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Mainstreaming Structural Transformation: Context and policy options for Mongolia
Structure of the presentation

I. Context: what structural transformation means and why it matters?
II. What drives structural transformation?
III. Mongolia and other LLDCs: some comparators and indicators
IV. Key policy messages
What is Structural Transformation?

Shifting resources and policy focus:

FROM
- traditional sectors
- traditional activities
- low-productivity
- low-technology

New sectors
New activities
Higher productivity
Higher technology

Structural transformation takes place:
- within sectors
- across sectors
Why Structural Transformation matters?

- **It is essential for development:**
  - Source of productivity growth
  - Source of decent and skilled jobs
  - Learning and knowledge accumulation
  - Source of higher income and aggregate demand

- **In an open economy, trade plays a key role**

- **Why do countries trade?**
  - Comparative advantage (static)
  - Technology / learning (dynamic)
  - Surplus production
  - Balance of payment
  - Diversification/sophistication
What drives Structural Transformation?

- Investment (in particular public)
- Industrial policy – linked to agriculture and services, education
- Strategic integration into the global economy
- Regional and global production network
What drives .....Continued?

The rise of the South:
- Emergence of Southern growth poles
- South assisting in infrastructure dev.
- New markets for diversification
- New source of investment and transfer of technology and development experience
What drives….Continued?

**Industry / Manufacturing** - Opportunity for:

- Raising productivity
- Technological upgrading
- Innovation
- Virtuous link between demand and supply side
- Productive employment

However, agriculture and services are also important.
I. Mongolia's trade structure or composition

• Exports are predominantly natural resources based or commodities;
• Over 80 % of export revenue is from extractive sector
• Trade intensity of GDP is the highest in Mongolia as compared to LLDCs as a group
• Structural transformation is taking shape but still in the lowest value chains
• Key comparators show weak productive capacities for Mongolia
Structural transformation: Mongolia & selected LLDCs: 2000 - 2015 (Ranking)
Productive Capacity Index: Mongolia and Selected Countries

PCI Ranking over 2000-2015

Country Code:
- BRA
- BWA
- CHN
- LAO
- MDA
- MNG
- MOZ
- RUS
- RWA
- THA
- USA
- VNM
- ZAF
Key messages

• What you produce and what you export matters
• Some goods associated with higher value and productivity
  - The more you diversify, add-value and produce more sophisticated products and services, the more you establish stronger growth pattern.
  - No country has successfully moved the development ladder without undergoing structural transformation.
Industrial development – in particular manufacturing – is a critical component of the structural transformation process, because of the concentration of progressively value-adding and productivity-driven activities in this sector.

Structural transformation could also take place in agriculture and services, which are important for their role in poverty reduction.