Review of Progress made in structural economic transformation in Euro-Asian landlocked developing countries (LLDCs)

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Background report for the UN-OHRLLS, UN ESCAP and UN ECE
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This paper reviews progress made

1. Introduction

The Vienna Programme of Action (VPoA) for land locked developing countries (LLDCs) is an important international advocacy to empower the LLDCs in overcoming their development challenges related to their unique geographical nature. This paper reviews progress made by Asian and European LLDCs in structural economic transformation (Priority 5 of the VPoA). It covers 10 (Afghanistan, Nepal, Bhutan, Lao PDR, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan and Uzbekistan) Asian and 4 (Armenia, Azerbaijan, Macedonia and Republic of Moldova) European LLDCs.[1]

Structural transformation and diversification are seen as synonymous with development. Structural transformation has been commonly understood as a process of shifting "share of output and the distribution of employment from low- to high-value-added economic activities" (ESCAP, 2015, p. 5). Various means of promoting structural transformation have been advocated such as 'industrialisation'; 'export diversification'; 'strengthened productive capacities' and 'changes in the structure of economies, such as in the composition of production or foreign trade'.

In operational terms, structural transformation is popularly measured as the shift output and employment from agricultural to manufacturing. That is, during the process of structural transformation, the share of agriculture declines while the share of manufacturing increases. Then as the economy continues to progress toward maturity and advancement, the share of manufacturing should decline as in agriculture and the share of modern and high productivity services continues to rise.[2] This is a normal process of positive de-industrialisation as experienced by most of developed countries.

However, several caveats apply to this general narrative of structural transformation in the context of LLDCs and LDCs. *First*, the application of a general framework of structural transformation has to be country specific, especially for geographically unique LLDCs. For example, in Mongolia, a resource rich LLDC of only 3 million people covering a very large geographical area, the push for industrial development might not be an immediate need, given its productive capacity, manpower and market access (domestic and international). With its characteristics, Mongolia might need to concentrate more on capitalising enhanced value added and benefit from its primary sector, while investing in domestic capacity for the development of secondary sectors in the future.

Second, the discussion should consider the fact that most of the Asian and European LLDCs are transition economies. Almost all of them experienced steep declines in output and sharp rises in unemployment and poverty during the early phase of their transition. Most of them also took significantly long years to recover to the pre-transition period GDP. Several LLDCs in the region have also undergone periods of conflict, war or political instability. These experiences have important bearings on the nature and speed of subsequent structural transformation.

Third, almost all of these countries are resource-rich and benefited from the commodity price boom of the early 2000s, until about 2008-2009 global financial crisis (GFC). This, too, has impacted on their growth and structural transformation experience. For example, together with high growth rates, they witnessed sharp real appreciation which adversely affected their tradable sectors. In short, their experience can be described as a classic case of "Dutch disease".

Fourth, in contrast to the historical trend observed in the present day developed countries, almost all Asian and European LLDCs are experiencing negative or pre-mature deindustrialisation, where the decline in the role of manufacturing is not due to natural advancement to high productivity service sector, but due to the decline in manufacturing competitiveness. This may be a consequences of several factors, such as neo-liberal policies pursued since the early 1990s and unfavourable conditions arising from the 2000s resource boom.[3]

Rowthorn and Wells (1987) developed a distinction between positive and negative deindustrialisation. Positive deindustrialisation is:

> "regarded as … the normal result of sustained economic growth in a fully employed, and already highly developed, economy. It occurs because productivity growth in the manufacturing sector is so rapid that, despite increasing output, employment in this sector is reduced, either absolutely or as a share of total employment. However, this does not lead to unemployment, because new jobs are created in the service sector on a scale sufficient to absorb any workers displaced from manufacturing. Paradoxically, this kind of de-industrialisation is a symptom of economic success." (Rowthorn and Wells 1987, p. 5).

On the other hand, negative deindustrialisation is "a product of economic failure and occurs when industry is in severe difficulties … labour shed from the manufacturing sector—because of falling output or rising productivity—will not be reabsorbed into the service sector. Unemployment will therefore rise" (Rowthorn and Wells 1987, p. 5).

In advanced economies, the peak of manufacturing sector's contributions to GDP – achieved in the 1960s – was around 36 per cent in Japan, 32 per cent in European Union and 30 per cent in industrial countries (Rowthorn and Ramaswamy 1997), before declining. But, in the LLDCs, in particular in Central Asia, the share of manufacturing in GDP began falling much earlier – even before reaching around 20 per cent.

2. Development progress and challenges of L

As can be seen from Figure 1, there have been sharp declines in their GDP. While Uzbekistan's GDP recovered to the pre-transition level by the late 1990s, most took more than 10 years and Moldova's GDP still below the pre-transition period.

In retrospect, it is obvious that rapid economic liberalisation did not pay off: many gradual reformers from the former Soviet Union in this region performed better than the champions of "big bang" liberalisation – Baltic States and Central Europe. In Turkmenistan and Uzbekistan, for instance, privatisation was rather slow – over 50 per cent of their GDP is

in Azerbaijan – from an average of 15.3 per cent in 2000-2010 to –0.6 per cent in 2015-2017. Armenia, Kazakhstan, Afghanistan and Mongolia also experienced significant declines in their GDP growth rates. Others, although did not record very high growth rates, were more stable; nevertheless, are also slowing. Despite the generally slowing trend, Bhutan recorded a growth recovery of an average of 7.1 per cent in 2015-17, increased from an average of 5.2 per cent in 2010-14.

Table 1: GDP growth, Per-capita GDP and Population

Source: World Bank, World Development Indicators (various issues)

Table 2 summarises export performance of Asian and European LLDCs (henceforth referred to as Eurasian LLDCs). It shows declining relative size of export (% GDP) in most of former Soviet Rep/F1 14/F16(/F1 14/F16(/F1 1( )-3(9ews)3(excIn)-p(n)-4( )6(2ia)-2(aced-2( )-3(al)-14a0.000

replaced by the mining sector and largely non-tradable activities (construction and services).
Other LLDCs in Asia showed a process of industrialisation till 2014, but data in the later years indicate a process of pre-mature deindustrialisation.

Table 3: sectoral shifts in GDP

(b) Manufacturing, value added (% of GDP)							
Country Name	1990	1995	2005	2014	2015	2016	2017
Armenia	30.2	24.3	13.5	9.7	9.2	10.3	10.2
Azerbaijan	17.6	11.5	6.5	4.7	5.0	4.9	4.7
Macedonia, FYR	31.5	19.6	9.7	11.0	11.8	12.2	11.8
Moldova	n.a.	22.3	13.1	11.6	11.9	11.8	11.5
Kazakhstan	n.a.	14.6	12.0	10.3	10.3	11.3	11.2
Kyrgyz Republic	26.4	8.6	12.9	13.7	14.1	15.4	15.1
Tajikistan	24.8	26.8	n.a.	7.6	8.7	9.7	n.a.
Turkmenistan	n.a.	38.2	20.5 (2004)	n.a.	n.a.	n.a.	n.a.
Uzbekistan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Afghanistan	n.a.	n.a.	16.4	11.4	11.4	11.3	n.a.
Bhutan	7.7	10.3	7.1	8.1	8.0	7.5	7.1
Lao PDR	4.2	6.0	9.6	8.4	8.2	7.8	7.5
Mongolia	20.4	17.3	5.8	8.8	7.6	7.3	8.3
Nepal	5.8	8.9	7.6	5.8	5.6	5.3	5.2

(c) Services, value added (% of GDP)							
Country Name	1990	1995	2005	2014	2015	2016	2017
Armenia	n.a.	n.a.	n.a.	47.4	48.2	49.9	51.3
Azerbaijan	34.0	37.9	25.1	33.6	40.0	38.7	37.5
Macedonia, FYR	39.5	45.6	55.8	53.8	53.7	53.5	54.6
Moldova	n.a.	33.1	50.4	54.5	56.9	56.1	n.a.
Kazakhstan	n.a.	54.0	52.0	54.8	59.3	57.9	57.4
Kyrgyz Republic	30.6	35.6	42.4	50.6	52.1	50.1	50.4
Tajikistan	29.1	21.2	40.6	40.6	42.5	42.2	n.a.
Turkmenistan	36.7	19.1	42.9	n.a.	n.a.	n.a.	n.a.
Uzbekistan	34.6	34.7	37.0	44.3	44.5	43.4	39.8
Afghanistan	n.a.	n.a.	39.0	53.0	53.2	52.8	52.7
Bhutan	38.9	32.9	38.1	37.2	37.6	37.4	37.2
Lao PDR	40.2	40.9	43.4	44.2	44.2	42.5	41.5
Mongolia	43.3	29.3	37.5	45.8	47.5	46.1	42.3
Nepal	30.4	33.2	45.8	48.7	49.5	50.0	51.6

Source: World Bank, World Development Indicators (various issues)

On the other hand, there have not been commensurate declines in agriculture's employment shares in almost all countries, except in Kazakhstan, where it declined from around 32 per cent in 2005 to 18 per cent in 2017 (Table 4). In Lao PDR, Nepal, Afghanistan and Bhutan respectively around 78 per cent, 72 per cent, 61 per cent and 56 per cent of the labour force still works in low productivity agriculture, implying large scale rural poverty.

Table 4: Sectoral employment

Source: World Bank, World Development Indicators (various issues)

Notes: The agriculture sector consists of activities in agriculture, hunting, forestry and fishing. The industry sector consists of mining and quarrying, manufacturing, construction, and public utilities (electricity, gas, and water). The services sector consists of wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services.

Table 5 presents indicators showing manufacturing's deepening, which refers to the extent of advancement within the manufacturing sector. This indicates to what extent the manufacturing sector has transformed itself from a lower level, more traditional and simpler manufacturing activities and resulted products to a higher level, more modern and more sophisticated ones. Despite the deindustrialisation trend, data on the share of medium and high technology manufacturing value added (MVA) in the total of MVA is probably the best proxy to see the extent of advancement within the manufacturing sector over time. This indicator reflects progress related to technological content within the manufacturing sector. The key observations of mixed performance can be summarised as follows:

During 2010 and 2015, countries show both progress and stagnation on this. For example, the share doubled in Moldova, from 8.4 per cent in 2010 to 18.8 per cent in 2015, while it has declined in Armenia and Tajikistan.

The changes in the shares of medium and high technology MVA in the total MVA are not consistently reflected in the share of medium and high technology MVA export in the total MVA export.

During 2010 and 2015, the shares of MVA export in total exports either declined or remained stagnant. On this, a few countries are worth highlighting: Armenia, Moldova, Mongolia and Nepal show the dominance (around 60-70 per cent) of manufacturing exports in their total export. It is particularly worth noting that the size of export (relative to GDP) is relatively large (around 40%) in small countries of Armenia, Moldova, Mongolia. This simply points to the importance of export market due to small size of

Table 6: Foreign Direct Investment (FDI) as % GDP

Country Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Armenia	5.5	3.3	4.7	4.4	6.9	6.0	7.3	7.3	8.1	8.8	5.7	6.4	4.7	3.1	3.5	[illegible]	[illegible]	[illegible]
Azerbaijan	2.5	14.4	32.5	55.1	54.4	33.8	21.4	13.9	8.2	6.5	6.3	6.8	7.6	3.5	5.9	[illegible]	11.9	7.0
Macedonia, FYR	5.8	12.7	2.8	2.4	5.4	2.3	6.2	8.8	6.2	2.8	3.2	4.8	3.5	3.7	0.5	3.0	5.1	3.8
Moldova	9.9	7.0	5.1	3.7	5.8	6.4	7.6	12.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kazakhstan	7.5	12.7	3 10.5	8.1	13.0													

[illegible]

Source: World Bank, World Development Indicators (various issues)

The extent a country is able to attract the inflow of foreign direct investment (FDI) can indicate its economic dynamism and competitiveness. Table 6 shows the most recent trends of net FDI inflows in the Eurasian LLDCs. Several countries with a dominant resource sector (mining) show their attractiveness for FDI, such as Azerbaijan, Kazakhstan and Mongolia. For example, the inflow of FDI jumped significantly in Azerbaijan reaching the figure of 55 per cent of GDP during the resource boom of the early 2000s. This, however, cannot be simply interpreted as signs of dynamism and competitiveness as the flow is due to their natural resource endowments rather than created economic attractiveness resulting from human resource capabilities, technical capacity upgrading, institutional strengths, etc.

Table 7: Research and Development (R

On efficiency and competitiveness of an economy, another factor to consider is information and communication technology (ICT) penetration. One way to gauge the extent of the penetration is to look at the internet broadband and cellular phones coverage. It has to be noted that, fixed broadband subscription is better in representing access to ICT rather than mobile cellular subscription which is, in most cases, more of a response to poor fixed-line telephone infrastructures. Data presented in Table 8 show that the fixed broadband penetration vary significantly. ICT infrastructure represented by fixed broadband subscriptions in the society basically represents development progress as it is positively correlated with per capita GDP (see Figure 2).

Figure 2: Broadband subscription and per capita GDP (14 Eurasian LLDCs, 2017)

Source: World Bank, World Development Indicators

Economic dynamism is a key to the process of structural transformation. In this regard, the role of the private sector is very important and few key indicators are worth looking at. As previously presented, net FDI inflows and exports are good measures of ec7memuateW5D0 G3ar32 841.92 reW*nBT/F1 12 Tf1 0 0 1 316.37 191.69 Tm0 g0 G[s)]TJET8[s10(.0270 g0 G

Source: World Bank, World Development Indicators (various issues)

A key policy variable impacting on the expansion of the private sector is the relative size of domestic credit allocated to the private sector as presented in Table 9. In general, between 1995 and 2010, there were significant increases in the relative size of domestic credit allocated to the private sector, with the exception of Kyrgyzstan and Tajikistan. These increases are likely due to two inter-related factors: (i) the transition to market economy and (ii) the expansion of domestic financial/banking system.

Recent data, however, show contrasting trends. Domestic credit to the private sector has either shrank or stagnated in most of former Soviet Republic LLDCs. Dramatic declines are found in Azerbaijan and Tajikistan. The sharp declines in domestic credit have also been experienced

workforce, implying substantial low productivity and underemployment in the rural economy. Furthermore, industrial activities are mainly Baku-centric with little or no linkages with Azerbaijan's rural or regional economies. Azerbaijan's experience is a classic case of

On Afghanistan, the World Bank's (2013) suggested that transformation decade was indeed a period of high hopes, expectations and great opportunities for the people of the country. Economic growth, job creation and development are central to transformation and long-term security for the people of Afghanistan. While the

stimulating small and medium-sized business and self-employment have made it possible to create additional jobs and reduce unemployment.

Mongolia

Recent policy and development initiatives favourable for structural transformation include:

Implementations of the bilateral MOU on Aligning Mongolia's "Development Road" and China's "Belt and Road" Initiatives and the trilateral "Mongolia-Russia-China Economic corridor program". The purpose of the Economic Corridor program is to enable development and expansion of the trilateral cooperation by implementing 32 major joint projects aimed to increase trade turnover, ensure competitiveness in goods supply, facilitate cross-border transportation and develop infrastructure.

As an effort for export diversification, the "Mongol Export Program" was adopted in September 2018. The program is mainly aimed at taking necessary steps to stabilise a favourable legal and financial environment for Mongolia's non-mining exports, support value-addition processing and strengthen competitiveness of those export products in foreign markets, as well as to facilitate trade and to expand access to export markets.

The WTO Trade Facilitation Agreement (TFA) entered into force on 22 February 2017 is an important agreement for LLDCs to ease trade processes, bring down barriers to trade and enhance the capacity of the developing world to better integrate into global trading network.

It has to be noted that, as Mongolia is a resource depended country with a large

4.2 Policy Framework for Structural Transformation[7]

As noted in UNCTAD (2014, p. 121, emphasis original) "Economic transformation requires not merely increasing the resources available for investment, but also ensuring enough of the right kinds of investment, using the right technologies in the right sectors to achieve:

> Diversification, by developing new industries and activities, and increasing value addition in existing industries and activities;
> Deepening, by creating forward and backward linkages with existing industries; and
> Upgrading of products and processes."

These require industry policy, supported by enabling macroeconomic, trade, financial, labour market, human resource and research & development (R&D) policies. However, industrial development has to be in tandem with rural and agricultural development. This means that agricultural and rural development policies must be an integral part of industry policy.

Therefore, although a large part of industry policy deals with industries or manufacturing; but it is an integrated approach to break out of vicious circles of low income, low savings and poverty by simultaneously addressing interconnected imperfections in credit, labour and product markets, as well as inadequate infrastructure, skills, technology and aggregate demand while at the same time adapting and building resilience to climate change and external volatilities. In short, it is for structural transformation towards a more inclusive and sustainable future. This fits with Warwick's broad definition of industry policy as "any type of intervention or government policy that attempts to improve the business environment or to alter the structure of economic activity toward sectors, technologies or tasks that are expected to offer better prospects for economic growth or societal welfare than would occur in the absence of such intervention" (Warwick, 2013, pp. 16), emphasis original).[8]

Industrial policy: Comparative advantage following or defying?

The broad definition of industrial policy implies a *horizontal* or *functional* approach. They are policies and measures designed to improve business environment generally without favouring any *particular* industry or activity. Thus, they are 'neutral'. On other hand, policies that are designed to alter the structure of economic activity towards *specific* sectors or activities are referred to as *vertical*, or *selective* industrial policies. These are more interventionist.

Following Lall and Teubal (1998), UNCTAD and UNIDO (2011, p. 34) describe industrial policy as involving "a combination of strategic or selective interventions aimed at

propelling specific activities or sectors, functional interventions intended at improving the workings of markets, and horizontal interventions directed at promoting specific activities across sectors." They aim to promote cross-sector activities for which markets are missing or are difficult to create. A typical example is innovation and R&D policy.

Macroeconomic stabilisation, infrastructure and education & skill development policies fall under horizontal category – they apply to all sectors equally, although ability to take advantage of them may differ among firms within a sector. Horizontal or functional industrial policies are not prone to rent-seeking or directly unproductive activities by particular industry lobbies, because they do not create industry-specific rents or try to pick "winners".

Tariff protections, tax concessions, subsidies, specialised credit, etc. fall under vertical category. Being more interventionist in nature, vertical industrial policies are more information-intensive, and hence are more demanding. That is, policymakers need to identify industries ("winners") which could become the engine of growth and hence worthy of support or protection.

Many progress and development initiatives undertaken in Eurasian LLDCs fall under the horizontal or functional category. This kind of industrial policy generally work through enabling market and can be described as comparative advantage following (CAF). According to the CAF strategy, countries should develop industries that are consistent with their comparative advantages, as determined by their endowment structure, and do not try to overleap necessary stages aiming at exporting the goods which are exported by very advanced countries (Lin, 2012). Oil rich countries, like Kazakhstan and Azerbaijan, for instance, according to this logic, should aim at developing heavy chemical, not, for example, high-tech computer industries. Similarly, labour surplus countries, such as Afghanistan and Nepal should concentrate on labour-intensive activities, and try to catch the lower end of global value chain (GVC).

But desired structural transformation may also require vertical or selective industrial policy to defy determinism of factor endowments. Such strategies are referred to as comparative advantage defying (CAD). For example, Japan protected its car industry with high tariffs for nearly four decades, provided a lot of direct and indirect subsidies, and virtually banned foreign direct investment in the industry before it could become competitive in the world market. It is for the same reason that the electronics subsidiary of the Nokia group had to be cross subsidised by its sister companies for 17 years before it made any profit. "History is full of examples of this kind, from eighteenth-century Britain to late twentieth-century Korea" (Lin and Chang, 2009).[9]

The CAD strategy does not necessarily imply a transition to more technologically sophisticated industries, but rather, to industries that are not linked to comparative advantages of a particular country. Theoretically, it could be a transition from chemicals to

machine building with the same, or even lower, level of R&D intensity and technological sophistication.

Unfortunately, economic theory does not suggest any definite clues for picking the "winners", except for the idea that these industries should have the highest externalities, i.e. their social returns should be higher than private returns. Yet, it is not easy to measure these externalities. Nevertheless, upon examination of the literature and the experience of countries with industry policy, it is possible to isolate methods which can aid in identification of industries that should be supported (Popov and Chowdhury, 2016). Some authors have specified the characteristics that such "winner" sectors must have, e.g., export, job, and knowledge creation potential (Reich, 1982); activities new to the economy (Rodrik, 2004); higher technological content and promote innovative activities with strong backward and forward linkages to the rest of the economy (Ocampo, Rada and Taylor, 2009).

Furthermore, selective policies are prone to risk rent-seeking, and supported/protected firms or industries may become complacent, and hence less efficient or competitive. There is considerable debate about the efficacy of such industrial policy instruments that try to pick the "winners", and critiques of industrial policy often point to the failures mainly attributable to rent-seeking and the difficulties of picking the winners.

In order to overcome such problems, it is suggested that these measures be in place for a fixed period on the condition that the supported/protected firms/industries must achieve certain goals (e.g. export) within the pre-specified period. For example, a government can support several promising industries with the condition that assistance ends, if the increase in export is not achieved within, for example, five years. This is called "EPconEP" – effective protection conditional on export promotion (Jomo, 2013). Economic policymakers in this case are similar to the military commander who begins an offensive on several fronts, but throws reserves where there has been a breakthrough.

Governments can also choose to support some general principles, such as productivity, competitiveness, environmental soundness and inclusiveness, without necessarily identifying particular sector/activities ("winners" or "losers"). Firms which fall under the industry average or a bench-mark, will have to either improve or disappear, whereas above average firms become more dynamic. For example, governments can raise minimum wage to nudge low-productivity firms to improve their performance and move towards higher productivity activities. Higher minimum wage applies to all; but low productivity activities can find them in a disadvantageous position vis-à-vis high productivity activities, as experienced by Singapore, see Popov and Chowdhury (2016) and ESCAP (2013). Exchange rate and reserve accumulation policies also apply uniformlg5(an)4(d)-4ai55 0 pP(c)3(om)-3(p)-4(e3

interests. Devlin and Moguillansky (2011) also provide a list of operational principles that the public sector could implement when designing and pursuing an industrial policy.

Source: World Bank, World Development Indicators (various issues)

Table 12 indicate general declining trends of net ODA inflow to these LLDCs

Source: World Bank, World Development Indicators (various issues)

Challenges of connectivity and China's Belt and Road Initiative (BRI)

Central Asian LLDCs are betting on the BRI for long-term benefits. Central Asian countries are in need of large-scale investments in infrastructure for their connectivity – to transform their land-lockedness into land-linked – to enable them to join a global trade. The BRI intends to do just that.

However, many countries are still struggling to establish viable economies following the dissolution of the Soviet Union. The crumbling infrastructure built to be connected with Russia exclusively has contributed to the region's economic downturn. At the same time, the economic developments of the Central Asian states are not equal: Kazakhstan has highest per capita GDP of over $7,500, while Kyrgyzstan's GDP per capita is around $1,077 and the equivalent of 30 per cent of GDP comes from remittances of labour migrants working predominantly in Russia.

So far, three railroad connections in the region have been completed under the BRI: Pop-Angren in Uzbekistan, Uzen-Bereket-Gorgan traversing Kazakhstan, Turkmenistan, and Iran, and Khorgos dry port in Kazakhstan that connects China and Kazakhstan. The China-Kyrgyzstan-Uzbekistan railroad had been under discussion for almost 20 years but stalled over Kyrgyzstan's complaints that the project lacked benefits for Bishkek. Recently the parties resumed cooperation with renewed energy to complete the project. The Pop-Angren railroad will become a part of the China-Kyrgyzstan-Uzbekistan rail link once completed. While the railroad is in the making, China-Kyrgyzstan-Uzbekistan recently launched a highway connecting the three countries. Although Tajikistan is not a part of any proposed rail link, China invested in the 350-km Dushanbe-Chanak highway that connects the north of the country with the capital, Dushanbe.

The economic interdependencies and security cooperation between Central Asia and

In the context Eurasian LLDCs a pragmatic evolutionary way forward can be followed in building state capacity as suggested by UNCTAD (2014).[10] On this, three lessons can be learned from successful East Asian countries as noted by Evans (1998). First, *institutional capacity develops over time through learning*. The technical capacities of Governments were not particularly advanced when East Asian developmental States embarked on their development process. They were built up over time, through policies of meritocratic recruitment, continuity of personnel and an incentive-based career structure commensurate with the private sector.

Second is the *focus on a small number of key agencies and institutions*. There was a deliberate strategy to build a few strategically important agencies instead of improving government effectiveness across the board and all at once.[11]

Third, *there is no one-size-fits-all magic bullet*. One major lesson of efforts at institutional reform is that "institutional innovations do not travel well" (Rodrik, 2005, p. 994). Andrews, Pritchett and Woolcock (2015, p. 124) also found, "There are no easy or quick-fix solutions. Building state capability is an idiosyncratic process that looks different in each and every country; the specific institutional structures that come to have local legitimacy and effectiveness are highly dependent on a complex interplay of local context, history, politics and culture".[12]

As the LLDCs are constrained by the geography, close regional cooperation with the transit countries is a sine qua non for improved connectivity in transport, energy, and information and communications technology; all are important for structural transformation (Popov 2018). It has to be noted that regional cooperation is indirectly linked to structural transformation, while its direct connection is with overall functioning and dynamism of the economy, which in turn favourable for structural transformation. At the same time, regional corporation should also be utilised to manage regional conflict emanating from the geographical factor.

In Central Asia for example, former Soviet Union LLDCs are now less industrialised and export lesser relative values, which was largely due to the dismantling of regional cooperation previously put in place by the existence of Soviet Union as a dominant ruling power. After the independence and with subsequent transition, the economies were less integrated and coordinated. Therefore, the challenge is how to bring back regional cooperation and integration among Central Asian LLDCs and their transit countries in the present context of many independent states with their own political entities and dynamics. In this context, the existing UN Special Programme for the Economy of Central Asia (UN SPECA) can play a strategic role.

The Least Developed Countries Report 2014: Growth with structural transformation: A

In Southeast Asia, Lao PDR is part of the Association of Southeast Asian Nations (ASEAN) that should facilitate the country dealing with its transit countries for economic dynamism. Lao PDR in the only LLDC-LDC in Southeast Asia making its development challenges more severe than the other two LDCs in the region: Cambodia and Myanmar.

ASEAN economic integration should “create more opportunities for Lao PDR to grow and diversify in different directions. Within the AEC, there should be expansion of infrastructure and the regional value chain. Lao PDR has been able to attract a number of multi

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