STRUCTURAL TRANSFORMATION OF LAND-LOCKED DEVELOPING ECONOMIES

A bridge too close (or too far)?
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
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
  - 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
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
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