



LDC FUTURE FORUM

5–6 March 2024
Helsinki / Finland

INNOVATION FOR STRUCTURAL TRANSFORMATION IN LDCS

THEMATIC SESSION 3

DIVERSIFYING LDC ECONOMIES INTO SECTORS WITH POTENTIAL



Background

LDCs often capture fewer gains from their participation in the global economy than more advanced countries because most of them are specialised in labour-intensive, low-technology manufacturing, or natural resource extraction, with poor linkages between domestic firms and more capital-intensive foreign companies. Export concentration¹ in LDCs has been stagnant between 2018 and 2023 at 0.44 on average. However, there are large differences with some LDCs like Togo and Timor-Leste having values below 0.24, while others reach values of more than 0.85.

The working-age population in the LDCs is expected to double between 2020 and 2050, rising from 610 million to 1.2 billion. The expansion of the working-age population along with declining dependency ratio can create a window of opportunity for LDCs to realize large and sustained demographic dividends, if productive capacity can be enhanced to create decent jobs. National policies are vital to preparing for and creating the windows of opportunity to develop innovative sectors with high productivity and tapping the potential for long-term profitability and growing demand is crucial for sustainable development. In this respect, firms in LDCs need to enter new markets and create positive spillovers to the rest of the economy, for example in agro-processing.

LDCs need tools to enable them to design and implement better production transformation policies, that will help them to anticipate and adapt to uncertain, complex and fast-changing economic environments in order to prevent premature deindustrialization and to translate growth into tangible benefits for society.

Guiding questions:

- How can LDCs overcome challenges of export diversification and structural transformation?
- What role do innovations play in agro-processing?
- How can industrial policy be used to prevent premature deindustrialization?
- How can Production Transformation Policy Reviews (PTPRs) be utilized as a tool for LDCs?
- How can financial services promote structural transformation?

¹ This index measures the extent to which a large share of exports is accounted for by a small number of product groups. The index has a value of 1 when an economy exports only one group of products and a value of 0 if all product groups are equally represented.