

STRUCTURAL TRANSFORMATION OF LAND-LOCKED DEVELOPING ECONOMIES

A bridge too close (or too far)?

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REMOTENESS: A DISADVANTAGE?

- ▶ Not entirely
 - ▶ Opportunities for creating robust domestic market
 - ▶ Resilience to fluctuations to business cycles, shocks and contagion
 - ▶ Leapfrogging
 - ▶ Avoid the pain of premature deindustrialization
 - ▶ But remoteness matters for something more important
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- A decorative graphic consisting of several parallel white lines of varying lengths, slanted upwards from left to right, located in the bottom right corner of the slide.

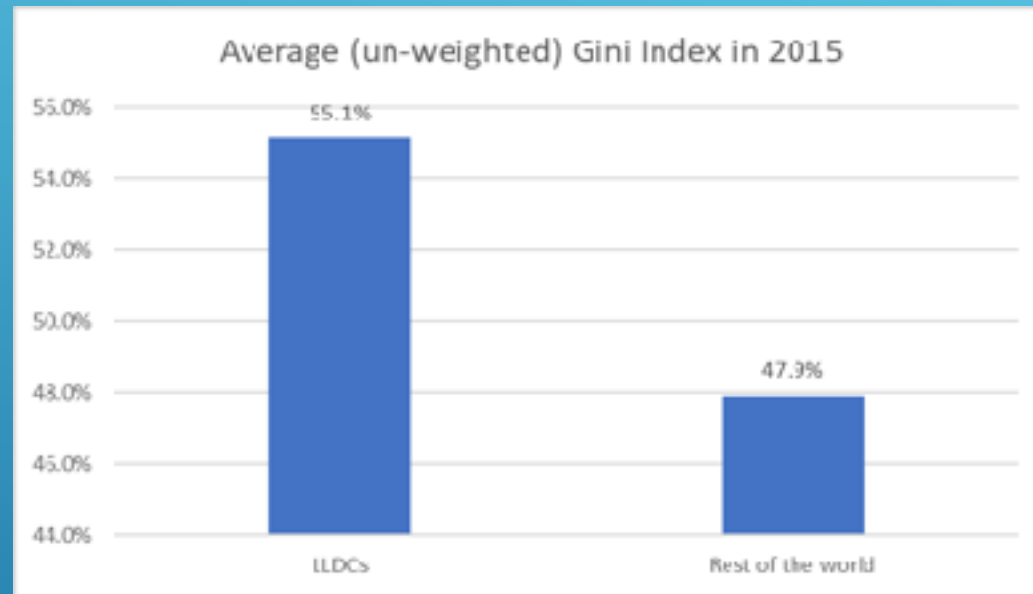
WHAT DRIVES STRUCTURAL TRANSFORMATION?

- ▶ Structural transformation – moving people from low-skilled, low productivity and low-value added sectors to higher-skilled, higher productivity and higher value-added sectors
 - ▶ Key driver: productivity growth
 - ▶ But what drives productivity growth
 - ▶ International trade and competition
 - ▶ Demand for skills
 - ▶ Physical investments
 - ▶ Public policy
 - ▶ Quality of human capital
 - ▶ Quality of institutions
 - ▶ Initial conditions - inequality
 - ▶ Trade and global integration are necessary but NOT sufficient for productivity growth and structural transformation
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INEQUALITY: A BINDING CONSTRAINT TO PRODUCTIVITY GROWTH AND STRUCTURAL TRANSFORMATION

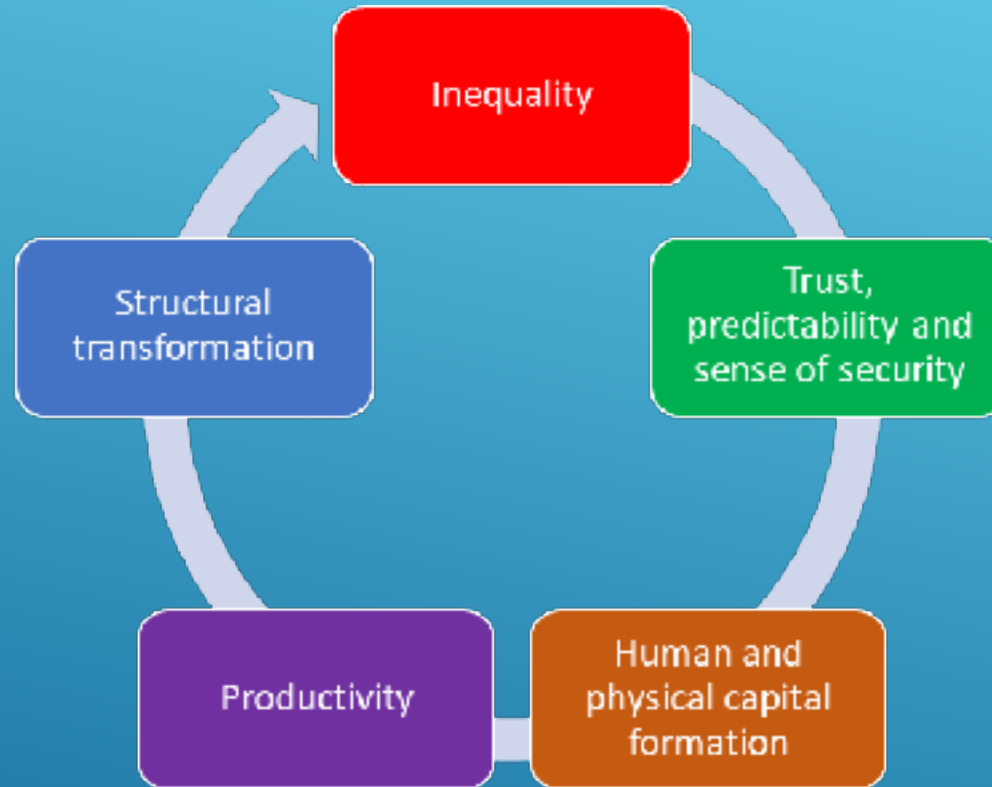
- ▶ Inequality matters more than we knew
 - ▶ Growth-inequality trade-offs debunked – inequality is not a necessary evil for achieving faster growth
 - ▶ Growth evidence shows inequality hurts growth through productivity channels
 - ▶ Inequality directly hurts productivity growth
 - ▶ High inequality and low social mobility discourages education and skills accumulation
 - ▶ Low levels of human capital discourages investment
 - ▶ Inequality also hurts growth indirectly
 - ▶ Erodes trusts in institutions
 - ▶ Inequality amplifies uncertainties and sense of insecurity
 - ▶ Makes contract enforcements difficult
 - ▶ Increases transaction costs in businesses
 - ▶ Discourages investment
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INCOME INEQUALITY IS SIGNIFICANTLY HIGHER IN LAND-LOCKED DEVELOPING ECONOMIES



- Should not surprise us - excessive dependence on natural resource exports and “resource curse” largely explain high levels of income inequality in LLDCs
- But worrisome, inequality continues to rise in many LLDCs
- What we need to remember – countries that achieved rapid structural transformations during the past seventy years began with very low level of income inequality

A VICIOUS OR VIRTUOUS CYCLE?



- Inequality is not an act of nature
- It is a matter of public policy choice
- LLDCs must combat and reverse inequality to spur productivity growth and structural transformation