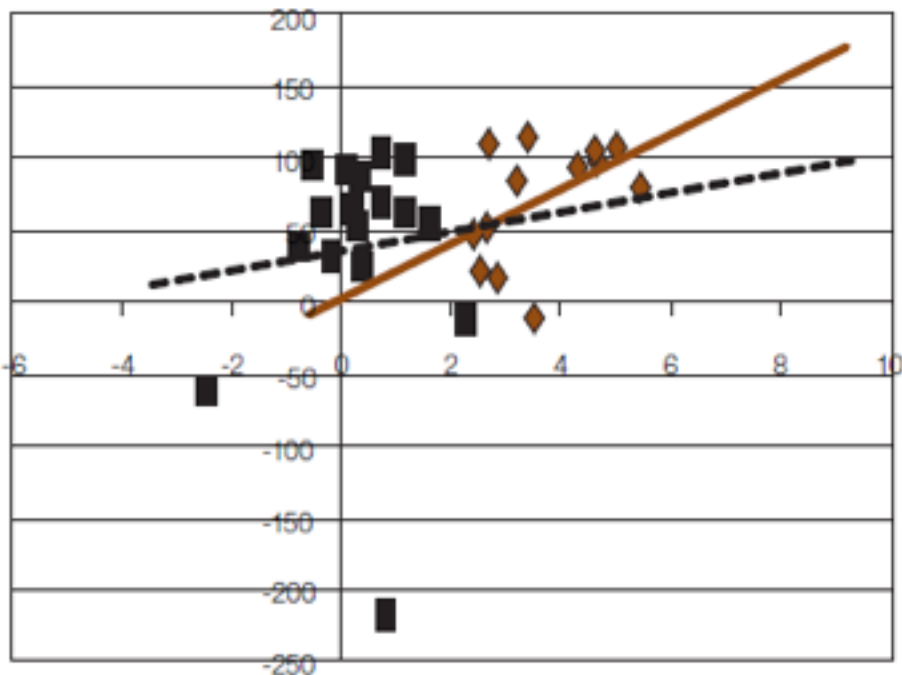


II. Reconnecting economic and human development

Structural transformation improves the **translation of growth benefits into human development**, through higher wages and job creation

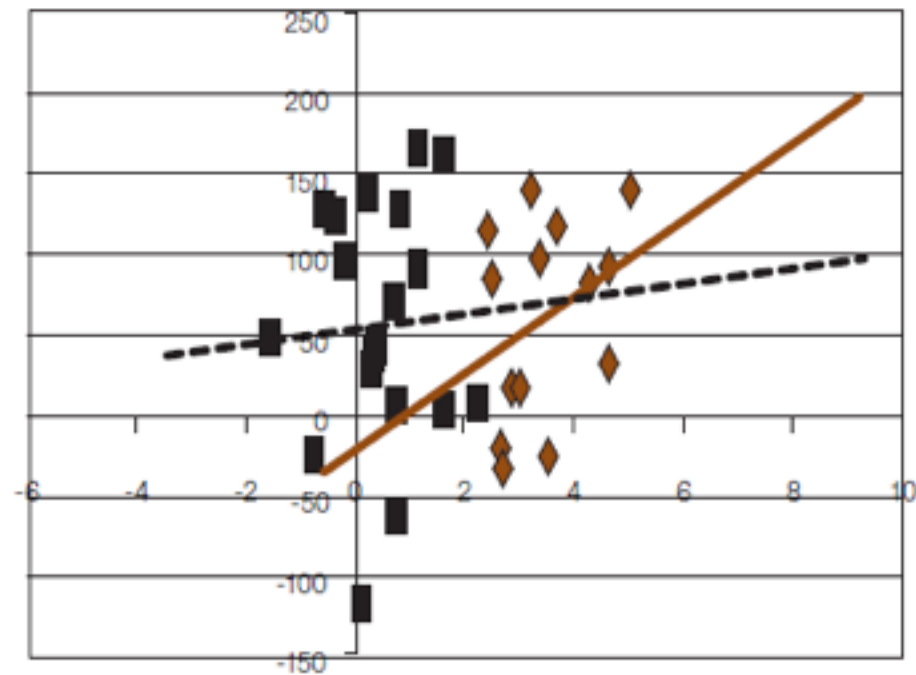
Chart 33. Impact of structural transformation on the nexus between growth and selected MDGs in LDCs (Per cent)

A. Education and growth nexus



Annual GDP per capita growth, 1991-2012

B. Undernourishment and growth nexus



Annual GDP per capita growth, 1991-2012

◆ Dynamic ■ Lagging — Linear (dynamic) - - - Linear (lagging)



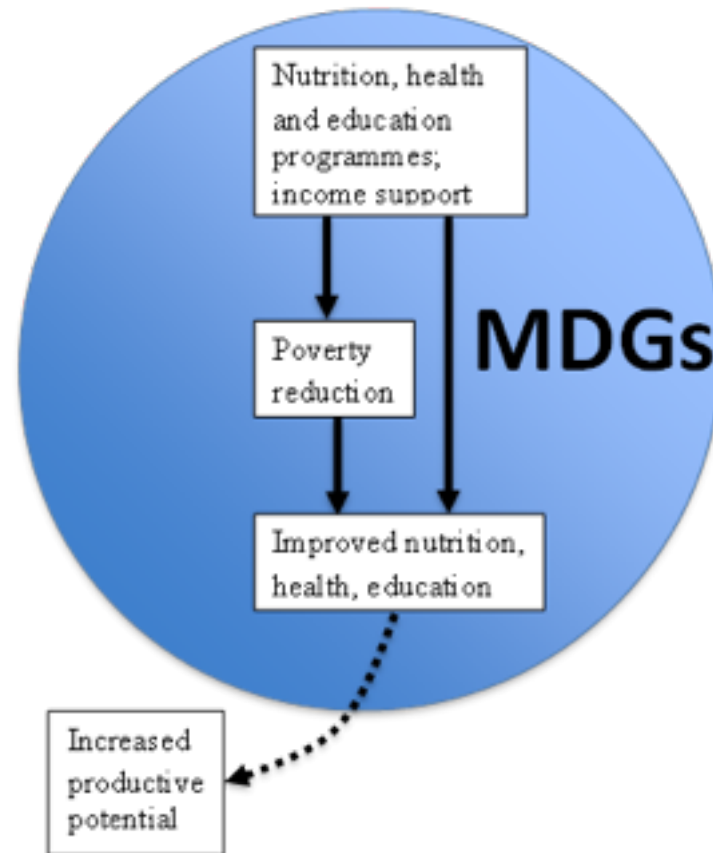
III. Policies to reach the SDGs

- The SDGs will be much more ambitious than MDGs
- The post-2015 development agenda and the SDGs need
 - to encompass **structural transformation** and
 - to be much stronger on **global action**



III. Policies to reach the SDGs

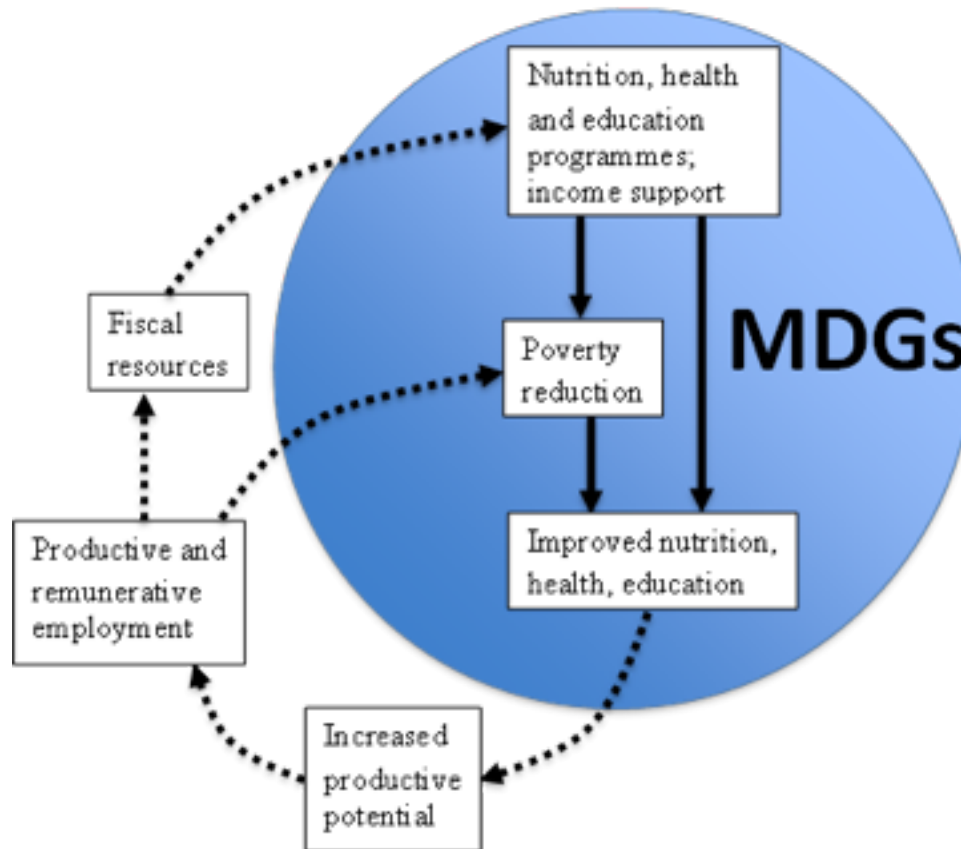
The post-2015 agenda needs to pursue economic development with structural transformation **and** human development **together**



III. Policies to reach the SDGs

The Post-2015 agenda needs to pursue economic development with structural transformation **and** human development **together...**

...to translate increased productive potential into increased incomes and revenues...

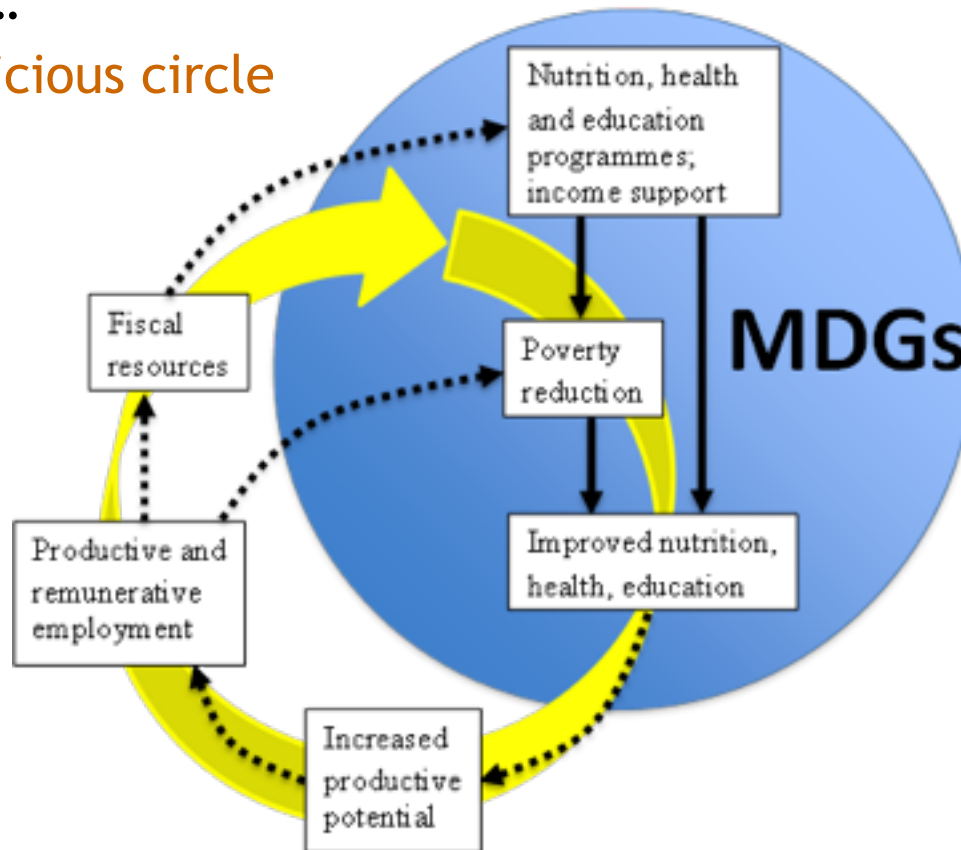


III. Policies to reach the SDGs

The Post-2015 agenda needs to pursue economic development with structural transformation **and** human development **together...**

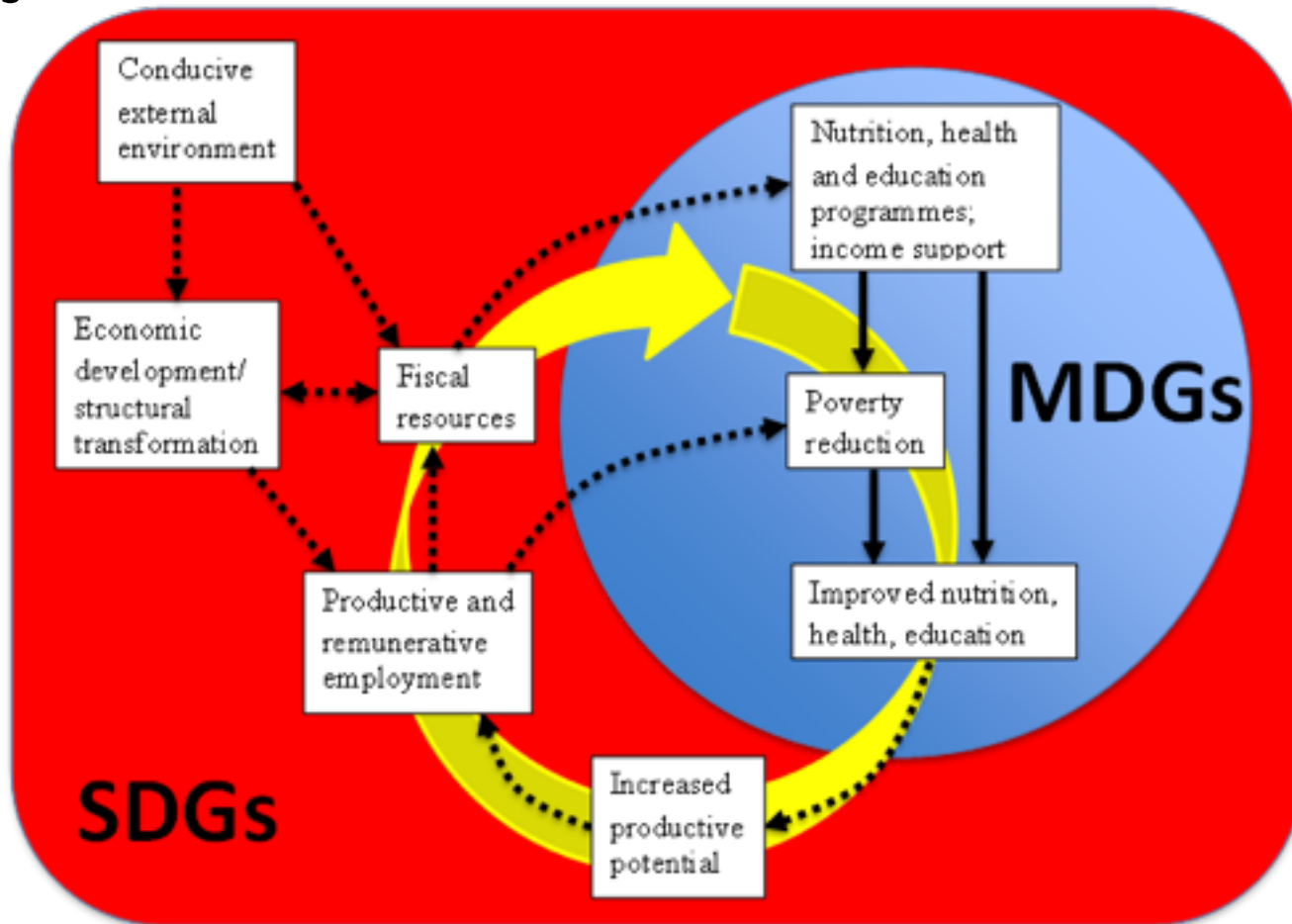
...to translate increased productive potential into increased incomes and fiscal revenues...

...and **reverse the vicious circle**



III. Policies to reach the SDGs

This means including economic development with structural transformation and the required changes at the global level within the SDGs



III. Policies to reach the SDGs

Three interrelated areas of **domestic policy** are particularly important for sustaining economic transformation:

1. **Resource mobilization** for public and private investment
2. **Industrial and sectoral policies** to channel resources into most productive sectors and activities
3. **Macroeconomic policies** which foster investment and demand growth



III. Policies to reach the SDGs

1. Resource mobilization

- Balance domestic investment and FDI according to their different advantages in different contexts
 - **FDI** where it offers access to markets and technology
 - But **local investment** is likely to offer stronger forward/backward linkages, more jobs per \$, more reinvestment of profits
 - **Diaspora investment** may combine the best of both
- Maximize the impact of ODA through **labour-intensive methods in infrastructure investment**, and local procurement



III. Policies to reach the SDGs

2. Industrial policy

- Active industrial policy is essential
 - horizontal (economy-wide) policies and
 - vertical (specific activities) policies
- Focus on job creation
- Dual strategy
 - Develop sectors in line with current comparative advantage, but also
 - Promote and anticipate *changes in* comparative advantage



3. Macroeconomic policies

- **Emphasize credit** for local investment and demand growth
- **Increase and diversify public revenue sources** and strengthen tax collection capacity to increase fiscal space
- Keep the *long-term* fiscal deficit within the limits of **financial sustainability**



III. Policies to reach the SDGs

International measures

- **ODA** - donors should fulfil long-standing commitments on
 - quantity (commitment to 0.7% of GNI)
 - quality (especially basing ODA on recipients' priorities/strategies)
- **International finance reform**
 - Effective and development-friendly crisis prevention and response
 - Improved global tax governance
- **Trade** - a more **development-oriented trading system**, including
 - Special and Differential Treatment; easier WTO accession; technology transfer under TRIPs; review of bilateral agreements' compatibility with SDGs, and changes where required
- Prompt, effective and equitable **action on climate change**



Rural development and diversification

Rural development is essential to poverty eradication

- Two thirds of the LDC population live in rural areas
- Industry will not create enough jobs, and cities cannot absorb enough people, to take all out of poverty by 2030



Key Messages

- The international community must learn **from the experience of the MDGs** - Poor countries' failure to achieve most MDGs despite strong growth
- Meeting the much more ambitious SDGs requires completing a **virtuous circle of economic and human development**
- This requires **structural economic transformation**, and **changes in the global economic system**
- This implies
 - a major shift in poor countries' own policies
 - action by the international community as ambitious as the proposed goals
 - including economic transformation and global economic change in the SDGs



Thank you

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