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MODERNIZATION IN LEAST DEVELOPED COUNTRIES REQUIRES ECONOMIC DIVERSIFICATION AND MORE JOBS, NEW REPORT SAYS

Geneva, 27 November 2014 – A major shift in policies aimed at upgrading and diversifying the economic structure of least developed countries (LDCs) into more sophisticated and higher value-added products is being proposed by UNCTAD in its publication, **The Least Developed Country Report 2014**.[1] This will require innovation, skills upgrade and massive transfer of resources towards more sophisticated products and activities. Such a policy change is especially important for those LDCs overly dependent on the extractive sector.

Subtitled **Growth with Structural Transformation: A Post-2015 Development Agenda**, the Report says policy proposals must go beyond those aimed at large-scale urban manufacturing to embrace measures for agricultural upgrading and rural economic diversification.

The LDCs are a group of 48 nations, most in sub-Saharan Africa, which have been recognized by the United Nations as requiring transformative economic change in order to lift their peoples from poverty.

Economic growth in the LDCs during the last two decades was associated with changes in the composition of their production and exports, the Report says. LDC economies that were able to diversify their production into higher value-added manufacturing activities grew at consistently higher rates than countries that remained heavily dependent on natural resources.

Exporters of manufactured goods, mostly in Asia, such as Bangladesh and Cambodia, experienced fast changes in the composition of their productive structure, with a 16 percentage point decline in the agricultural sector's share of employment.

This transformation was supported by a significant increase in labour productivity in agriculture, which was above 2 per cent per year, and it made possible a progressive shift of the workforce towards industry and services. Labour productivity in industry, in turn, reinforced this dynamic, displaying an average growth rate of over 4 per cent between 1991 and 2012.

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[1] The Report (Sales No. E.14.II.D.7, ISBN: 978-92-1-112880-2) may be obtained from the United Nations Publications Sales and Marketing Office at the address mentioned below or from United Nations sales agents throughout the world. Price: US$50 (50% discount for residents of developing countries, and 75% discount for residents of LDCs). Customers may send orders or inquiries to: United Nations Publications Sales and Marketing Office, 300 E 42nd Street, 9th Floor, IN-919J New York, NY 10017, United States of America. Tel.: 1 212 963 8302, fax: 1 212 963 3489, e-mail: publications@un.org, https://unp.un.org.

Asian LDCs also displayed the strongest increment in manufacturing production (whose share of total output increased by 5 percentage points), outperforming the remaining LDCs with a GDP per capita growth of 3.3 per cent or above per year.

In African LDCs, on the contrary, output per capita grew more slowly, at average annual rates of only 1.9 per cent, the Reports notes, and in countries specialized in the export of minerals, such as Guinea and Zambia, it stagnated.

Not surprisingly, African LDCs and LDCs specialized in the export of minerals also showed only limited or even negative changes in agricultural productivity (for example, minus 1 per cent annually for the mineral exporters) and little sign of transformation of the employment structure, with a decline of agricultural labour share of 7 and 0 percentage points, respectively. More importantly, the Report says, both groups of countries experienced a decrease of 1 percentage point in the manufacturing share of total output.

Even in African LDCs, however, labour productivity in the industrial sector grew substantially over the period 1991–2012, at an annual rate around 2.5 per cent.

This figure hides an important contrast between those LDCs where the industrial sector is dominated by manufacturing and those where it is dominated by extractive industries (basically oil, gas and metal mining). Exporters of manufactured goods (primarily Asian LDCs) in fact proved to be resilient to the negative external shock engendered by the global economic crisis that started in 2008.

In those LDCs where the industrial sector is dominated by extractive industries, on the other hand, the crisis pushed labour productivity into a steep decline. This underlines the vulnerability of economies that are dependent on natural resources, and the importance of diversifying their production structures.

The Report also finds that, even in those countries that are relatively successful exporters of manufactured goods, a large part of the workforce has resorted to service activities that offer low-productivity and informal fallback options for workers lacking an industrial job. Urban industry has not been able to keep up with the extraordinary pace of rural-to-urban migration registered in the last two decades, and the service sector has absorbed a large part of the excess supply of workers in urban areas.

The rise in the share of workers employed in low-productivity informal jobs is a serious impediment to aggregate productivity growth and development in all the LDCs. Moreover, since low productivity is associated with low incomes, these jobs not only restrain economic modernization, but they also keep workers in poverty.

NOTE: Forty-eight countries currently are designated by the United Nations as LDCs. They are Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People´s Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia.

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