SUPPORTING ECONOMIC TRANSFORMATION

BASELINE ON ECONOMIC TRANSFORMATION

Review of the international, regional and domestic literature on economic transformation

Leah Worrall, Kasper Vrolijk, Claire Mason and Neil Balchin

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KEY MESSAGES

- There is a range of different viewpoints in the international, regional and domestic literature on the manner in which economic transformation occurs and how such transformation has been, and should be, facilitated.
- The differences in the regional literature on Africa, Asia and Latin America reflect the varied experiences with respect to economic transformation in these three regions.
- The record on economic transformation between countries in Africa, Asia and Latin America has been uneven. Within these regions, the economic transformation process remains incomplete across much of Africa and outside of the 'Asian tigers' and Latin America's 'fast transformers'.
- Context is important. Specific country characteristics are likely to influence the extent to which countries experience structural change that is growth- and productivity-enhancing; and underlying contextual factors have a bearing on the most appropriate type of policies to promote economic transformation.
- At the domestic level, there is variation in actor discourse on economic transformation across stakeholders. This is reflected in differences in the extent to which attention is afforded to economic transformation in the material governments, donors, academics and think tanks and the private sector publish. Governments and donors are increasingly acknowledging economic transformation, but there is little published material on economic transformation coming from the private sector.
- There is very little substance in the existing actor discourse on the manner in which policies designed to facilitate economic transformation should be implemented.
- Future actor discourse on economic transformation at the international, regional and domestic levels would benefit from greater focus on practical implementation issues and ways of working, particularly in terms of how policies designed to facilitate economic transformation will be implemented and how specific economic transformation targets will be achieved.

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ABBREVIATIONS

ACET	African Center for Economic Transformation
ADB	Asian Development Bank
AfDB	African Development Bank
ALDI	Agricultural-led Development Industrialisation
ASEAN	Association of Southeast Asian Nations
BIDS	Bangladesh Institute of Development Studies
DFI	Development Finance Institution
DFID	Department for International Development
ECDPM	European Centre for Development Policy Management
EDRI	Economic Development Research Institute
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
GVC	Global Value Chain
IADB	Inter-American Development Bank
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
KEPSA	Kenya Private Sector Alliance
MDG	Millennium Development Goal
MOFED	Ministry of Finance and Economic Development
NPC	National Planning Commission
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OWG	Open Working Group
PPP	Public–Private Partnership
R&D	Research and Development
SDG	Sustainable Development Goal
SET	Supporting Economic Transformation
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
TVET	Technical Vocational and Educational Training
UK	United Kingdom
UN	United Nations
UNDP	UN Development Programme
UNECA	UN Economic Commission for Africa
UNESCAP	UN Economic and Social Commission for Asia and the Pacific
US	United States
USAID	US Agency for International Development

1. INTRODUCTION

In recent years, there has been increasing interest among countries in issues related to improving the quality of growth through economic transformation. The quality of economic growth matters. Although many low-income countries have enjoyed fast economic growth over the past two decades, the growth has been low in quality and accompanied by little economic transformation. Many low-income countries have experienced a lack of significant structural shifts in production and employment (declining shares of manufacturing in gross domestic product (GDP), especially in Sub-Saharan Africa); weak levels of, and growth in, (labour) productivity within sectors; concentrated export baskets and lack of diversification into complex products; and substantial differences in productivity levels among firms, sectors and locations, suggesting scope for the enhancement of productivity.

The increased interest is evident in the level of attention given to quality of growth and economic transformation issues in the Sustainable Development Goals (SDGs), which has elevated the status of concepts related to economic transformation in the post-2015 development agenda. Sub-goal 8.1 of the SDGs, for example, aims to 'achieve transformation of economies towards higher levels of productivity through diversification with a focus on high value added sectors' (OWG, 2014).The links to economic transformation in the SDGs are also evident in the targets seeking to double agricultural productivity by 2030; facilitate technological upgrading and innovation in high-value added and labour-intensive sectors; and promote inclusive and sustainable industrialisation (UN, 2015).

The greater emphasis on economic transformation has been sparked by realisation that there is an urgent need for growth that is more inclusive and conducive to social development, particularly in developing countries. Economic transformation is a critical ingredient in generating the sort of growth that contributes to poverty reduction. It promotes social development and inclusive growth by facilitating the generation of income in a more equal manner across the income distribution, ensuring countries are better shielded from the potentially adverse effects of price shocks and cycles and providing a platform for diversifying the available sources of future growth (Rodrik, 2015; UNECA, 2013).

Recognising this, the Overseas Development Institute (ODI) Supporting Economic Transformation (SET) programme, which is funded by the UK Department for International Development (DFID), supports economic transformation in developing countries through research and policy advice for donors, governments and the private sector. SET broadly defines economic transformation as follows:

> *A continuous process of (i) moving labour and other resources from lower- to higher-productivity sectors (structural change) and (ii) raising within-sector productivity growth. Within-sector productivity growth entails the adoption of new technologies and management practices that increase the efficiency of production. It can be brought about by increasing the efficiency of existing firms or by reallocating resources away from the least productive firms towards more productive firms. Enhanced productivity typically also involves trade and production diversification and increased value addition in export activities.*

While the broad definition of economic transformation is relatively consistent across actors in the economic transformation literature (Irfan, 2015), the existing research on policies and strategies designed to support economic transformation varies across different types of country stakeholders and country contexts. Consequently, as part of the SET programme, we aim in this paper to conduct a stock-take of the literature on economic transformation in order to determine pre-existing actor discourse on the topic. This is achieved through an overview of published materials that address recent economic transformation, structural transformation (or structural change), industrialisation and sectoral labour strategies. In focusing exclusively on these topics, the importance of sustainable and inclusive dimensions to economic transformation also becomes evident. The methodological approach is selective in nature, focusing exclusively on countries for which the SET programme is working or planning work in the future; countries that host DFID country offices; and countries that present important domestic examples of economic transformation, such as Brazil and Indonesia. The aim is not to undertake a critical analysis of these perspectives but to provide a baseline on current actor perceptions and strategies for economic transformation in order to assess added value through the SET programme, by focusing on the most recent literature available. Another SET paper addresses approaches to defining and measuring economic transformation in more detail (see McMillan et al., 2015).

We undertake the stock-take by providing an overview of the international academic, regional and domestic literature. The review of the international literature covers a diverse range of perspectives on economic transformation among several leading academics and think tanks. In turn, the review of regional perspectives on economic transformation focuses on three regions: Africa, Asia and Latin America. Across these regions there are examples of countries that have been successful transformers as well as countries in which little productive transformation has taken place to date. Again, this allows for consideration of a range of different perspectives on economic transformation and examples of the most appropriate policies, and actors, to foster structural change in different economic settings. Finally, we categorise the domestic discourse according to its source, looking at the perspectives of governments, donors (bilateral and multilateral), think tanks and academia and the private sector. In the case of the latter, there is very little available literature specifically relating to economic transformation; hence this is covered in less detail.

At the domestic level, there are inevitable disparities between written discourse and implementation, with market inefficiencies and political economy considerations hindering implementation of government and donor strategies. This paper, however, focuses exclusively on the discourse in order to ascertain stakeholder perceptions on, and approaches to, economic transformation issues. This is done with the proviso that researching subsequent implementation is also a necessary exercise (not conducted here). Our analysis of the discourse at the domestic level is confined to 14 countries selected according to the criteria described above: Bangladesh, Brazil, Ethiopia, Ghana, India, Indonesia, Kenya, Mauritius, Myanmar (Burma), Nepal, Nigeria, Rwanda, Tanzania and Uganda.

The remainder of the paper is structured as follows. The next section provides a brief overview of the international literature on economic transformation. This is followed in Section 3 by a stock-take of the regional literature on the topic. Section 4 then hones in on the discourse of different actors (governments, donors, academics and the private sector) in specific country examples. Section 5 concludes with key messages drawn from the stock-take of the literature on economic transformation.

2. INTERNATIONAL PERSPECTIVES ON SUPPORTING ECONOMIC TRANSFORMATION

2.1 INTRODUCTION AND KEY MESSAGES

A significant volume of academic work has focused on economic or structural transformation and change. This has generally examined how labour and other resources can be moved from lower- to higher-productivity activities, both within and between sectors, and also whether such shifts enhance or reduce growth.

While the concept of economic transformation is not new, in the past few years the academic literature on the subject has grown. There has been increased discussion on how to transform economies through conducive markets and political economy environments. As will become evident, academic opinion differs on the extent to which governments need to interfere in market processes to catalyse economic transformation.

The inclusion of economic transformation under the SDGs is likely to promote greater consideration of transformational issues in international and domestic development policies and strategies. Already, international development organisations are placing increasing emphasis on economic transformation. Even so, since the Millennium Development Goals (MDGs) were focused primarily on social development, the international community and international organisations are playing catch-up with regard to their role in supporting economic transformation for development.

This section presents a broad overview of perspectives in the international literature on economic transformation. Box 1 summarises the section's key messages.

Box 1. KEY MESSAGES FROM THE INTERNATIONAL LITERATURE ON ECONOMIC TRANSFORMATION

- There are different perspectives in the international academic literature on the manner in which economic transformation occurs and how it should be facilitated.
- A general view is that economic transformation occurs in stages, involving a transition from traditional to modern activities.
    - For some authors, this involves the movement of labour and other resources out of the agriculture sector and into modern economic activities, leading to increases in overall productivity.
    - Others emphasise changes in production and export structures, with the upgrading of domestic capabilities seeing countries move from producing low- to high-value goods.
- The nature of the country's endowment structure will influence the pathways through which these transitions occur.
- Opinions differ on the extent to which governments and market mechanisms are most effective in supporting economic transformation. The general view is that a combination of both is required. Governments can play a supportive role by shaping a business climate – through, for example, investments in infrastructure, institutions, human capital and the financial sector – that facilitates a shift in resources from traditional to modern sectors.
- Context is important. Policies aimed at fostering economic transformation should be well grounded in each country's political, social and environmental context. Similarly, the extent to which countries experience structural change that is growth- and productivity-enhancing may vary according to their specific characteristics.

2.2 A REVIEW OF INTERNATIONAL LITERATURE

In this section, we discuss some of the major pieces of research from the international academic literature. As noted above, SET adopts the definition of economic transformation as a process moving labour and other resources from lower- to higher-productive activities. This includes moving between sectors towards higher-value activities (e.g. from agriculture to manufacturing) and *within* sectors (e.g. from subsistence farming to high-value crops), and usually involves diversification and increased value addition in export activities.

The next sub-section discusses the international literature on economic transformation. Table 1 at the end of the sub-section summarises this literature. Thereafter, Section 2.2.2 considers the role of inclusive and sustainable development in transformation.

2.2.1 THE LITERATURE

There is a range of different perspectives in the international literature on how economic transformation occurs and how such transformation can be facilitated. These differing perspectives also manifest in contrasting viewpoints on the most appropriate policies required to drive economic transformation, including on the role of governments in the transformation process.

Some authors in the international literature conceptualise pathways towards economic transformation within the context of a country's endowments. For Rodrik (2014), endowments have a bearing on the most appropriate development strategy to facilitate economic transformation. Rodrik delineates four broad development strategies: industrialisation, agriculture-led growth, service-led growth and natural-resources-led growth. In each case, he envisages an active role for government to steer economic activity. For development strategies based on industrial expansion, he contends that the emphasis in government policies should be on reviving manufacturing and industrialisation as a means to follow a traditional path to economic convergence. In terms of agriculture-led growth, he points to the role of governments in addressing issues specific to the agriculture sector, such as poorly defined and enforced land rights, weak standard-setting and uncertainty in the availability of inputs. In the case of a development strategy based on services, he argues that the role of government in boosting productivity typically requires a push for 'steady, broad-based accumulation of capabilities in human capital, institutions and governance' (p.52). Finally, he suggests transformation based on natural resource sectors is generally difficult as such sectors are capital-intensive and may crowd out other tradable sectors.

According to Lin (2012), the basis of a country's transformation is underpinned by its endowments (such as relatively cheap labour in Ethiopia). Lin argues that structural differences between developing and developed countries are endogenous to the endowment structure: '[T]he structure of factor endowment (relative abundances of factors) tends to determine the relative factor prices. It determines the optimal industrial structure, which itself determines the distribution of firm size, and level and nature of risks for firms, and thus the optimal financial structure' (p.15). In this context, he contends that the nature of monetary policy, financial development, foreign capital, trade policy and human development should be in line with the structure and endowments of the economy.

Lin conceptualises economic development as a dynamic process along a spectrum, beginning with a low-income subsistence agrarian economy and moving to a high-income industrialised economy, with each stage occupying a point along this spectrum. In line with this, he presents an operational, step-wise view on how countries can transform from traditional to modern economic activity, through market mechanisms but also with stringent support from the government in industrial upgrading and infrastructure development. The steps Lin proposes include the following: selecting industries in comparable countries, identifying constraints to technological upgrading of existing domestic firms, attracting new firms, scaling up successful private innovations in new industries, building special economic zones (SEZs) or industrial parks and compensating pioneering firms.

Maintaining the focus on factor endowments, McMillan et al. (2014) conceptualise economic transformation as a process that occurs through the movement of labour and other resources out of the agriculture sector and into modern economic activities. This results in an increase in overall productivity and the expansion of incomes. In this context, in countries that experience *growth-reducing structural change* (e.g. where labour and resources are concentrated in less productive sectors, such as agriculture or the informal sector), support is required to move labour into more productive sectors. The authors argue such growth-reducing structural change can be found in Africa (and also, to a lesser degree, in Latin America) and emphasise the need for African governments to support activities that enable unskilled workers to engage in relatively more productive pursuits outside of subsistence agriculture. The International Monetary Fund (IMF) (2014) highlights the effectiveness of business climate reforms in facilitating a shift in resources from traditional to modern sectors. These reforms may include liberalisation of the energy sector, improvements in access to credit and the easing of labour market and business regulations.

This does not necessary imply efforts to drive economic transformation should discount the agriculture sector. Dercon and Gollin (2014) identify agriculture as a pivotal component of the transformation process, particularly in its initial stages (p.7). They argue agriculture-centred development strategies can serve as an important catalyst for initiating growth, particularly given their effectiveness in reducing poverty and because of the potential for interventions in agriculture to deliver efficiency gains. That said, consideration of the specific context is important when formulating and implementing agriculture-oriented development strategies and policies. These should vary according to the tools at the disposal of policy-makers and the costs and efficacy of different policies. These will also differ on the basis of the social, institutional and political characteristics of specific settings. The authors suggest a role for government in supporting agriculture-led growth through investment in agricultural research and infrastructure (particularly infrastructure such as ports and roads that connect agricultural producers to markets).

The IMF (2014) also stresses the importance of the agriculture sector, particularly in the context of employment generation within developing countries. It is argued that the scope for significant productivity and quality gains within agriculture and its contribution as a source of employment in low-income countries means it should still occupy an important position in development policy. In this context, policies targeting the removal of tariff barriers and the relaxation of interest rate controls can be effective in boosting productivity.

Economic transformation can also be framed through the lens of changes in production and export structures. The IMF (2014) focuses on diversification, explaining that growth in per capita incomes in the early stages of development tend to be accompanied by transformation in a country's production and export structure. This may take the form of diversification into new products and trading partners or come through upgrading the quality of existing products. Policies that improve infrastructure and trading networks, facilitate investment in human capital, encourage financial deepening and reduce barriers to market entry for new products generally support such diversification. In the IMF's view, broad-based policies rather than targeted policies, tend to be effective:

> *[I]mproving education, infrastructure, and the institutional and regulatory environment, enhancing access to new export markets, and structural reforms (e.g. liberalization of trade, reduction of agricultural subsidies and price controls, financial deepening through reforms in the banking sector) have proved successful in facilitating diversification, resource shifts across activities, and quality upgrading. The extent to which industry-focused and narrowly targeted measures have helped underpin diversification efforts remains an open question (p.38).*

Hidalgo et al. (2007) perceive transformation as a process of continuous upgrading of domestic capabilities, which in turn allows countries to move from producing low- to higher-value goods. This process, which the authors describe as movement through the *product space*, occurs when countries produce goods that are closely related in terms of the inputs, technological sophistication, capital and capabilities required for production to those that they already produce. In this context, transformation occurs as countries move over time from specialising in peripheral products with very few products in the vicinity towards specialising in products that have more links to other products – specifically, those that are located closer to the core of the production network (such as machinery, electronics or garments). This indicates a better and more complex specialisation pattern. The large distance between the current production bundles of most countries and the core is one reason 'poor countries have trouble developing more competitive exports and fail to converge to the income levels of rich countries' (p.482). The role of government is then to help entrepreneurs bridge the gap between products for which there are capabilities available and more advanced goods (such as pharmaceuticals) for which capabilities are largely missing. According to Hidalgo et al., these shifts in production are key to fostering structural transformation, convergence and growth.

Adopting a more general conceptualisation of structural transformation, Page and Shimeles (2014) argue that the transition from low- to high-income status typically occurs in countries that undergo significant transformation of their economic structure. They suggest this tends to be underpinned by the movement of factors of production from lower- to higher-productivity uses.

The discussion above elucidates a range of different perspectives on how economic transformation occurs and is facilitated. Likewise, there is a diverse set of viewpoints in the international literature on the most appropriate policies, and actors, to foster economic transformation.

Page and Shimeles (2014) discuss the role of aid in the transformation process and note that the reform agenda has traditionally focused on improvements in the investment climate, particularly in terms of changes in trade, regulation and labour market policy. While the authors acknowledge these reforms may be useful, they do not believe they are likely to be sufficient to eliminate binding constraints to industrial development. They argue, instead, that aid strategies should focus on jobs, poverty and structural change. More specifically, they suggest aid to support economic transformation in Africa should target agricultural productivity, infrastructure and skills and facilitating the process of industrialisation. Agricultural productivity can be enhanced by improving research programmes (particularly in Africa, where there is considerable variation in agro-climatic zones), as well as through improvements to infrastructure (including irrigation) and access to finance for the agro-industry. More general improvements to infrastructure and skills development are necessary to bridge the gap in competitiveness between Africa and other parts of the world. The authors suggest industrialisation can be fostered by following Asia's model of task-oriented exports, focusing on industrial agglomerations and attracting and transferring firm capabilities.

Te Velde and Griffith-Jones (2013) emphasise the importance of the financial system in underpinning sustainable growth and structural transformation. They suggest finance can play a role in supporting the productivity changes and sectoral shifts required for economic transformation. In this context, support to the financial sector should focus on enhancing the scope and depth of finance, improving the institutional setting in which finance is provided and enacting rules that inhibit hazardous inflows or outflows of capital. The authors distinguish between short- and long-term policies to support the financial system. In the short term, they stress that market-enabling policies are required to raise competition, encourage the adoption of new technologies and alleviate demand-side constraints within the financial system (e.g. through regulatory and tax policies, financial literacy programmes or credit guarantee schemes); while putting in place an appropriate regulatory and supervisory framework and effective macroeconomic and macro-prudential management. They suggest the long term focus should be on institution-building through legal changes and upgrades to macroeconomic performance (p.51).

Jouanjean and te Velde (2013) also highlight an important role for finance in the transformation process. Based on a quantitative analysis, they show development finance institutions (DFIs) can have a positive effect on labour productivity and, on this basis, suggest policy incorporate the role of DFIs in the transformation process.

The McKinsey Global Institute (2012a) highlights the role of rapid urbanisation (alongside industrialisation) as a key driver behind economic transformation (explaining that the contribution of urbanisation to economic transformation was clearly evident in the experience of China). The report suggests urbanisation, and the growth in an urban consumer class, drives demand for goods and services and results in economic benefits that translate into rising incomes. From a policy perspective, expanding urban economies need to be supported by investment in infrastructure – particularly buildings, container capacity at ports and municipal water – that caters effectively to the needs of new urban consumers.

Another report by the McKinsey Global Institute (2013a) emphasises how resource extraction, if undertaken wisely, can trigger social and economic transformation in low- and lower-middle-income economies. This, in turn, can lift people out of poverty. The report identifies three areas 'to get right' to maximise the potential for transformation in resource-driven economies. First, the state must play a central role by developing effective institutions and governance structures, as well as providing the necessary infrastructure, to ensure the effective development of the resources sector. Second, effective fiscal policy, and policies that address broader issues affecting the competitiveness of the resource sector (e.g. production costs, political costs and issues related to local content), is important for capturing value from natural resources. Finally, the report argues that the windfalls from the extraction of natural resources need to be spent wisely to build long-term prosperity.

Some papers discuss how the policy process should be pursued in order to drive economic transformation. Hausmann et al. (2008) suggest policies focus on eliminating the most binding constraints to transformation. However, rather than adopting a wholesale approach, they recommend the enactment of partial reforms that take into account the interaction effects the introduction of one policy has on others. According to the authors, policies to enact structural transformation should emphasise the protection of ideas, public capital and procedural reforms, and the provision of support to meet setup costs and generate economies of scale.

Te Velde (2013) discusses the issue of state–business relations and suggests the policy process supporting economic transformation should be characterised by consistency (evident, e.g., in education policy in Ireland) and leadership (Singapore provides a compelling example). It also requires strong institutions that are not susceptible to capture and rent-seeking or to inefficiencies that stifle innovation and investment. According to te Velde, such institutions should also support ‘strategic collaboration between the private sector and the government, with the aim of uncovering where the most significant obstacles to restructuring lie’ (p.12). He also highlights the importance of informal state–business relations. Finally, he points to the importance of commitment, focus, experimentation and feedback in generating fruitful state–business relationships for transformation. Page and Söderbom (2012) add that, in the context of facilitating economic transformation, government policies designed to support businesses should be ‘reasonably hands-off (due to the information problem) and long-term (due to the time problem). Accurate diagnosis at a level of detail relevant to effective policy making takes an exchange of information between government and business and time’ (p.24).

In terms of labour market strategies for economic transformation, the majority of the studies in the international literature make at least some reference to policies designed to improve skills. While these suggestions are generally not further disaggregated, publications by Bloom et al. (2012) and Macchiavello et al. (2014) do highlight the importance of improving management practices. In the view of Bloom et al., the role of the government is not to regulate but rather to improve general education and bolster the abilities of domestic firms to interact with international firms. Page and Söderbom (2012) argue that targeting the right sized firms is also important, particularly given the relative lack of evidence in developed and developing countries to support the notion that small businesses have supremacy as job creators. Bowen (2012) discusses the role of green jobs in the economy and argues that active labour market policies can foster a transition to both green growth and job creation. Green projects tend to be relatively labour-absorptive, yet require skills development, particularly in the area of project management.

Ultimately, underlying contextual factors play a role in determining whether policies designed to promote economic transformation will be successful. Thus, it is important to take cognisance of the context in which transformation is occurring. Policies aimed at facilitating economic transformation should be well founded in a country’s political, social and environmental context. Variations in country characteristics explain, to some extent, why we observe differences across regions and countries in terms of the speed at which structural transformation and diversification occur (IMF, 2014).

Similarly, the extent to which countries experience structural change that is growth- and productivity-enhancing may vary in accordance with specific characteristics of the countries themselves. McMillan and Rodrik (2011) identify three factors that influence whether structural change will contribute to overall productivity growth. First, they argue countries with a revealed comparative advantage in primary products are at a disadvantage, with countries that boast a higher share of natural resources in their export bundle expected to enjoy less scope for productivity-enhancing structural change. Second, countries that maintain competitive or undervalued currencies often experience structural change that is growth-enhancing. Third, countries with more flexible labour markets in which labour can flow easily across firms and sectors will experience greater growth from structural change. McMillan and Rodrik explain that:

> *The countries that manage to pull out of poverty and get richer are those that are able to diversify away from agriculture and other traditional products. As labour and other resources move from agriculture into modern economic activities, overall productivity rises and incomes expand. The speed with which this structural transformation takes place is the key factor that differentiates successful countries from unsuccessful ones (p.1).*

Table 1: Summary of international literature on economic transformation

	Defining economic transformation (or ST, industrialisation)	Policy strategies towards economic transformation	Labour strategies
Hsieh and Klenow (2009)	Reallocation of resources across firms *within* a sector	Policies that direct resources to the most productive firms within sectors	
Chang (2013)	Transformation in social notions (e.g. health, education) and in productive structures	Accumulation of productive knowledge and the establishment of organisations to cross-fertilise and channel such knowledge	Focus on policies for collective productive knowledge
Rodrik (2014)	A shift in productivity across economic activities	Depends on the appropriate strategy: currency exchange rate and managing capital or aid to revive manufacturing. Land rights, standard-setting and inputs for agricultural-led growth. Accumulation of capacities and establishment of institutions and governance for a services-led strategy	Broad-based accumulation of capabilities for service-led growth
Lin (2012)	From a low-income, subsistence agrarian economy to a high-income industrialised economy	Hard and soft infrastructure, countercyclical fiscal policy, management of public revenues, reduction of interest rates, international financial liberation (but with prudential supervision and regulation, combined with careful design of a lender-of-last-resort facility), import and export substitution and improvement in human capital	Human capital commeasurable with the accumulation of physical capital and the upgrading of industry in the economy
McMillan and Rodrik (2011)	The movement of labour and other resources from agriculture into modern economic activities, as well as overall productivity rises and expansion of incomes	Prerequisites include the absence of a revealed comparative advantage in primary products, countries that maintain competitive or undervalued currencies and with more flexible labour markets	
McMillan et al. (2014)	Labour and other resources move from agriculture into modern economic activities	Targeted competitive real exchange rates. And support activities in which large numbers of unskilled workers can be relatively more productive than in subsistence agriculture	
IMF (2014)	Changes in a country's production and export structure. This can include diversification into new products and trading partners as well as increases in the quality of existing products.	Improving infrastructure and trade networks, investing in human capital, encouraging financial deepening and reducing barriers to entry for new products. For agriculture: improving education, infrastructure and the institutional and regulatory environment, enhancing access to new export markets, and structural reforms	General investing in human capital
Hidalgo et al. (2007)	A process of continuous upgrading of domestic capabilities and type of goods produced	Policies that bridge the gap between products for which there are capabilities available and more advanced goods for which capabilities are largely missing	Capability accumulation for upgrading to more advanced goods

	Defining economic transformation (or ST, industrialisation)	Policy strategies towards economic transformation	Labour strategies
Dercon and Gollin (2014)	Agriculture development as a component of transformation	Policies supporting agricultural trade and creating or condoning particular market structures, as well as investment in the connectivity infrastructure such as ports, roads and power	
Page and Shimeles (2014)	Significant changes in economic structure as factors of production moved from lower- to higher-productivity uses	Agriculture research programmes, improved rural roads, market access, irrigation, financing, infrastructure, skills, public investments, policy, institutional reforms, high-quality institutions, social services, infrastructure in an SEZ, investment climate reforms	Research programmes for the agriculture sector
Te Velde and Griffith-Jones (2013)	Productivity change through broad-based shifts in employment across sectors	Institution-building, upgrading of macroeconomic (particularly fiscal) performance, market-enabling policies (adoption of new technologies, regulatory and tax policies, financial literacy programmes and credit guarantee schemes), policies that improve the regulatory and supervisory framework, macroeconomic and macro-prudential management and demand-side policies (consumer protection laws)	
McKinsey Global Institute (2013a)	Not clearly defined. Rather conceptualised in terms of the contribution of ‘economic and social transformation’ to poverty outcomes	Investment in resource extraction to trigger economic and social transformation in low- and lower-middle-income countries and lift people out of poverty. Will require policies that enable the effective development of resources, capture value from resources and use that value wisely to build long-term prosperity	
McKinsey Global Institute (2012a)	Not clearly defined	Rapid urbanisation (alongside industrialisation) as a key driver behind economic transformation. Investment in infrastructure (buildings, ports, water) to cater for the needs of new urban consumers in expanding urban economies	

2.2.2 THE COMPATIBILITY OF ECONOMIC TRANSFORMATION WITH INCLUSIVE AND SUSTAINABLE GROWTH

Arguments in the literature highlight the importance of inclusive and sustainable growth. In delivering 'transformative' growth, there is a role for inclusive structural transformation in boosting economic growth and for sustainable growth in safeguarding future growth. Goal 8 of the SDGs also addresses the need to 'promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all' (OWG, 2014). Boxes 2 and 3 review recent arguments for inclusive growth and sustainable growth using relevant examples from the literature.

It is sometimes argued that inclusive growth and sustainable growth are not necessarily compatible, as investment in low-carbon infrastructure, with high upfront costs, presents an opportunity cost against financing for poverty eradication. Granoff et al. (2014) argue that different emissions reduction pathways will have different implications for achieving zero poverty by 2030. Nevertheless, the economic transformation required (towards zero emissions) is likely to be more compatible with achieving moderate and sustained economic growth, while also addressing inequality. The authors cite early examples from Sub-Saharan Africa and South Asia pointing to a net positive impact on economic growth in low-emitting countries with low-cost mitigation options compared with small negative impacts in high-emitting countries that face the greatest mitigation challenges. This implies that the onus of government policy should be on pursuing equality in sustainable growth processes.

Box 2. INCLUSIVE GROWTH

A recent ODI and European Centre for Development Policy Management (ECDPM) report (Byiers et al., 2015) states that the 'movement of workers between sectors contributes more growth for the studied countries than rising productivity within them', while 'household-level diversification can indicate initial steps in economic transformation and employment progress'.

While some sectors can become more productive through the adoption of new technologies and better management processes, the largest productivity gains in developing countries are found by relocating work from low-productivity activities (e.g. subsistence agriculture) to higher-productivity sectors (e.g. commercial agriculture, manufacturing and modern services).

The report indicates that, while economic growth is important for providing the quantity of jobs necessary for employment reduction, the quality of jobs and access to those jobs is an equally important consideration in the context of economic transformation. Access to jobs is particularly important for disadvantaged and vulnerable groups in an economy. Linking drivers of quantity, quality and access to jobs can help determine target sectors for employment creation, including through investment and employment-creating partnerships. Policies should, therefore, target employment-intensive sectors with potential for high-productivity growth, further employing labour-intensive techniques and the evolution of real wages more generally.

Across the 13 Development Progress countries included in the study, the movement of workers between sectors has largely been into services. This is also the case for low-income countries such as Uganda (through a process of increasing worker productivity within services) and Ethiopia (employment shifts into the services sector). Trends in lower- and upper-middle-income countries also indicate that services are the largest contributor to value-added growth. There are, however, exceptions: Cambodia (a low-income country) experienced similar contributions to economic growth by industry; Thailand (an upper-middle-income country) saw industry dominate value-added growth.

In another recent study of 18 countries experiencing poverty reduction through growth, this was related to a rise in services employment in 15 countries, to an increase in industrial employment in 10 countries and to growth in agricultural employment in six countries (where certain countries experienced increases in employment in more than one sector) (Melamed et al., 2011).

Byiers et al. argue that developing countries need to balance employment demand and employment supply, particularly in the context of social cohesion. Beyond education aimed at skills development, technical vocational and educational training (TVET) is necessary to link the skilled population to productive jobs. With 30-40% of developing country economic activity categorised as informal, targeting the informal sector for skills development and TVET schemes is essential for economic transformation. Targeting the 'missing middle' of rural value-added activities is important to promote inclusive growth and avoid rural–urban migration to megacities and potential growth in rural–urban inequality indices. Targeted capacity-building for small- and medium-sized enterprises (SMEs), predominant in many developing country economies, is also essential to boost their productivity and generate employment. Finally, Byiers et al. underline the importance of effective industrial policies in promoting job creation and ensuring the jobs created are high in quality. This requires a willingness on the part of governments to overcome conflicting policy priorities and the necessary capacity within governments to correct market failures.

Box 3. SUSTAINABLE GROWTH

The New Climate Economy Report (Global Commission on the Economy and Climate, 2014) identifies the next 15 years as a critical opportunity to set the world towards a low-carbon growth path, particularly given the current context of rapid global population growth and climate change. The potential to invest in greater efficiency, processes of structural transformation and technological innovation suggests the future does not necessarily have to follow the same historic pathway of carbon intensive growth.

> *[...] countries at all levels of income now have the opportunity to build lasting economic growth at the same time as reducing the immense risks of climate change. This is made possible by structural and economic changes.*

The report argues there are three key areas in which investments will be essential: (i) cities (which are more compactly built and have efficient transport systems); (ii) increasing land-use productivity (to raise food outputs, protect forests and cut emissions); and (iii) energy (towards low-carbon energy resources and energy efficiency). Clear and stable policy signals are required to encourage investment towards low-carbon sustainable growth. Policies can play a role in redirecting finance to low-carbon infrastructure, including through the removal of fossil fuel subsidies, and promote efficiency improvements by removing water and fertiliser subsidies.

The perception that strong economic growth and climate action are incompatible is anchored in the assumption that economies are efficient and unchanging and that any deviation from the current path incurs higher costs. However, the reality is that economies are not perfectly efficient, with market failures, market distortions and unrecorded non-market outputs (such as environmental pollution). When these are reconciled, there is a case for sustainable growth in which the quality of growth matters as much as the rate of growth. For example, by 2030, the difference in global GDP between low- and high-carbon scenarios is modelled at 1-4%, equivalent to reaching the same global GDP six to 12 months later.

Ensuring the right structural transformation takes place – including investment in low-carbon infrastructure, stimulating innovation and raising efficiency through appropriate policy signals – is essential given the large investments to be made in the next 15 years (particularly in developing countries) that will ultimately determine countries' growth pathways. There will be winners and losers in the transition to a low-carbon economy – with sunk costs and employment losses in high-carbon industries, compared with increased investment and employment in low-carbon industries. Short-term policies will be essential in ensuring the appropriate compensation of workers through, for example, retraining and reskilling, and investment in local development.

As part of the structural transformation process, the report recommends governments plan for phasing out fossil fuel and agricultural subsidies and introduce a strong and predictable rising carbon price as part of fiscal reform over the next five to 10 years. This is already occurring in some countries. For example, South Korea has used industrial policies towards the development of new and productive low-carbon industries; Vietnam has imposed tax rates adjusted to take into account polluting goods and services; and China has incorporated low-carbon objectives in its five-year development plans (including on growth). Beyond governments, it is essential that businesses and investors integrate climate change into their core business strategies in order to alter their patterns of investment, provided there are appropriate and long-term policy signals.

3. REGIONAL PERSPECTIVES

3.1 INTRODUCTION AND KEY MESSAGES

There is clear variation in the levels of growth and structural transformation across regions. There are also significant differences in GDP growth and structural transformation across countries within individual regions. We focus in this section on perspectives on economic transformation in three regions: Africa, Asia and Latin America. Box 4 summarises the section's key messages.

Box 4. KEY MESSAGES FROM REGIONAL PERSPECTIVES ON ECONOMIC TRANSFORMATION

- Differences in the contributions of structural change to GDP growth across Africa, Asia and Latin America account for some of the divergence in the recent growth experiences between these regions.
- In Africa and Latin America, the movement of labour from more to less productive activities has led to negative changes in overall productivity. The opposite has occurred within the rapidly transforming countries in Asia.

In Africa

- Economic transformation in Africa has been uneven and remains incomplete. This owes to a range of factors, including overreliance on natural resources and primary commodities, underdeveloped manufacturing sectors, low agricultural productivity and a lack of development in rural areas.
- African economies will find it difficult to replicate the process of economic transformation experienced in the 'fast transformers' in Asia and Latin America. This is because it is becoming increasingly difficult to reach the level of competitiveness required to participate effectively in global value chains (GVCs). At the same time, however, the regional literature increasingly emphasises the potentially positive effects for African economies of linking into GVCs.
- African countries need to forge their own pathway towards economic transformation by focusing on their own comparative advantages.
- Diversification towards higher-productivity activities – particularly in manufacturing – is key to further economic transformation in Africa, whether through a more diversified natural resource sector paving the way to diversification in other sectors or, more generally, by diversifying production and exports.
- The process of economic transformation in Africa can be supported effectively through investment in physical infrastructure and human capital development as well as in innovation. The private sector can play a key role in these investments.

In Asia

- Outside of the fast-transforming Asian economies, progress in terms of economic transformation has been uneven across the region. Variation in agricultural development and the rate of growth in labour productivity across Asian countries has contributed to this uneven record of transformation.
- The experience in Asia highlights the importance of adopting different transformation models that are appropriate for the contrasting economic environments present in the slow and fast transformers in the region.
- Ongoing economic transformation in Asia (in both slow and fast transformers) requires the reallocation of labour towards higher-productivity activities, as well as the development of local firms and new products and markets to move up the value chain to higher-value added goods and services. The development of local manufacturing firms and diversification of the manufacturing base will be particularly important.

In Latin America

- Most countries in Latin America have undergone little productive transformation, and productivity levels in most countries in the region are generally low.
- In general, across Latin American countries, investment in education, skills development and innovation is necessary to drive economic transformation.
- The regional literature also identifies sound policies and institutions (learning from past industrial policy failures), the creation of new firms and the development of sectors with high potential productivity as critical to future economic transformation in Latin America.

The literature in these regions affords a significant amount of attention to the successes of 'fast transformers' (as well as certain failures in the inclusiveness and sustainability of the process in these transformers). It has largely focused on Asian and Latin American economies, and particularly the emerging economies of China, India and Brazil, and early industrialisers such as Chile and Indonesia. McMillan and Rodrik (2011) argue that much of the difference between Asia's recent growth compared with that experienced in Latin America and Africa can be attributed to variation in the contribution of structural change to overall labour productivity. In contrast with Asia, where the contribution of structural change to GDP growth is positive, structural change in Latin America and Africa has made a 'sizable' negative contribution:

> *In several cases – most notably China, India and some other Asian countries – globalization's promise has been fulfilled. High-productivity employment opportunities have expanded and structural change has contributed to overall growth. But in many other cases – in Latin America and sub-Saharan Africa – globalization appears not to have fostered the desirable kind of structural change. Labour has moved in the wrong direction, from more-productive to less-productive activities, including, most notably, informality (p.2).*

As is the case with the regional growth experiences, discussions on economic transformation also differ across regions, in terms of both policy strategies and the level of transformation achieved to date. It merits attention that much of the literature on Africa's economic transformation focuses on future transformation processes, whereas the literature looking at Asia addresses both past transformation – including successes and failures, and noting the mixed success of different economies – and future transformation. The literature on Latin America also highlights the need for future transformation to develop international competitiveness, citing past industrial policy failures as a key constraint.

Based on the literature and various SET meetings with stakeholders, it is clear that African economies cannot embark on the same process of transformation as that undertaken by the 'Asian tigers' or Latin America's 'fast transformers'. One important reason for this is the enhanced competitiveness associated with present-day manufacturing GVCs, which has created more stringent barriers to reaching the levels of international competitiveness required to participate effectively in global production networks. On this basis, the prevailing view in the literature is that African countries need to forge their own economic transformation pathways using their own comparative advantages. In this respect, African economies need to harness the advantage of a burgeoning youth population to provide the necessary labour to fuel the development of industry and services sectors and to direct activities within these sectors towards higher-productive pursuits.

In the case of Asia, the literature highlights the importance of adopting different transformation models that are appropriate for the contrasting economic environments present in the slow and fast transformers in the region. Nevertheless, the ongoing transformation of the economies of both types of transformers in the region requires the reallocation of labour towards higher-productivity activities, as well as the development of local firms. The literature also identifies the problem of low productivity in the agriculture sector in Asia. This is highlighted in the context of the need to boost productivity in the sector towards inclusive structural transformation.

In general, the literature on economic transformation in Latin America identifies low levels of productivity as a key constraint to economic growth in the region. The review of the literature for Latin America points to a number of issues that need to be addressed in order to drive economic transformation in the region, including the need to invest in education and skills development as a means to develop high-skilled domestic labour forces in Latin American countries. It also identifies a potentially important role for investment in technology and innovation to increase productivity and international competitiveness.

3.2 THE LITERATURE

This section discusses the regional perspectives delineated in the most recent literature on economic transformation in Africa, Asia and Latin America. Table 2 at the end of the section summarises these perspectives.

3.2.1 AFRICA

There is general consensus in the literature on Africa that the level of economic transformation on the continent has been insufficient to address its myriad development challenges. The African Development Bank Group (AfDB, 2013a), for instance, argues that the economic transformation process that has occurred in Africa to date has been uneven and remains incomplete. Moreover, according to the African Center for Economic Transformation (ACET, 2014) *Growth with Depth* report, while the growth experienced to date in Africa has occurred on the back of macroeconomic reforms, improved business environments and higher commodity prices, more is required to propel and sustain genuine economic transformation on the continent. Similarly, a report by the UN Economic Commission for Africa (UNECA, 2013) contends that the growth recorded in Africa to date can be considered non-inclusive owing to its low contribution to both job creation and human well-being.

The uneven record in terms of growth and economic transformation in Africa stems from the presence and persistence of a particular set of constraints. UNECA (2013) argues that the key constraints to economic transformation in Africa have included reliance on natural resources and primary commodities, underdevelopment of manufacturing (limiting potential employment gains), low agricultural productivity (increasing productivity gains through agriculture is seen as a powerful way of transforming Sub-Saharan Africa given the potential increases in wages and the high rates of agricultural employment), underdeveloped rural areas, high prevalence of health problems and mortality and a lack of social protection programmes. Similarly, ACET (2014) suggests a key constraint to diversification in Africa is the lack of capacity (including technological) to diversify beyond primary commodities.

This implies that much still needs to be done to facilitate genuine economic transformation on the continent. A central theme running through much of the literature on Africa is the importance of diversification. The African Economic Outlook 2013 (AfDB, 2013b) argues that diversification towards higher-productivity activities and better jobs is closely linked to a strong natural resource sector. Countries with a diversified commodity sector tend to have more diversified activities in others sectors – given that many of the underlying requirements for structural transformation (including agriculture, skills, government capacity, financial access and effective markets) are also necessary for strong extractive and agriculture industries (with the exception of offshore resources). Similarly, Collier (2010) argues that new discoveries of untapped resources in Africa (particularly in countries that are not currently significant resource exporters) can support larger economies and set in motion a prolonged phase of rapid growth on the continent. He contends that successful exporting of natural resources is compatible with successful exporting of light manufactures, as the experiences in Asian countries such as Malaysia and Indonesia have shown. To ensure that the latter occurs in Africa, countries on the continent will need to capitalise on the expected shift in labour-intensive manufacturing activities from Asia to Africa (the only remaining major low-wage region). Commitment from African leaders to economic transformation will also be important.

ACET (2014) argues that attention should be given to diversifying production and exports, a process that will need to be accompanied by measures to boost the competitiveness of African exports in international markets, raise the productivity of all resource inputs (especially labour) and upgrade existing technologies. More generally, ACET argues that the developed country model of diversification followed by specialisation, to take advantage of market opportunities and international relative prices, should be the model developing economies in Africa adopt. Knowledge and exposure to international markets can boost export competitiveness and, in turn, help in diversifying African economies.

Diversification of manufacturing is regarded as particularly important. According to UNECA (2013), manufacturing and urbanisation both represent key elements necessary for supporting structural economic transformation on the continent. The report states that the transformation process necessarily involves:

> *[...] a reallocation of resources from less productive to more productive sectors and activities; an increase in the relative contribution of manufacturing to GDP; a declining share of agricultural employment to total employment; a shift in economic activity from rural to urban areas; the rise of a modern industrial and service economy; a demographic transition from high rates of births and deaths (common in underdeveloped and rural areas) to low rates of births and deaths (associated with better health standards in developed and urban areas); and a rise in urbanization.*

UNECA also highlights the importance of inclusive and sustainable considerations in economic transformation. It is argued that inclusivity and sustainability need to be promoted through a focus on rural areas (and agribusiness), inclusion of youth and women, access to social services and progression towards a green growth trajectory.

The literature also increasingly emphasises potentially positive effects for African economies from linking into GVCs. The African Economic Outlook 2014 (AfDB, 2014), for instance, highlights the opportunities for African countries presented by the increasing fragmentation of production processes across GVCs, which means it is no longer necessary to develop entire industries in order to participate in GVCs in competitive markets. This means African economies can look to specialise in the contribution of specific skills or products to global production processes. Greater integration into GVCs can be accomplished by opening up to trade, targeting regional and emerging markets and developing infrastructure and skills. The key challenge for the continent, however, will be to ensure participation in GVCs leads to socially inclusive development.

Issues of inclusivity and green growth are central to the AfDB Strategy for 2013-2022 (AfDB, 2013a), which focuses on the need for a transition to inclusive and green growth in Africa. The strategy aims to boost transformation through a focus on five key pillars: scaling up infrastructure financing; developing the regional and economic machinery for regional economic integration (larger and more attractive markets); working directly and indirectly with governments to partner with, and facilitate, private sector investment in Africa; assisting institutions to improve governance and accountability; and equipping youth with skills for formal and informal sector employment as well as skills to create small businesses. In order to implement the strategy, particular attention will be paid to fragile state economies and the agriculture sector and food security, as well as the role of women.

Several of the core themes that underpin the AfDB's strategic pillars are echoed elsewhere in the literature on economic transformation in Africa. For instance, UNECA (2013) and ACET (2014) emphasise the importance of developing infrastructure, particularly through investment in physical infrastructure. They also highlight the role of private sector investment. UNECA points to the importance of developing an indigenous and entrepreneurial private sector as a supporting pillar for economic transformation. In reference to domestic resource mobilisation, ACET highlights the role of private finance in boosting domestic financial resources to support economic transformation.

The AfDB's strategic focus on developing the skills of the continent's youth population is in line with the broader emphasis on the importance of human capital development and skills development in UNECA (2013) and ACET (2014). In UNECA's view, there are clear links between economic transformation and human development, suggesting a successful transformation agenda relies on the availability of a productive, healthy and skilled labour force. Hence, UNECA argues that support for economic transformation should include clear recognition of the role of coherent development of human capital (through health and education programmes). ACET notes the importance of broader efforts to boost human well-being as a means to ensure inclusive economic transformation. This requires a focus on GDP per capita and employment measures.

According to UNECA (2013), innovation and technology transfer for value addition are also vital pillars underpinning successful economic transformation. With technological upgrading, both the dispersal of existing technologies and the acquisition of new technologies and capabilities are important. ACET (2014) also mentions the importance for economic transformation of effective mechanisms for technology transfer.

3.2.2 ASIA

In aggregate, Asia has experienced an unprecedented level of economic transformation over the past four to five decades (ADB, 2013). This has been spearheaded by five Asian economies: Japan, Hong Kong (China), South Korea, Singapore and Taipei (China), which have lead the way in terms of rapid structural transformation into industrial and service economies.

However, outside of these five economies, progress across the region in terms of economic transformation has been uneven. The process of transformation in the other Asian economies has generally occurred at a slower pace and been marked by the absence of significant deepening and the presence of weak supply chains.

Similarly, the region’s economic growth performance has been noticeably uneven. This is highlighted in a recent report by the UN Economic and Social Commission for Asia and the Pacific (UNESCAP, 2015), which notes that, despite an overall slowdown in GDP growth, per capita incomes in the region’s developing economies have doubled since the early 1990s, in the process halving the number of people in extreme poverty (living on less than $1 per day) in the region.

The literature on Asia cites several reasons for this record in terms of economic growth and transformation. The explanation lies partly in variation in agricultural development across the region. An Asian Development Bank (Briones and Felipe, 2013) report defines four phases of agricultural development: (i) an initial phase of agricultural labour productivity growth; (ii) a phase of agricultural surplus, where agricultural productivity growth surplus is directed towards the non-agriculture sector; (iii) an integration phase, characterised by an increase in linkages between the agriculture and non-agriculture sectors of the economy (through improvement in infrastructure and the functioning of markets); and (iv) an industrialised phase, where integration is successful and the role of agriculture diminishes in the economy. According to ADB, progress in moving through these four stages of development has varied across the different Asian countries.

Variation in the rate of growth in labour productivity has been a factor. According to ADB (2013), slow growth in labour productivity, even as the shares of agriculture in employment have declined, has contributed significantly to the slower process of transformation some Asian countries have experienced. The result has been shrinking employment and low productivity in agriculture in many Asian economies (UNESCAP, 2015). Agriculture remains the sector with the lowest productivity, contrasting sharply with the high levels of manufacturing productivity (output shares) and increasingly diversified export baskets in advanced economies, and a heterogeneous services sector (with low- and high-productivity services).

Furthermore, UNESCAP (2015) explains that the rapid growth much of the Asian region has experienced has, unfortunately, also led to rising inequality in incomes and has not generated commensurate employment opportunities. The latter owes, at least in part, to a high level of sectoral concentration and a lack of labour demand in the productive sector, which has resulted in a shortage of employment opportunities. This suggests that while diversification has been achieved in the industry and services sectors, there needs to be greater focus on employment generation.

Within this context, much attention has been devoted in the literature to what needs to be done to continue the process of structural transformation in Asia. The Association of Southeast Asian Nations (ASEAN) Economic Community Blueprint outlines four broad pillars for transformation in the region: (i) a single market and production base; (ii) a highly competitive economic region; (iii) a region of equitable economic development; and (iv) a region that is fully integrated into the global economy by the end of 2015 (UNESCAP, 2015).

In more specific terms, ADB (2013) stresses that, in order to continue the structural transformation process in Asia, a focus on transferring labour from lower- to higher-productivity sectors is required. The report cautions, however, that future transformation in the slower performers in Asia is unlikely to follow the same pathway as in the newly industrialised economies in the region. This is primarily because of the significantly different economic environment in which they now operate. Given the current context, ADB (2013) argues that the policy focus of these countries should be on developing new products and new markets to move up the value chain to higher-value added goods and services, while also looking to boost agricultural productivity through technological change.

The same ADB report emphasises the importance of developing manufacturing sectors in Asian economies. It notes that the share of a country's manufacturing sector in total employment and output is generally a good predictor of its ability to achieve high-income status:

> *No country has achieved high-income status without its manufacturing sectors reaching at least an 18% share of total employment. Modern industrial and service economies have manufacturing at their core. We estimate that an economy where the shares of manufacturing in total employment and output are at least 18% has a 42% probability of achieving high income levels, but the probability of an economy with a small manufacturing sector (in both output and employment) achieving high-income status is less than 5% (p.xi).*

ADB (2013) also explains that diversification of the manufacturing base in Asian countries can help ensure labour does not simply move into low-productivity services sectors. The development of local manufacturing firms – rather than a reliance on foreign direct investment (FDI) for industrial development – can make an important contribution in this regard and facilitate industrial deepening in the Asian economies. The ADB predicts services will become the largest employer in most countries, a reality that suggests policy-makers will need to identify and target high-productivity services sub-sectors. Ultimately, diversification and upgrading into more complex goods and services are dependent on the development of an educated and skilled workforce.

Despite the importance of growing the manufacturing sector and the key contribution the services sector is expected to make to employment in the future, agriculture is likely to remain an important element of the future development of Asian economies. Briones and Felipe (2013) identify five noteworthy aspects of the process of structural transformation of the agriculture sector in Asia, a number of which set the development of the sector in the region apart from that in other developing regions. First, the share of agriculture output is declining at a faster rate than employment. Relative to other developing regions, in Asia the decline in agriculture's employment share has been slow, and the sector still represents the largest employer in many large Asian countries. Second, the sector has experienced more rapid increases in agricultural productivity compared with other developing regions. Third, the sector in Asia has recorded more rapid increases in land productivity in comparison with other developing regions. Fourth, technological changes have led to significant improvements in yields in Asia's agriculture sector. Finally, there has been a shift in agricultural outputs in the region from traditional to high-value products.

In Briones and Felipe's view, the fact that agriculture remains the largest employer in many large Asian countries means discussion of structural transformation in the region cannot neglect the agriculture sector. Indeed, the authors believe a strategy that places agriculture at the core of development will help alleviate poverty in Asia. It is likely that the region's agriculture sector will continue to grow according to past trends; although the emerging challenges of climate change and future technological breakthroughs, as well as the rise of GVCs, will interrupt the pace and direction of growth.

Focusing on inclusive growth, UNESCAP (2015) postulates that private consumption and investment are likely to act as stronger determinants of growth than exports, giving the region an opportunity to adjust its growth dynamics. The report also outlines the role of sustainable growth in safeguarding the economy and increasing its resilience, and emphasises the need to consider environmental factors in generating inclusive growth.

3.2.3 LATIN AMERICA

Most countries in Latin America and the Caribbean have undergone little productive transformation (IADB, 2014). Perhaps as a result, a key focus in the literature discussed below is on what needs to be done to better facilitate transformation in the region. The Inter-American Development Bank (IADB) (2014) emphasises the importance of sound policies and institutions for economic transformation. Noting that the East Asian tigers have achieved transformation through effective industrial policies, it highlights the need to learn from past industrial policy failures in Latin America. It cites three key policy tests: What is the market failure that justifies the policy intervention? Is the policy targeted at alleviating the market failure or at remedying its impact (under the need to address the root problem rather than its symptoms)? And is the institutional capacity sufficient to design and carry out effective policy interventions? The report distinguishes between horizontal policies (such as improving the business climate, which cuts across sectors) and vertical policies (which are sector-specific). These can take the form of either public inputs or market interventions (e.g. horizontal policies need to be aimed at market failures). For their part, vertical policies can be controversial as they involve picking winners and may create powerful vested interests. They therefore require objective criteria and transparent decision-making processes. In this context, the report asserts that effective institutions are required to develop sound policies and to ensure these policies are insulated from political capture (in the case of vertical policies); and recommends appropriate and country-specific policies be developed with these considerations in mind.

The importance of innovation for economic transformation is also emphasised in the Latin American context. According to IADB, the limited economic transformation achieved in Latin America is a product, at least to some extent, of insufficient adoption and adaption of new developments originating elsewhere. Innovation in the region also seems to be stifled by limited financial resources. At present, innovation capital accounts for 13% of GDP in Latin America, compared with 30% in Organisation for Economic Co-operation and Development (OECD) countries. This needs to be scaled up by improving governance in science and technology institutions to develop an effective dissemination network for technology and innovation. Attracting additional financial resources, including FDI, will be necessary to develop skills and innovation in Latin America that contribute effectively towards structural change.

In this sense, the challenges in Latin America differ from the research and innovation challenges generally experienced by advanced countries at the technological frontier. IADB shows the economies that have been most successful in 'catching up' are those that are leaders in research and development (R&D). R&D can play a valuable role in Latin America and the Caribbean through technology transfer and adaptation. In IADB's view, R&D policies should target activities that are most likely to create technological spillover effects, as well as those that involve intangible assets ('are harder to collateralise'), or target 'research consortia' involving multiple firms and research institutes.

The creation of new firms can also help drive economic transformation. Evidence from the US, Latin America and the Caribbean highlights the key role of new firms (*not* small firms) in creating employment. Moreover, the evidence suggests new firms that remain small provide an important channel for introducing innovative high-productivity ideas into the market. However, these firms typically encounter challenges stemming from a lack of access to finance and limited managerial capacity for expansion. According to IADB, policy interventions to support the creation of new firms can include facilitating venture capital to fund start-ups and using private firms as 'incubators' for fledgling firms to develop (incentivising the performance of new firms, rather than simply looking to expand the volume of firms). Introducing guarantees for credit supply or cheap loans is also important in scaling up firms, as well as accessing knowledge from development banks. Policies need to encourage coordination among firms, as well as to provide temporary subsidies, tax breaks or guarantees.

Productivity is particularly important in the Latin American context. The generally low level of productivity in the region is regarded as a key reason why Latin America continues to trail behind other regions of the world. Indeed, the current rates of productivity growth in Latin America are modest compared with those in the OECD and many emerging economies. As a result, IADB (2015) asserts that increasing productivity will be key to generating the necessary growth recovery in Latin America and the Caribbean. This will require the development of sectors with high potential productivity (IADB, 2014).

More generally, the Latin American Economic Outlook 2015 (IADB, 2015) highlights the importance of structural reforms to boost output productivity, improve equity and escape the middle-income trap. These reforms need to be targeted at strengthening education, skills and innovation; and should include policies that ensure equal access to education and skills. Countries in the region have also not been able to close the income gap with other (more developed) economies in order to develop a highly skilled workforce. Education can not only drive economic growth but also promote inclusive and equitable growth, and significant education investments are needed to promote widespread and high-quality education in Latin America. Aside from education, IADB (2015) recommends policies that strengthen trade integration; upgrade infrastructure and financial services; alleviate the bottlenecks created by the high proportion of informal jobs in labour markets in the region; and address the limited access to financial services.

Table 2: Summary of regional literature on economic transformation

Region	Paper	Defining the regional economic transformation process (or ST, industrialisation)	Policy strategies towards economic transformation	Labour strategies
Africa	AfDB (2013a)	Economic transformation process is ‘incomplete’ and ‘uneven’	5 pillars: (i) scaling up infrastructure financing, (ii) regional economic integration, (iii) government private sector partnerships, (iv) improved governance and accountability of institutions, and (v) youth skills development	Youth skills development towards formal and informal sector employment, and skills for small business development
	AfDB (2013b)		Development of a diversified commodity sector to develop fundamentals for structural transformation, such as agriculture, skills, government capacity, financial access and effective markets	Skills development
	AfDB (2014)		Increasing integration into GVCs through opening up to trade, targeting regional and emerging markets, developing infrastructure and skills	Skills development
	UNECA (2013)	Defined as the reallocation of resources from less to more productive sectors, including an increase in manufacturing share of GDP and decrease in agricultural share of employment, urbanisation and the rise of a modern industrial and service economy, and demography shifts To date growth has been non-inclusive owing to low contribution to job creation and human well-being	Coherent development of human capital, developing an indigenous entrepreneurial private sector, infrastructure, value chains, innovation and technology transfer	Health and education programmes for human capital development
	ACET (2014)	Growth in Africa has come from macroeconomic reforms, better business environment and higher commodity prices Transformation requires diversification followed by specialisation	Diversifying production and exports, increasing export competitiveness, increasing productivity of resource inputs, technological upgrading and improvements in human well-being, as well as improving state capacity	Increasing labour productivity and improving human wellbeing (measured by GDP per capita and employment)

Region	Paper	Defining the regional economic transformation process (or ST, industrialisation)	Policy strategies towards economic transformation	Labour strategies
	Collier (2010)	The path to economic transformation in Africa is likely to be 'bumpy', but new discoveries of untapped resources can drive a prolonged phase of rapid growth (and successful exporting of natural resources from Africa can be compatible with successful exporting of light manufactures)	Commitment from African leaders to economic transformation, and readiness to capitalise on the anticipated shift in labour-intensive manufacturing activities from Asia to Africa	
Asia	ADB (2013)	Economic transformation has been 'unprecedented' but uneven across the region, with slower transformation without significant deepening and weak supply chains in some cases	Policy in slow-transforming countries should be on developing new products and new markets to move up the value chain to higher-value goods and services, and increasing agricultural productivity through technological change. Local firm development is essential for industrial deepening	Requires transfer of labour from lower- to higher-productivity sectors, including through development of a diversified manufacturing and services sector, as well as education and skills development
	Briones and Felipe (2013)	Agricultural output share has been declining faster than employment, increases in agricultural and land productivity have been more rapid than other regions, partly through technological changes, and shift into higher-value agricultural goods	A strategy placing agriculture at the core of development to help alleviate poverty	
	UNESCAP (2015)	Uneven growth achievements without commensurate employment opportunities and rising inequality in incomes	Development of a single market and production base, competitiveness in the region, equitable economic development, full integration into the global economy	Increased emphasis on employment generation
Latin America	IADB (2014)	Notes past policy failures that have hindered economic transformation	Appropriate country-specific horizontal and vertical policies aimed at market failures, effective institutions to insulate from political capture, increasing international competitiveness and innovation (e.g. guarantees and credit for entrepreneurial firms)	

Region	Paper	Defining the regional economic transformation process (or ST, industrialisation)	Policy strategies towards economic transformation	Labour strategies
	IADB (2015)	Low productivity growth is characteristic	Strengthen trade integration, upgrade infrastructure and financial services. Alleviate bottlenecks of informal jobs, limited access to financial services, poor quality education and low levels of innovation	Tackle informality and poor quality education
	OECD et al. (2015)		Structural reforms to boost output productivity, improve equity and escape the middle-income trap – targeted at strengthening education, skills and scale-up innovation (and innovation capital), attract financial resources	Equal access to education and skills

4. DOMESTIC PERSPECTIVES ON ECONOMIC TRANSFORMATION

4.1 INTRODUCTION AND KEY MESSAGES

In Sections 2 and 3, we noted differences in how the international and regional literatures approach and understand economic transformation. This section addresses perspectives on economic transformation at the domestic level, again demonstrating a wide variety of policy strategies, with much of the variation stemming from diverging political economy considerations and contexts. Furthermore, at the domestic level there is often a diverse range of perceptions from different stakeholders – from governments and donors to academics and the private sector.

Although it is not summarised here, much of the case country literature demonstrates pervasive gaps between policy and implementation. The importance of developing 'tangible' short-term plans (in line with political cycles) is also evident and, in certain case countries, this represents a key constraint on domestic action and the achievement of policy plans.

The section provides an overview of these perspectives on economic transformation, structural transformation and structural change at the domestic level for a selection of countries. These countries are Bangladesh, Brazil, Ethiopia, Ghana, India, Indonesia, Kenya, Mauritius, Myanmar (Burma), Nepal, Nigeria, Rwanda, Tanzania and Uganda. Box 5 summarises the section's key messages.

Box 5. KEY MESSAGES FROM DOMESTIC PERSPECTIVES ON ECONOMIC TRANSFORMATION

- Among the case study countries, emphasis on economic transformation is particularly prevalent in the national development plans of the African countries.
- There is a diverse range of perspectives across the selected country governments regarding how they are approaching the issue of economic transformation. Some focus on increasing productivity growth and promoting agriculture-led growth, others stress the necessary ingredients for becoming a middle-income country; and some governments emphasise the importance of developing services sectors and upgrading technology.
- Among the selected countries, there is evidence of a diverse range of perspectives on economic transformation, structural transformation and structural change, even within the same country. This suggests a lack of coherence at the domestic level between government, donors and academics on issues related to economic transformation.
- Even so, both within and between the selected countries there is widespread agreement across governments, donors and academics that improving the business environment, attracting investment and developing skills and infrastructure are important for supporting economic transformation.
- There is limited literature produced by the private sector on these issues.

4.2 KEY FINDINGS IN THE LITERATURE

In the selected countries, national development plans, donor programmes, the international and domestic academic literature and the literature produced by the private sector give attention to economic transformation, structural transformation and structural change. The 'transformation' terminology is particularly prevalent in national development plans in Africa, echoing the focus of literature from the region on economic transformation. While the perspectives delineated in the government and donor literature on these topics are relatively common across all countries, there is a lack of private sector literature addressing these issues.[1] This could reflect the lack of centrally coordinated private sector bodies to influence economic development plans or of published materials from such private sector bodies. The exception is the Kenya Private Sector Alliance (KEPSA) Presidential Round Table report, which discusses the business environment, infrastructure, trade and investment.

Government documents addressing structural transformation and socioeconomic transformation tend to focus on a variety of issues, ranging from increasing productivity growth and promoting agriculture-led growth to analyses of what is required to become a middle-income country, develop services sectors and facilitate technological upgrading. In short, there is a diverse range of perspectives across the selected country governments regarding how they are approaching the issue of economic transformation.

An analysis of the literature produced by different stakeholders in specific country settings highlights the prevalence of a diverse range of perspectives on economic transformation, structural transformation and structural change even *within* the same country. This points to a lack of coherence at the domestic level between government, donors and academics on issues related to economic transformation. For example, in Ethiopia the focus of the government is on agriculture-led growth, and it places considerable emphasis on the importance of infrastructure development. In contrast, the emphasis in the DFID literature is more broadly defined in relation to the importance of trade and broad-based development; and studies by the International Food Policy Research Institute (IFPRI) and the Economic Development Research Institute (EDRI) (Engida et al., 2011) focus on mobilising savings and investment (for the agriculture sector). Nevertheless, there are often common threads within countries and across countries. For example, there is widespread agreement on the importance of improving the business environment, attracting investment and developing skills and infrastructure across governments, donors and academics both within and across the selected countries.

Table 3 provides an overview of the literature reviewed for each of the 14 selected countries. Appendix 1 provides further details for each country in the form of summaries of the results of the full literature reviews.

[1] Note that this conclusion is based on a non-comprehensive literature review.

Table 3: Summary of domestic literature on economic transformation

	Government	Donor	Academic	Private sector
Bangladesh	Planning Commission (2012) Inclusive sustainable growth, with a focus on structural transformation, increasing productivity growth, accelerating investment and employment Planning Commission (2011) Includes accelerating economic growth and employment, higher labour force growth, improving factor productivity (IT), managing spatial dimensions of growth, improving access of the poor to factors of production, environmental sustainability	USAID (2011) Focus on poverty, improving infrastructure, food security and improving health status, citizen confidence in governance institutions and improving responsiveness to climate change DFID (2014a) Fostering an economic climate to enhance public services, employment opportunities and skills development, improving the private sector enabling environment to support competitiveness as a destination for international investment, as well as at the household level expanding access to credit and markets	BIDS (2014) Diversification of export commodities, upgrading products, adopting technologies to improve competitiveness and stimulating productive investment, with special attention on productive sectors with high export potential Gunter et al. (2014) Development of the services sector and diversifying the economy	
Brazil	Australia G20 Summit (2014a) Top priorities for the next five years include removing barriers to investments, especially infrastructure (through public–private partnerships), industrial policies to improve competitiveness for international trade, improving labour productivity through better skills and education of the labour force	UNDP (2011) Emphasis on improving productive inclusion and South–South exchange of knowledge and technology World Bank (2011a) Strengthen public and private investment, improve service delivery and strengthen regional development, while also supporting the effective management of natural resources Brazil is working with the US Agency for International Development (USAID) to foster agricultural productivity in other countries		
Ethiopia	MOFED (2010a, 2010b) Agriculture-led development industrialisation, with a focus on the agriculture sector as a source for economic growth. The Growth and	DFID (2014) Aim is to support economic transformation. This includes improving the business environment and access to finance for	Engida et al. (2011) Mobilisation of savings and investment, particularly for the agriculture sector.	

	Government	Donor	Academic	Private sector
	Transformation Plan (GTP) promotes infrastructure development, social development, good governance and capacity-building. Improvements in macroeconomic environment and target strategic sectors (e.g. flowers, coffee, meat, sugar, textile and garment, leather, cement, metal and gold mining)	entrepreneurs, as well as social transformation. UNDP (2013) A mixed approach to transformation with economic and social development. Highlights international trade, broad-based growth and government finance, as well as climate resilience and green growth	World Bank (2011b) The private sector should have a stronger role in the transformation process.	
Ghana	Government of Ghana (1995) Vision 2020 emphasises five areas of development: human development, economic growth, rural development, urban development and the enabling environment. Outlines the aim to become a middle-income country by 2020. In the agriculture sector the focus is on increasing crop production, expanding and diversifying exports and establishing effective linkages. In industry there is a need for increased domestic and foreign private investment in mining. In services, the focus is on establishing an efficient system for storage, transportation and distribution	DFID (2014c) Economic development, transparent and accountable governance and improving human development outcomes USAID (2012a) Democracy and governance, economic growth, health and education. The focus is on sustainable and broadly shared economic growth. Key constraints include power supply, access to credit, and land property rights	Vordzorgbe and Caiquo (2001) The achievement of Vision 2020 is expected to transform Ghana Leite et al. (2000) Notes the strengthening of economic policies and restoration of macroeconomic stability Breisinger et al. (2008), IFPRI (2012) Unsuccessful transformation given a lack of labour movement into services. There has been little development of agro-processing, weak production linkages and a poor environment for private-sector-led manufacturing. Improved efficiency in trade, transport and business services is key	
India	Australia G20 Summit (20124b) Five commitments in macroeconomic policy (fiscal sustainability, expenditure reforms and financial stability); infrastructure investment (public–private partnerships and innovative financing); employment (reducing informality, skills enhancement human capital investment and safe working environment for females);	DFID (2014d) Strategic priorities focus on low-income states: improving the lives of 10 million women and girls (e.g. education, access to finance, skills); catalysing the private sector's potential to combat poverty (e.g. support small and medium enterprises (SMEs), agribusiness, energy, infrastructure financial services); and	UNESCAP (2012) Government policy as critical for generating a pattern of structural change that creates employment and reduces poverty, with growth in labour-intensive industries (e.g. manufacturing). Public investment in infrastructure and human	

	Government	Donor	Academic	Private sector
	competition (agriculture market reforms and encouraging FDI in defence, insurance and housing); and trade (trade facilitation and export promotion) <u>Planning Commission (2013)</u> Goal of fast, inclusive and sustainable growth through the development of human capabilities (health, education, IT)	deepening engagement on global issues (e.g. growth, trade, climate change) <u>USAID (2012b)</u> Collaborate with Indian organisations on cost-effective and sustainable solutions to meet development challenges; catalyse the diffusion of solutions; harness India's development innovations and expertise to improve the lives of Indians	development is needed to foster economic growth, boost employment, as well as aid private investment	
Indonesia	<u>Director of Forestry and Water Resources Conservation (2015)</u> Development of human capital through quality education, improved productivity and competitiveness in the international market, and economic independence through development of key domestic sectors <u>Government of Indonesia (2011)</u> The economy must transform to allow for more private sector involvement. Improve regional economic potential through development of economic centres and corridors to increase productivity and value addition of natural resources, promote inclusive development, emphasise comparative advantages, promote integration through transportation and logistics and be supported by fiscal and non-fiscal incentives.	<u>World Bank (2012)</u> Infrastructure weaknesses are one of the main constraints on growth. Target of 7% growth per annum (in medium term) to be achieved through connectivity, competitiveness, the financial sector, infrastructure, local government, macroeconomic and fiscal management and strengthening the public sector, as well as domestic and international transportation	<u>Damuri (2014)</u> Development of the services sector as a catalyst for economic growth (by increasing competitiveness), to provide high-value added inputs for industrialisation and modernisation. This should be done through improving linkages, enhancing competition among service providers, strong regulatory frameworks and prioritising sectors with significant multiplier effects <u>McKinsey Global Institute (2012b)</u> Argues that Indonesia needs to boost productivity in key sectors (consumer services, agriculture and fisheries and resources), ensure inclusive growth and meet soaring demand from an expanding consumer class. This needs to be accompanied by efforts to address infrastructure and resource constraints, build worker skills to enable further diversification of the economy and build a resource-smart economy by maximising the	

	Government	Donor	Academic	Private sector
			supply of energy from unconventional sources	
Kenya	Government of Kenya (2007) Vision 2030 aim is to transform into a new industrialising, middle-income country providing a high quality of life for its citizens by 2030. Focuses on macroeconomic stability, governance reforms, equity and wealth creation for the poor, infrastructure, (science, technology, and innovation), land reform, human resources development, security and public sector reforms.	DFID (2014e) Focuses on social areas of transformation and 'wealth creation'. Outlines wealth creation as market development, financial access, infrastructure, trade and regional integration (to create jobs). Economic growth considerations focus on the agricultural sector, including increasing access to finance, science and technology, policy support and resource management	Ndung'u et al. (2009) Outlines a key omission of the Vision 2030 document on how Kenyans cushion against exogenous shocks (e.g. high oil prices, deteriorating terms of trade)	KEPSA (2015) Governance and the business regulatory environment, security, infrastructure development, enhancing trade and investment, human capital and entrepreneurship
Mauritius	Government of Mauritius (2015) Transform into a high-income economy with modern infrastructure, global connectivity, high skills and technology. The government will consolidate traditional sectors (sugarcane, tourism, manufacturing) and services sectors (namely, financial services), as well as: promote SMEs as the backbone of the economy; become a hub for technology, communication and innovation. In the agriculture sector, diversification from sugarcane into ethanol and sucro-chemicals and vegetable production. In the manufacturing sector, the aim will be to boost export opportunities in Africa		Mauritius Africa Club (2013) A key weakness is the lack of human capital. There is a need to develop human capital and boost exports of professional services.	
Myanmar (Burma)	Government of Myanmar (2012) Reform towards inclusive growth. Macroeconomic level: manage the effects of the resource boom on the competitiveness of the non-resource sector. Microeconomic level: reduce the cost of doing business and create a competitive and neutral policy environment.	DFID (2014f) Building a resilient and inclusive economy – including through improvements in governance and supporting transformational reforms (for economic and political inclusion). Reforming the financial sector and business climate, building markets, infrastructure, trade, reforming state enterprises and increasing opportunities for private investment	Abe (2014) Outlines the role of the manufacturing sector in industrial transformation. For further trade and investment promotion, industrial zones and SEZs are required.	

	Government	Donor	Academic	Private sector
	Government of Myanmar (2013) Regional integration (with ASEAN) and movement to a knowledge-based economy. The fifth five-year plan targets include growing the share of industry and services. Sectoral policy priorities: in agriculture, boost access to credit and build supportive infrastructure; in manufacturing and industry, boost investment, technology upgrading and SME development and linking skills to employment		Lim and Yamada (2012) For a transition process, Myanmar must have macroeconomic stabilisation, price and market liberalisation and privatisation of state enterprises. The mobilisation of domestic resources is needed to attract FDI, and industrialisation strategy should not exacerbate development disparity among regions and income groups McKinsey Global Institute (2013b) Maintain macroeconomic stability, attract foreign investment and open up to trade to drive growth. Successful economic transformation will also require heavy investment in infrastructure, easing of constraints to doing business, improvements to education and vocational training, a stronger financial system and governance structures and capabilities that ensure effective implementation of economic transformation programmes. Myanmar can leapfrog certain intermediate stages of economic transformation by embracing digital technology, rather than a bricks-and-mortar approach, to develop sectors such as banking, retail, education and health care	
Nepal	National Planning Commission (2013) Targets of 7% growth and becoming a middle-income country by 2022. The Strategy sets out the importance of physical infrastructure, social services, good governance and climate	DFID (2014g) Primary focus on reducing poverty. Harnessing opportunities for transformational change through hydropower, infrastructure, agriculture and stability of the banking sector,	Sijapati (2014) Diversifying from agriculture into trade, industry and tourism, and increasing agricultural productivity	

	Government	Donor	Academic	Private sector
	adaptation. Sectoral priorities include improving the productivity of agriculture, decreasing dependence on agriculture and investment in infrastructure for industrial development and to attract private sector investment.	as well as strengthening public sector governance (e.g. financial management). Also, providing jobs for poor people and strengthening quality service delivery, while safeguarding against future shocks	World Bank (2014a) Strengthening the financial sector and investment climate. ADB (2010) Promote growth in rural and urban communities.	
Nigeria	Government of Nigeria (2009) Improving the well-being and productivity of people, promoting the key resources for economic growth and the sustainability of social and economic development. Policies should focus on stimulating primary production, increasing production of processed and manufacturing goods, stimulating trade and strengthening linkages	DFID (2014h) Reducing the constraints on businesses (e.g. poor power, transport and access to finance), building investor confidence (e.g. less costly business regulation) and making markets work for the poor (e.g. financial services) USAID (2010) A key focus on governance, as well as youth, conflict, anticorruption, gender and local institutional capacity, also on the agricultural sector (to guarantee markets for products and linkages with transporters and agro-processors)	Oyewale and Ogunleye (2013) Deepen reforms that improve human capital, promote high-quality public infrastructure and encourage competition. Also addresses the need for adequate diversification of the economy and bridging disparity in incomes McKinsey Global Institute (2014) Advocates a central role for government in supporting key industries and improving health care, education, infrastructure (particularly energy and transport infrastructure but also telecommunications and water infrastructure). This will require strengthening government capabilities and improving government delivery. It will also require efforts to better link urbanisation to productivity improvements and increases in incomes, improvements to agricultural productivity, the creation of more non-farm jobs and boosting formal employment and skills. There is also an important potential role for natural gas to support economic transformation through expanding	

	Government	Donor	Academic	Private sector
			energy generation and the development of gas-based industries	
Rwanda	Government of Rwanda (2012a) Transformation of agriculture sector from subsistence into agro-processing, industry development and exports. There is a need to identify Rwanda's areas of comparative advantage and concentrate strategies towards them (e.g. rich supply of labour, geographical location). The government will continue to support investment in services sector potential (e.g. energy and transport infrastructure to lower the cost of doing business)	DFID (2014i) Economic transformation requires a vigorous private sector, attracting strong investment and generating revenues to replace high levels of aid. Four fundamental transformations: shift from agriculture to private sector-led growth; improve basic services; increase government accountability; increase domestic revenue generation World Bank (2014b) Private-sector-led growth including growth in services, rural development, productivity and youth employment and accountable governance Government of Rwanda (2012b) in partnership with UNDP Poverty-Environment Initiative Structural change through investment in export-oriented sectors, emerging sectors (e.g. knowledge economy) and new sectors. This includes increasing domestic and external connectivity, increasing investment in priority sectors and pursuing a green economy	Malunda and Musanga (2012) Improve the agricultural value chain and linkages between FDI and local supply chains	
Tanzania	United Republic of Tanzania (2000) Transform into a middle-income economy. Create a strong, diversified, resilient and competitive semi-industrialised economy, with a substantial industrial sector, macroeconomic stability, an adequate level of physical infrastructure; as well as become a competitive player in regional and global markets	DFID (2014j) Combating rural poverty through greater competitiveness, investment and regional integration. Ensuring inclusive and equitable growth through three strategic objectives: wealth creation (improve rural incomes and infrastructure, promote access to finance and energy, reduce trade and transport costs to increase export competitiveness, improve	Wuyts and Kilama (2014) Increasing productivity and income convergence between agriculture and non-agriculture jobs, labour shift into industry through education and skills development and increased productivity of domestic wage goods	

	Government	Donor	Academic	Private sector
	President's Office Planning Commission (2012) The first five-year development plan focused on the priority areas of infrastructure, agriculture, industry, human capacity development and strategic interventions in tourism, trade and financial services Ministry of Finance and Economic Affairs (2010) MKUKUTA II key priorities: growth for reduction of income poverty; improvement of social well-being; good governance and accountability	resilience to climate change and the business environment); deliver the MDGs; improve governance and accountability		
Uganda	Government of Uganda (2010) Spur economic growth through promoting science, technology, innovation and information and communication technology to enhance competitiveness. Target the creation of fiscal space for investment and prudent fiscal management Government of Uganda (2014) Transform Uganda into a modern and prosperous country by 2040. Focuses on key fundamentals (e.g. infrastructure, science and technology, land management, urbanisation, human resources).	DFID (2014k) Support the transition to a prosperous, stable and accountable democracy, including achieving the MDGs. Prioritises inclusive economic growth (addressing binding constraints such as power, transport infrastructure and financial services) and making Uganda the hub of a regional market World Bank (2013) Investments in human capital are essential given the youthful population. Goal to create more productivity jobs in farms and firms through technology, land security, better access to agricultural credit and an improved environment for the commercialisation of agriculture	Kasozi (n.d.) Change the relationship between the government and universities. Investment in human capital and skills development, including public funding for universities with increased accountability	

5. CONCLUSION

This paper has conducted a stock-take of the literature on economic transformation in order to determine pre-existing actor discourse on the topic. In examining the international literature together with the literature focused on specific regions (Africa, Asia and Latin America) and a range of domestic contexts (Bangladesh, Brazil, Ethiopia, Ghana, India, Indonesia, Kenya, Mauritius, Myanmar (Burma), Nepal, Nigeria, Rwanda, Tanzania and Uganda), we find notable variation in the existing research on policies and strategies designed to support economic transformation across different country stakeholders and contexts.

The international literature delineates a variety of different perspectives on ways to facilitate economic transformation. Several studies conceptualise transformation from the perspective of structural changes in production, viewing it as occurring through diversification of production and export structures or through upgrading of domestic production capabilities, which enables countries to move from producing low- to higher-value goods. These changes in economic structure are accompanied by movement in factors of production (such as labour) from lower- to higher-productivity uses. Emphasis is placed in some studies in the international literature on the importance of developing the agriculture sector as an initial base from which to initiate growth and deliver efficiency gains as well as employment, particularly in low-income countries. This provides a platform from which the economic transformation process can eventually occur through the movement of labour and other resources from agriculture to modern economic activities. This is likely to occur as a dynamic process, with transformation taking place in a stepwise fashion along a spectrum as economies transition from low-income, subsistence agrarian economies to eventually become high-income industrialised economies.

Likewise, there are differences in the regional literature on Africa, Asia and Latin America in terms of the focus and perspectives on economic transformation. In some respects, this reflects the varied experience and progress to date with respect to economic transformation in the three regions. Nevertheless, a common theme is the uneven record on economic transformation between countries within each of the regions. This is backed by recognition in the regional literature that the economic transformation process in these three regions remains incomplete across much of Africa and outside of the 'Asian tigers' and Latin America's 'fast transformers'.

The diversity of perspectives in the international, regional and domestic literatures on the manner in which transformation and structural change does, and should, occur, also manifests in a range of viewpoints on the most appropriate policies to facilitate economic transformation. Even so, there are areas of common understanding, such as the importance of developing the level of human capital and skills necessary for diversification and upgrading to higher-productivity activities.

The analysis of all three literatures underlines the importance of the specific context in which transformation is occurring. Underlying contextual factors have a bearing on the most appropriate type of policies to promote economic transformation and, ultimately, influence their effectiveness. The literature suggests that the extent to which countries experience structural change that is growth- and productivity-enhancing is likely to be influenced by their specific characteristics.

The review of perspectives on economic transformation at the domestic level points to variation in actor discourse on the topic across stakeholders (governments, donors, academics and the private sector). In general, the governments of the 14 countries considered in this paper are beginning to acknowledge economic transformation in their policy discourse, although there is variation in the level of attention afforded to transformation and the manner in which economic transformation is framed between these countries. Similarly, there is evidence of greater focus on economic transformation in the discourse of the various actors that constitute the donor community in these countries. In contrast, however, there are very few instances of policy statements or other published material on economic transformation produced by the private sectors in the 14 countries, although issues of economic transformation are implicitly addressed in their work.

One important element largely missing from much of the literature produced by government, donors, academics and the private sector, and the international, regional and domestic perspectives on economic transformation more generally, is that of implementation. Specifically, there is very little substance in the existing actor discourse on the manner in which policies designed to facilitate economic transformation should be implemented. For example, the government policies on economic transformation reviewed in this paper tend to lack detail with respect to implementation plans and ways of working. Similarly, although there are many instances in which specific economic transformation targets are set, either by governments or donors, often very little attention is given to how these targets will be achieved in practice. Looking ahead, this suggests future actor discourse on economic transformation at the international, regional and domestic levels would benefit from increased focus on the practical aspects of the transformation process. This is particularly important with respect to how policies designed to facilitate economic transformation will be implemented and how specific economic transformation targets will be achieved.

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APPENDIX 1: DOMESTIC PERSPECTIVES ON ECONOMIC TRANSFORMATION IN SELECTED COUNTRY CASES

This section provides a review of the literature on domestic perspectives on economic transformation for a selection of 14 countries (as summarised in Table 3). As noted in the main body of this paper, the countries were selected so as ensure an exclusive focus on countries for which the SET programme is working or planning work in the future; countries that host DFID country offices; and countries that present important domestic examples of economic transformation, such as Brazil and Indonesia.

BANGLADESH

Government:
In 2010, the government of Bangladesh's General Economics Division published its Perspective Plan: Making 2021 a Reality, which highlighted the country's development goals and how they would be achieved. The government aims to achieve GDP growth of 8% a year, rising to 10% by 2021, in order to place Bangladesh in the middle-income range and to significantly raise the quality of life in the country. In this context, Bangladesh's main strategic goals are to:

- Promote equitable, environmentally friendly, inclusive and socially sustainable pro-poor accelerated growth;
- Enhance productivity growth across all sectors of the economy;
- Accelerate investment with domestic as well as foreign resources;
- Speed up employment, while paying specific attention to gender dimensions;
- Stabilise price levels;
- Promote structural transformation of the economy.

Bangladesh is working on improving total factor productivity through the following strategies:

- Initiatives planned in education, information technology, science and technology and R&D. Innovations in production techniques and processes will be promoted and supported. There will be coordination in public and private sector programmes and initiatives, and there will be joint public and private sector collaboration initiatives wherever appropriate;
- Integration and coordination of input–output activities in the agriculture sector, and inter-sectoral allocations among the agriculture, industry and services sectors.

Bangladesh's Sixth Five-Year Plan focuses on'(1) Accelerating economic growth and employment; (2) Benefiting from higher labor force growth and ensuring labor quality; (3) Improving factor productivity through information technology; (4) Reducing population growth; (5) Ensuring food security; (6) Managing the spatial dimensions of growth; (7) Improving access of the poor to essential services and factors of production; (8) Ensuring social protection for the underprivileged population; (9) Ensuring gender parity; (10) Ensuring environmental sustainability; (11) Improving governance; (12) Strengthening administrative capacity; and (13) Establishing a results-based monitoring and evaluation system' (USAID, 2011).

The General Economics Division is in the process of preparing the Seventh Five-Year Plan outlining growth strategies for Bangladesh. In a background study on the development of small and medium enterprises (SMEs) in Bangladesh, economists advise that the growth of SMEs is imperative for the creation of productive employment in the manufacturing and organised services sectors, as well as to move the bulk of the labour force out of the low-skilled and low-return agriculture sector.

In another background paper for the Seventh Five-Year Plan, it is argued that export diversification will bring inclusive economic growth to Bangladesh. The paper explains that, 'There is growing consensus in economic literature that countries achieving structural change in exports through increased export diversification also grew rapidly and inclusively. With the labor cost advantage that Bangladesh enjoys, there seems to exist good prospects for extending into exports of labor intensive products other than RMG such as agro-processed industry, food products, other manufactures and assembly operations. By broadening the export base, diversification can stabilize and expand export revenues, enhance value added, and boost economic growth' (Sattar, 2015).

Donor:
USAID's Bangladesh Country Development Strategy 2011-2016 outlines economic strategies for lifting Bangladesh out of poverty and improving infrastructure. The strategy indicates that, 'Over the next five years, USAID will support the GOB's plans to transform its economy to achieve Bangladesh's ambitious vision of becoming a middle income country by 2021 when Bangladesh celebrates its 50th year of independence'. It outlines four major goals:

- Boosting citizen confidence in governance institutions;
- Improving food security;
- Improving health status;
- Improving responsiveness to climate change.

To ensure the appropriate management of natural capital, it is claimed that, 'USAID will conduct resource inventories and biodiversity threat assessments, support revision and enforcement of relevant forestry and land-use laws, encourage benefit-sharing and community ownership and develop REDD+ market.'

DFID Bangladesh's Operational Plan 2011-2015 (DFID, 2014a) lists among key economic goals to foster 'an improved economic climate to enhance public service delivery and public safety, and to increase employment and wealth creation opportunities'. The Plan also voices the intention to 'expand programmes to strengthen the enabling environment for the private sector and economic growth, and support Bangladesh's competitiveness as a destination for international investment. At the household level, expand initiatives to increase access to credit and to markets. Strengthen the labour market through skills development, linked to market demand and private sector provision.'

Academic:
The Bangladesh Institute of Development Studies (BIDS) (2014) recommends that Bangladesh diversify its export commodities while maintaining workplace safety, meeting minimum wage requirements, upgrading products into fashionable categories and adopting technologies to improve competitiveness. The study also suggests orienting policies towards stimulating productive investment, building technological capacities and strengthening linkages within and across sectors. In BIDS' view, this can be achieved by 'strengthen[ing] national capacity to undertake analysis of competitive potential at the product and subsector level; establish[ing] the quality and conformity assessment infrastructure required to increase exports [...] and provid[ing] special attention to productive sectors with high export potential to upgrade product and production quality and comply with standards'.

In a policy paper prepared by the Bangladesh Development Research Centre, it is recommended that Bangladesh develop its services sector, which is lagging behind the booming textile industry. Diversifying the Bangladeshi economy will help insulate the country from the volatility that plagues the garment sector (Gunter et al., 2014).

BRAZIL

Government:
Brazil's current growth strategy is outlined in the Australia G20 2014 Summit's Comprehensive Growth Strategy: Brazil. It highlights investment, labour productivity and the available capital stock as major challenges to economic growth in Brazil. Deficiencies in infrastructure also appear to be problematic. The strategy indicates that, 'The Brazilian Federal Government's top priority for the next five years is implementing an ambitious infrastructure programme through extensive use of public-private partnerships and concessions to the private sector.' In order to improve labour productivity, Brazil is implementing

supply-side reforms, such as its Sciences without Borders programme, which aims to grant 100,000 scholarships for university students to study abroad.

The strategy document outlines key government commitments to spur growth and economic transformation. Specifically, it notes that, 'The Brazilian government is preparing the country for a new investment cycle that will spur growth. Brazil's proposed agenda is based on three basic ingredients: (i) the removal of regulatory obstacles to increase investment, especially in infrastructure; (ii) an articulated set of industrial policy measures for increasing competiveness in order to cope with the effects of subdued recovery in the advanced economies on the international trade; and (iii) concentrated efforts to improve the education and skills of our labor force and the innovation capacity of our enterprises so as to boost the productivity of the economy and lift the growth potential in the long term.'

Focusing on public–private partnerships (PPPs), the strategy document indicates that: 'With the new PPP and concessions model in infrastructure, Brazil will increase private investments in a sustainable way, build an integrated and modern infrastructure and address significant supply bottlenecks that hinder productivity and resources allocation efficiency. As fixed gross capital grows throughout the next years more than the GDP, investment will be the main driver of growth.'

Finally, in terms of the importance of international trade and Brazil's future trade prospects, the strategy speculates that, 'The net contribution of foreign trade is likely to reduce or stabilize compared to the last ten years to 2013 […] This is unlikely to continue as the Chinese economy, a key commodity importer, rebalances away from investment-led growth. Thus Brazil's terms of trade are expected to remain broadly stable in the next decade.'

Donor:[2]
UNDP Brazil has four goals for the 2012-2015 cycle: achieving the MDGs with an emphasis on reducing inequality; sustainable development and productive inclusion; reducing vulnerability to violence/public safety; and South–South cooperation emphasising the exchange of knowledge and technology with Brazil's partner countries.

The World Bank's 2012-2015 Partnership Strategy for Brazil contains the following objectives:

- Strengthen public and private investment;
- Improve service delivery to the poor;
- Strengthen regional and territorial development;
- Support the effective management of natural resources and the environment.

USAID has formed an alliance with the Brazilian government dedicated to spreading Brazil's economic development and success into third countries. USAID and the Brazilian Cooperation Agency collaborate in Mozambique, Haiti and Honduras to improve agricultural productivity and food security.

ETHIOPIA

Government:
At present, the main development strategy for Ethiopia is the GTP, the second iteration of which was recently introduced in September 2015. GTP 1 (2010/11-2014/15) consists of a main text (MOFED, 2010a) and a policy matrix (MOFED, 2010b). The GTP is underpinned by Agricultural-led Development Industrialisation (ALDI), which emphasises agriculture as the primary source of economic growth and industrialisation. The GTP also emphasises infrastructure development, social development, good governance and capacity-building. It aims to achieve these objectives in two ways - by improving the general macroeconomic environment and by focusing on some strategic sectors directly. The improvements to the general macroeconomic environment are expected to be generated by policies that

[2] Taken from the USAID, UNDP and World Bank websites.

address growth, investment and savings, as well as those related to poverty reduction, fiscal policy, monetary policy and financial policies. The strategic sectors identified include the flower, coffee, meat, sugar, textile and garment, leather, cement, metal, and gold mining sectors. Many of these strategic sectors are supported by sector-specific institutes and specific policies (e.g. Leather Industry Development Institute, Textile Industry Development Institute).

Prior to the GTP, the Ethiopian government formulated and implemented the Sustainable Development and Poverty Reduction Programme from 2002/03 until 2004/05 and the PASDEP from 2005/06 to 2009/10. The GTP policy matrix, which underpins the main policy document, provides indicators to measure progress in various areas (economic growth, agriculture and rural development, trade and industry, mining, road development, power and energy, water and irrigation development, transport and communication, urban development, education and training, health, capacity-building and governance, children and gender development, culture and tourism, environmental protection, and social and labour markets). As an example, the policy matrix for trade and industry operationalises transformation in the form of increases in production and market earnings for the selected sectors (e.g. textile, leather). For some other sectors, such as the cement, soap, paper and plastic sectors, it emphasises capacity or utilisation expansion. Yet generally there is no focus on technology transfer, quality improvement, market diversification or upgrading.

Donor:

In Ethiopia, DFID has explicitly stated that it will support economic transformation. Specifically, in a recent report, DFID (2014b) states that, 'The portfolio of our projects is already shifting to deliver a more coherent, focused and ambitious approach to economic development. We are helping to build strong and investable business environments in developing countries and improving access to finance for entrepreneurs' (p.4). It also emphasises social transformation. For example, importance is attached to political transformation and developments in the context of the MDGs, and the planned programme focuses largely on social issues (climate change, education, governance and security, humanitarian, poverty and hunger, water and sanitation, wealth creation and health).

UNDP (2013) recommends a mixed approach to transformation in Ethiopia and highlights economic development (e.g. the share of agriculture in GDP) and social development (e.g. poverty headcount rate). It argues that sustainability can be supported through the presence of good institutions, particularly focusing on disaster management. The report discusses international trade (e.g. revenue and type of products, through support of industrial development and trade growth), broad-based growth (through supporting the ALDI approach) and government finance. As an illustration of donor contributions (Figure 2, p. 34): almost half of the donor's money to UNDP is contributed to climate resilience and green growth, a quarter to economic growth and poverty reduction and a smaller share to governance and capacity development and other programmes.

Academic:

A study by IFPRI and EDRI discusses economic transformation and is mainly limited to issues of investment and savings in the GTP's key areas. Engida et al. (2011) conclude from the study that: 'Under GTP, this real income growth would be accelerated, provided there is sufficient foreign savings or mobilization of domestic savings to achieve the targets. Nonetheless, the simulations also suggest that agricultural growth will still be crucial for raising incomes of Ethiopia's rural poor. Thus, investments that raise agricultural productivity will need to continue in order to ensure that the rural poor share in the substantial projected benefits that would result from achieving the high economic growth targets of the GTP' (p.17.

The World Bank (2011b) provides an economic view on the GTP, and on transformation more generally, and suggests the private sector should have a greater role in the transformation process. Specifically, it argues that 'a moderated strategy – with lower government spending and more space for private sector development – would generate more growth and financing and help government achieve its own goals' (p.2).

GHANA

Government:
Ghana's transformation is described in Vision 2020, introduced in Government of Ghana (1995), and serves as an underlying support document for poverty reduction strategies (Government of Ghana, 2003). It emphasises five areas of focus: human development, economic growth, rural development, urban development, and the enabling environment. Economic growth focuses more specifically, and as one component, on the enabling environment. This is specifically related to improving and maintaining the legal and administrative system, establishing efficient, reliable and cost-effective economic infrastructure and creating a science and technology culture at all levels of society. It also emphasises boosting national income with a view to transforming Ghana from a low- to a middle-income country and production in the agriculture, industry and services sector. It argues that, 'For production activities to be sustainable and to contribute to improving the quality of life, production must be undertaken with the realm of science and technology and in ways which do not cause pollution or other forms of environmental degradation' (Government of Ghana, 1995: 31). In terms of agriculture, the emphasis is on policies to boost crop production, expand and diversify exports and establish effective linkages within the sector. Similar suggestions are made for the industrial sector, along with emphasis on the need to secure increased domestic and foreign private investment in mining. For services, the policy emphasis is on the need to establish and implement an efficient system to store, transport and distribute goods and services. Such efforts are underpinned by investment in infrastructure, fiscal and monetary policies, and science and technology policies. This implies policies should provide encouragement to '[a]dopt technologies, both local and foreign, which continuously improve efficiency in all types of production and make local production internationally competitive' (Government of Ghana, 1995: 34). Attention is also given to employment issues, including the need to improve both training for formal and informal workers, and implement policies that support employment production and '[p]rovide adequate opportunities and facilities for technical and vocational training and retraining' (Government of Ghana, 1995: 52).

Donor:
DFID (2014c) outlines support for the government of Ghana in three priority areas: economic development; competent, transparent and accountable governance; and improving human development outcomes (i.e. health, education, poverty). It is claimed that DFID's support for economic development will focus on 'the development of a diversified, dynamic and transformative private sector. The office will balance work at a systemic level to improve the investment climate, with stimulation of productive firms and sectors, in order to ensure that economic development is robust and inclusive' (p.4).

USAID (2012a) focuses on four priority areas in Ghana: democracy and governance, economic growth, health and education. The emphasis in terms of economic growth is on generating growth in the country that is both sustainable and broadly shared. The same report notes that, aside from sector-specific problems, Ghana also faces constraints to growth that cut across sectors, including problems in the supply of power, a lack of access to credit and issues involving property rights relating to land.

Academic:
A document published by the International Institute for Environment and Development suggests that the achievement of the long-term objectives outlined in Vision 2020 'is expected to transform Ghana into a nation whose material well-being and standard of living would conform to those of middle-income countries as at 1993/94' (Vordzorgbe and Caiquo, 2001: 9-10).

The IMF (Leite et al., 2000) perceives transformation in Ghana terms of macroeconomic indicators: 'Since mid-1997 the government has strengthened its economic policies and made considerable progress in restoring macroeconomic stability.'

A review by IFPRI (2012) suggests Ghana's transformation has not been successful at moving labour from agriculture to services. This is said to be because of 'weak transformation of the agricultural sector and therefore little development of agro-processing, the emergence of consumption cities and consumption-driven growth, upward pressure on the exchange rate, weak production linkages, and a poor environment for private-sector-led manufacturing' (p.v). An earlier contribution by IFPRI suggested improvements in the efficiency of trade, transport and business services would be a central element in accelerating growth (Breisinger et al., 2008: vi).

INDIA

Government:
The Australia G20 2014 summit's Comprehensive Growth Strategy: India makes five key commitments:

1. Macroeconomic policy response: 'Fiscal sustainability by ensuring predictable and stable tax regime (with measures for reduced litigation and dispute resolution) and expenditure reforms (updating urea subsidy and setting expenditure management commission), and financial stability by formulating appropriate monetary policy framework.'
2. Infrastructure investment: 'The strategy for investment and infrastructure seeks to promote private participation in infrastructure by mainstreaming PPPs, devising innovative infrastructure financing instruments and promoting employment generating FDI.'
3. Employment: 'Reducing informality by increasing the share of employment in manufacturing sector through promoting Industrial Corridor (manufacturing) and taking MSME.' Also, skill enhancement, human capital investment (education) and a safe work environment for females.
4. Competition: 'Improving competition and integrating markets through agriculture market reforms, and encouraging FDI in selected sectors (defence, insurance, housing including smart cities).'
5. Trade: 'Trade facilitation measures including initiatives for faster clearance of import and export cargo, implement an 'Indian Customs Single Window Project' to facilitate trade, and export promotion Mission.'

The government of India's 12th Five-Year Plan (Planning Commission, 2013) asserts the main goal of fast, inclusive and sustainable growth. This will be achieved by developing human capabilities through investment in health, education, information technology, drinking water and sanitation and nutrition. The Plan also argues that the development of infrastructure is imperative for economic growth. In turn, it asserts that, 'Infrastructure requirements can only be met through development of the relevant infrastructure capacity in the domestic economy.'

For its part, India's Department of Scientific & Industrial Research will focus on 'developing and nurturing human resource in trans-disciplinary areas; facilitating science-based entrepreneurship; and enabling socio-economic transformation through appropriate S&T intervention'.

Donor:
The four strategic objectives in DFID's (2014d) operational plan for India centre on helping low-income states, where growth has not sufficiently reduced poverty; improving the lives of 10 million women and girls through investment in education, access to finance, skills and low-carbon energy, as well as health considerations and reducing violence against females; catalysing the private sector's potential to combat poverty by supporting faster more inclusive growth in poorer states (e.g. support SMEs, agribusiness, energy, infrastructure, financial services); and deepening engagement on global issues such as growth, trade, climate change, resource scarcity and health and development effectiveness.

The India Country Development Strategy 2012-2016 (USAID, 2012b) indicates that 'USAID will collaborate with Indian organizations to seek out, test, and apply cost-effective, sustainable, evidence-based development solutions and innovations to meet development challenges in India, advancing new ways of working with the Indian public and private sectors.' In addition, 'USAID will support and catalyze the global diffusion of development solutions proven in India, sharing these in order to accelerate development outcomes in other countries. To support and catalyze this diffusion, USAID will utilize and rely on its bureaus in Washington, its network of operating units worldwide, and many other entities, including international organizations, universities, international and Indian foundations, private sector companies and associations, and NGOs and civil society.'

A key development objective of USAID/India is to ensure the impact of development innovations is felt in a range of sectors. Specifically, it 'seeks to harness India's development innovations laboratory and hub –

along with the growing resources and expertise among local Indian institutions and partners in the private, public and non-profit sectors – to develop and scale development innovations that can benefit the lives of Indians living at the base of the pyramid. In essence, [this objective] will capitalize on USAID as a convener, accelerator, and broker of development innovations to create multi-stakeholder alliances.'

Academic:
A case study published by UNESCAP's South and South West Asia Office (2012) analyses the Indian government's economic policies. The report concludes that 'government policy is critical for generating a pattern of structural change that creates employment and reduces poverty. Government policy will need to address the insufficiency of labour demand together with the poor quality of existing employment.' This entails a growth trajectory in labour-intensive industries. It is envisaged that, 'This will necessitate targeted or focused industrial policy that seeks to promote manufacturing and ensures that increased investments translate into changes in the patterns of employment.' The study also states that public investment in infrastructure and human development will foster economic growth and boost employment as well as aid private investment and growth. The study asserts that too much of the current debate revolves around policy reforms and should instead focus 'on investing heavily in industrial growth and infrastructural development both in rural and urban areas, creation of human capital and generating strong linkages between the rural and urban areas'.

INDONESIA

Government:
In the Australia G20 Summit's Comprehensive Growth Strategy: Indonesia, goals are outlined to achieve economic stability in the short term, fiscal policy for sustained economic growth and improved equality in the medium term and infrastructure and human capital development, technology advancement and institutional improvement in the long term.

The government of Indonesia has also laid out goals in its Medium-Term Development Plan 2015-2019 (Director of Forestry and Water Resources Conservation, Indonesia, 2015). Among these goals are the development of human capital through quality education, improved productivity and competitiveness in the international market and economic independence through the development of the domestic economy in key sectors.

The masterplan for economic development (Government of Indonesia, 2011) sets out longer-term economic goals. The report acknowledges that, in order for Indonesia to accelerate its economic development, its economy must transform to allow more private sector involvement. It asserts that: 'The government has very limited funds to finance development through its State Budget. Thus, to foster the economic growth in Indonesia, it will depend on the private sector participation which includes state-owned enterprises, and private domestic and foreign investors.'

Improving regional economic potential and boosting Indonesian growth can be achieved by developing new economic centres outside of Indonesia's main cities and ensuring they are properly incentivised and connected with the rest of the country. According to the government, the development of new economic corridors will:

- Emphasise the increase of productivity and value-adding on natural resource management through the expansion and creation of a sustainable upstream and downstream activity chain;
- Focus on diverse and inclusive economic development, which connects corridors with other regions to develop opportunities based on local potential and specialisation;
- Emphasise sectoral and regional development synergies to enhance national, regional and global comparative advantages;
- Emphasise integrated economic development between transportation and logistics, as well as communications and information systems to open regional access;
- Be supported with fiscal and non-fiscal incentives, ease of regulation, licensing, and optimum public services from central and local governments;

Strengthening human resources through education and Indonesian technology capabilities will form a key component of efforts to boost economic growth.

Donor:
The World Bank (2012) country strategy for Indonesia acknowledges that 'Indonesia's infrastructure weaknesses are one of the main constraints on lifting its growth to a higher trajectory.' The World Bank and the Indonesian government aim for GDP growth of 7% over the medium term. They plan to achieve this through improving connectivity and competitiveness, expanding the financial sector, developing infrastructure, macroeconomic and fiscal management and strengthening the public sector. The Indonesian archipelago faces natural constraints on connectivity, causing huge price disparities between the islands and reducing access to international markets. Forming a robust inter- and intra-island transportation network will lower transit costs, thus contributing to economic growth.

Academic:
A research report published by the Centre for Strategic and International Studies (Damuri, 2014) advocates for the development of the Indonesian services sector as a catalyst for economic growth. It adds that, 'The development of services in the current global environment should aim to provide high value added "inputs" for industrialization and modernization, rather than to see the sector as one that stands alone. It is thus necessary to recognize the sector as the key to increasing the economy's competitiveness. It is crucial for policymakers to understand this mindset, and that they design a development strategy and policy framework for certain service sectors that do not contradict the policies of other sectors.'

The report highlights the following important aspects of services development:

- Development strategies should take into account strong linkages between different sectors of services and goods production.
- Countries should enhance competition among service providers.
- Countries should develop strong yet reasonable regulatory frameworks.
- Countries should prioritise the development of sectors that can generate a significant multiplier impact on the economy.

A McKinsey Global Institute (2012b) report frames economic transformation in Indonesia from the perspective of rapid urbanisation of a young population and growth in the country's consuming class. In this context, the report highlights three key challenges confronting Indonesia: the need to boost productivity, the need to ensure inclusive growth and the need to meet soaring demand from an expanding consumer class. It notes that the bulk of the productivity gains achieved by Indonesia over the past two decades have come through productivity improvements within sectors (particularly wholesale and retail trade, transport equipment and manufacturing apparatus, transport and telecommunications) rather than shifts in workers from lower-productivity agricultural activities to more productive sectors. The report advocates focusing on boosting productivity and removing constraints to growth in three key sectors – consumer services, agriculture and fisheries and resources. In the consumer services sector, for example, this can be achieved by bolstering telecommunications and broadband internet, and removing barriers to competition. In agriculture, the report recommends efforts to improve productivity by boosting yields, shifting production into high-value crops and reducing post-harvest and value chain waste. Broader policy proposals include addressing infrastructure and resource constraints for an expanding consumer class; building worker skills (by, e.g., raising teaching standards, developing a more demand-driven curriculum and creating flexible education pathways); and building a resource-smart economy by maximising the supply of energy from unconventional sources (such as next-generation biofuels, geothermal power and biomass).

KENYA

Government:
The key transformation document for Kenya is Vision 2030, which aims to transform the country ‘into a newly industrialising, middle-income country providing a high quality life to all its citizens by the year 2030’ (Government of Kenya, 2007: 1). The reforms identified to achieve this focus on macroeconomic stability, governance reforms, equity and wealth creation of the poor, infrastructure (including energy), science, technology and innovation, land reform, human resources development, security and public sector reforms. The economic component considers various areas of importance and proposes a range of sector-specific policy prescriptions: tourism (e.g. modernising facilities), agriculture (e.g. fertiliser cost reduction programme, branding Kenyan farm products, establishing processing facilities, creating publicly accessible land registries), retail (e.g. creating wholesale hubs and producer business groups, building retail markets and free trade port), manufacturing (creating economic clusters and SME industrial parks), business process offshoring and financial services (pension reform, pursuing a comprehensive remittances strategy, policy for the issuing of benchmark sovereign bonds, implementing legal and institutional reforms required for a regional financial centre).

Donor:
DFID’s operational plan in Ethiopia focuses on various social areas of transformation (e.g. climate change, governance and security, health, education, hunger and vulnerability, humanitarian, supporting girls) and also ‘wealth creation’: ‘market development, financial access, infrastructure, trade and regional economic integration to create 110,500 jobs’ of which progress is measured through the ‘[n]umber of jobs created in the wider economy in DFID-supported sectors’ (DFID, 2014e: pp.4-5).

In comparison, USAID targets the following areas: democracy and governance, education and youth, population and health, economic growth and agriculture, and environment and natural resources. Economic growth focuses solely on agriculture, specifically on increasing access to finance, science and technology applications, policy support, and resource management (USAID, 2013).

Academic:
Ndung’u et al. (2009) suggest Kenya’s Vision 2030 offers support for transformation but with two important caveats. First, the authors argue that, ‘One key omission in Vision 2030 though is the failure to address how Kenya can cushion itself against exogenous factors such as high oil prices, deteriorating terms of trade, which currently affects all developing countries, and persistent droughts that occasionally drive inflation to fairly high levels’ (p.27). Second, referring to the 2007 global crisis, they contend that ‘there was lack of scenario anticipation especially in the macroeconomic framework underpinning Vision 2030’ (ibid.).

A paper by Mwenzwa and Misati (2014) suggests social transformation has not received sufficient attention in Kenya. In their view, this is evident in the reality that there ‘still remain high regional inequalities in terms of access to various social services and quality’ (p.252).

Private:
KEPSA (2015) puts forward the national business agenda and focuses on the following areas: governance and the business regulatory environment, security, infrastructure development, enhancing trade and investment and human capital and entrepreneurship. This includes reforms in business and property procedures, taxes, contract enforcement and dispute settlement, energy cost reduction, infrastructure development (e.g. rail, air, cross-border trade logistics) and economic partnership agreements.

MAURITIUS

Government:
The president of Mauritius addressed the country’s economic growth plans in a speech titled ‘Achieving Meaningful Change’ (Government of Mauritius, 2015). In this address, he explained that the government of Mauritius seeks to transform the country into a high-income economy with modern infrastructure, global connectivity, high skills and technology. Specifically, he indicated that, ‘Government will consolidate

traditional sectors – sugar cane industry, tourism and manufacturing – and existing service sectors, namely the financial services industry and promote the expansion of business in Africa.'

An important objective of the government of Mauritius is for small- and medium-sized companies to become the backbone of the economy. It hopes to achieve this by starting a new SME bank.

In addition, Mauritius wants to harness technology, communication and innovation in order to become the 'virtual office' of Africa. According to the president, 'New policies and strategies will be introduced to transform the ICT/business process offshoring landscape into high value service sourcing by moving from the traditional BPO/call centre services to high-end value added services such as Knowledge Outsourcing, Knowledge Process Outsourcing and Legal Process Outsourcing. In this context, a 4-Tier Data Centre and a Disaster Recovery Centre will be constructed for the purpose of Business continuity.'

In the agriculture sector, Mauritius will diversify from sugar cane into ethanol production and sucro-chemicals. In order to reduce overall food imports, emphasis will be placed on large-scale vegetable production and other products on a pooled or clustered basis.

In the manufacturing sector, the government will enact an Africa Export Strategy and will review fiscal incentives to boost export opportunities in Africa. The government has indicated that, 'A new investment promotion model driven by institutional alignment will be formulated based on best investment promotion practices and value-chain analysis to attract investment in high-value added manufacturing activities.'

<u>Academic:</u>
According to Mauritius Africa Club (2013), a key weakness of the Mauritian economy is the lack of human capital. The report asserts that, 'There is need to train, coach, groom and motivate middle and top management cadres to work in Africa. There is also need to reach out to Mauritian diaspora in Africa, which is estimated at about 3,000 excluding South Africa'. It adds that in order to boost exports of professional services, 'bilateral Agreements should be negotiated and signed with selected countries for exports of selected services.'

MYANMAR (BURMA)

<u>Government:</u>
Since 1988, the government of Myanmar has put in place policies designed to achieve a market-led liberalised economy. A series of reforms to promote economic and political liberalisation of the Myanmar economy were introduced following the election of President Thein Sein in March 2011, with the primary aim of accelerating structural changes in the Myanmar economy. A memorandum signed with the IMF signals reforms undertaken in the foreign exchange regime, financial sector, central bank and monetary and fiscal policy frameworks in order to improve economic performance (IMF, 2012).

The Myanmar Economic Reform Strategy (Government of Myanmar, 2012) outlines the constraints and priority reform areas towards inclusive growth. It notes that structural transformation of the economy has been relatively slow, with both agriculture and services accounting for 38% of GDP, compared with 24.5% GDP in industry. The services sector has grown most rapidly, at 5.4% per annum, against 4.8% growth in industry and 4.0% in agriculture. Long-term economic growth has been relatively slow when compared with other low-income economies owing to a weak business climate, limited integration into global markets and the dominance of state-owned enterprises in key sectors of the economy. In the government's view, 'At the macroeconomic level the challenge will be to manage the potentially adverse effects of the resource boom on the competitiveness of the non-resource sector. At the microeconomic level the challenge will be to advance reforms to reduce transaction costs of doing business and creating a level playing field between firms, or a competitive neutral policy environment. This will need to be done through addressing the complex business licensing system, trade liberalization, measures to improve trade facilitation, promoting competition in domestic markets, and SME access to business development services and technology, credit, and skilled labor, and strengthening the institutional framework for SME policy making.'

The Framework for Economic and Social Reforms (Government of Myanmar, 2013) sets policy priorities to achieve the long-term goals of the National Comprehensive Development Plan for 2012-2015. Myanmar seeks to become a 'modern developed nation that meets the aspirations of its people for a better life; and to achieve greater integration with the international community by 2020'. The goals set out include the following:

- Full implementation of economic integration with ASEAN;
- Achievement of the MDGs and other human development objectives by 2015;
- Graduating from least-developed country status and moving to a knowledge-based economy.

The specific targets set out under the fifth five-year plan are as follows:

- Achieving an annual GDP growth rate of 7.7%:
- The industrial share of GDP growing from 26% to 32%, together with an increase in the services sector, reducing the currently high share of agriculture;
- Per capita GDP growth increasing by 30-40% from the base year of 2010.

Macroeconomic policies will focus on exchange rate reforms, trade liberalisation and reducing non-tariff barriers, building the competency and capacity of the Central Bank of Myanmar and its policy-making and expanding the scope of taxation, state enterprise reform and private sector development. The sectoral policy priorities for inclusive growth include, in the agriculture sector, opening the agricultural market to the private sector, improving smallholder farmer access to credit and building supportive infrastructure; and in the manufacturing and industry sector, boosting public and private investment for employment opportunities and technological upgrading, policies for SME development (e.g. reducing administrative controls and improving access to credit) and linking skills to employment. Other areas of focus include energy and mining; infrastructure development; telecommunications and information technology reform; tourism; education; and employment, population and immigration.

<u>Donor:</u>
DFID (2014f) outlines the need to build a 'resilient and inclusive economy' through improving governance, peace and stability, improving human capability and 'supporting transformational reforms that lead to greater political and economic inclusion while helping build the bedrock of better public services'. The Operational Plan 2011-2016 outlines five key areas for transformation:

- Peace-building and conflict resolution;
- Improving state capability, democratic governance and accountability;
- Economic transformation and job creation;
- Supporting the development of a dynamic and resilient rural population and economy;
- Developing human capital.

On investments for inclusive, transformative economic growth policy, the plan outlines the 'reform of the financial sector and business climate, building markets, infrastructure, trade, reforming state enterprises and increasing opportunities for private investment – with the aim of generating much needed new jobs and increased private investment (including from abroad) in Burma'.

<u>Academic:</u>
Abe (2014) explains that recent reforms in Myanmar have had a positive impact on the manufacturing sector, 'which must play a key role in the industrial transformation, including increased investment flows domestically and internationally and the development of fundamental infrastructure for the sector'. The report recommends that for further trade and investment promotion in the manufacturing sector, the development of industrial zones and SEZs is required. Policy recommendations include the following:

- Establish an SME development agency to develop and enforce a fair and transparent legal and regulatory regime for manufacturer;
- Establish an SME development fund to improve access to financing;

- Establish ‘single-window’ SME service centres in all regions;
- Create a nationwide strategic plan for the development of special economic and industrial zones;
- Map and disseminate information on training courses for business and management, technology and engineering;
- Improve data collection in the manufacturing industry through surveys;
- Establish regular consultation mechanisms with manufacturers at national and subnational levels.

Lim and Yamada (2012) argue that, for a transition process to occur successfully, ‘Myanmar must have macroeconomic stabilization, price and market liberalization and privatization of state enterprises […] Following successful macroeconomic management, policy makers must be able to mobilize domestic resources and to attract foreign direct investment not only required to build industries but also to transfer skill and technology to Myanmar […] It is also equally important to design industrialization strategy that would not exacerbate development disparity among states and regions, and relative inequality among different income groups’. The paper also points out the need to increase agricultural productivity and introduce financial reforms.

The McKinsey Global Institute (2013b) also emphasises the importance of maintaining macroeconomic stability and opening up to foreign trade and investment, with foreign capital and trade likely to be key drivers of growth in the country. The report argues that, for economic transformation to occur successfully in Myanmar, the government will also need to invest heavily in infrastructure, resolve ethnic and communal violence, ease constraints on doing business, enhance and expand education and vocational training, strengthen the financial system and maintain momentum in political and economic reform. It contends that the reality that Myanmar is in the early stages of economic transformation creates an opportunity to leapfrog certain intermediate stages of economic development by, for example, embracing digital technology, rather than a bricks-and-mortar approach, to develop sectors such as banking, retail, education and health care. More generally, it emphasises the importance of developing a diversified set of sectors in Myanmar, with a specific focus on agriculture, manufacturing, energy and mining and infrastructure as key drivers of future growth. The report argues that such efforts will need to be backed by political stability and the development of governance structures and capabilities that ensure programmes aimed at economic transformation are implemented effectively.

NEPAL

Government:
The Nepal government’s latest three-year plan targets economic growth of 7%; and Nepal aims to become a middle-income country by 2022. The major objective of the plan is to ‘bring about a direct positive change in the living standards of the general public by reducing the economic and human poverty prevalent in the nation’ (NPC, 2013).It targets a reduction in the proportion of the population living below the poverty line to 18%. The Strategy seeks to accomplish the following:

- Achieve inclusive, broad-based and sustainable economic growth by enhancing the contributions of the private, government and cooperative sectors to the development process;
- Develop physical infrastructure;
- Enhance access to social services and improve the use and quality of those services;
- Enhance good governance in the public and other sectors;
- Empower targeted groups and sectors both socially and economically;
- Implement development programmes which support climate change adaptation.

Pursuant to achieving its objective, the Approach Paper to the Thirteenth Plan has identified the following priority areas (NPC, 2013):

1. Developing hydropower and other energies;
2. Increasing the productivity, diversification and commercialisation of the agriculture sector;
3. Developing the basic education, health, drinking water and sanitation sectors;
4. Promoting good governance;

5. Developing roads and other physical infrastructure;
6. Developing the tourism, industrial and trade sectors;
7. Protecting natural resources and the environment.

The sectoral priorities include improving the productivity of agriculture through various methods; decreasing dependence on the agriculture sector; and investing in infrastructure for industrial development to attract private sector investment. It also highlights the importance of partnering with the Nepal Business Forum.

Donor:
The DFID Operational Plan 2011-2016 aims to support Nepal in the single goal of reducing poverty. Multi-year programmes include justice and security; strengthening government capacity; social protection; job creation and private sector-led growth; access to financial services; and rural infrastructure. The plan also sets out the need to accelerate economic growth, with a focus on marginalised groups, through action in the following three broad areas (taken from the plan) (DFID, 2014g):

- Harnessing opportunities for transformational change:
  - Unblocking barriers to growth in key areas like hydro-power, infrastructure, agriculture and the stability of the banking sector;
  - Strengthening public sector governance through improvements in financial management and statistical capacity, as well as improved management in economic policy, transportation planning, climate change, forestry and local governance.
- Delivering immediate benefits for poor people:
  - Providing jobs and other economic opportunities for poor people by focusing on strengthening access to financial services and products, market development and job-based skills training;
  - Strengthening quality service delivery by strengthening local governance, delivering improved health outcomes and improving security and access to justice, including combating violence against women and girls.
- Safeguarding Nepal's future from future shocks and stresses – by helping strengthen the policy and implementation of climate change adaptation approaches at the local level and supporting disaster risk reduction and strengthening local disaster management capacity.

Academic:
Sijapati (2014) recommends that Nepal diversify its economy beyond agriculture towards trade, industry and tourism. Within the agriculture sector, productivity can be improved through commercialisation, value chain development, agro-processing and improved access to finance. In order to enhance the skill level of the Nepalese workforce, secondary and tertiary level education must be improved.

The World Bank recommends strengthening the financial sector, improving the investment climate and streamlining public finance management in order to allow public and private investment to flourish. In turn, ADB (2010) recommends a development strategy that induces growth in both rural and urban communities.

NIGERIA

Government:
The transformation of Nigeria is formulated in the Vision 2020 document, which is subsequently translated into the 'Nigeria Vision 2020: Economic Transformation Blueprint' (Government of Nigeria, 2009). Economic transformation is approached from various notions: well-being and productivity of people, key resources for economic growth and sustainable social and economic development. The first approach includes policies to reduce poverty and hunger and to enhance health care access, sanitation and housing, but also the provision of credit. In terms of the latter, 'A major policy thrust will be to encourage cash flow consideration over collateral in SME lending, so that a larger percentage of business-owners, entrepreneurs and new entrants can benefit from the Micro-credit Fund' (p.81).

Moves to mobilise the key resources necessary for economic growth focus on policies designed to stimulate primary production, which includes minerals and agriculture (e.g. generation of quality and reliable geo-science data to support detailed exploration of mineral resources, facilitation of access to capital for exploration and development of the minerals, rehabilitation and completion of existing irrigation projects, encouraging commercial agriculture through PPPs, utilisation of appropriate technology and mechanisation); increasing production of processed and manufacturing goods (e.g. cluster development – zones, parks – emphasising, in particular, the chemical, metal, food and textile sectors); stimulating foreign and domestic trade (e.g. Export Development Strategy, regional integration, export support); and strengthening linkages (e.g. financial, transportation, communications sector). In terms of primary production, the emphasis 'is based on its unique potential to catalyse increased productivity across both upstream and downstream segments of the mining industry value chain. Reviving the primary steel industry is also based on the understanding that it is a critical platform for Nigeria's industrialisation, and the nation possesses the required natural resources' (Government of Nigeria, 2009: 89).

Donor:
DFID (2014h) focuses on both social (e.g. governance, health, education, water and sanitation and poverty and vulnerability) and economic transformation (e.g. wealth creation). Economic transformation in Nigeria requires 'reducing the constraints on businesses (such as poor power, transport and access to finance), building investor confidence (e.g. through better and less costly business regulation) and making markets work for poor men and women (e.g. by providing more financial services for poor people)' p.6). Progress in terms of wealth creation is measured through the '[n]umber of poor people whose income[s] increase by between 15% and 50% due to DFID projects' and the '[n]umber of people with access to formal financial services' (p. 7).

The key focus for USAID (2010) is governance: 'There will be no sustainable progress in reducing catastrophic maternal and child mortality, fighting poverty and hunger, and creating jobs or a better-educated population without improved governance' (p.3). Aside from governance, USAID also emphasises other important areas requiring attention in Nigeria, including the youth population, conflict, anticorruption, gender and local institutional capacity. In terms of economic development, USAID focuses on the agriculture sector, and indicates that, in order to 'guarantee markets for agricultural products and assure linkages with transporters, USAID will make agro-processors central to the value chain and sector development' (p.9).

Academic:
Oyewale and Ogunleye (2013) suggest that, in order for 'Nigeria to consolidate these economic gains and move higher in the frontlines of growth and development, it must deepen reforms that improve human capital, promote high-quality public infrastructure, and encourage competition' (p.463). Other suggestions include 'bridging disparity in incomes; divergence between annual capital budgets and medium term plans; adequate diversification of the economy' (ibid.).

In looking at the prospects for future economic transformation in Nigeria, the McKinsey Global Institute (2014) makes a series of predictions regarding shifts in the structure of the Nigerian economy between now and 2030. The report predicts that, by 2030, the contributions of the oil and gas and agriculture sectors will have shrunk, while there will be increased contributions from infrastructure and manufacturing, and trade will become the largest contributor to GDP.

The McKinsey report looks at ways to realise Nigeria's growth potential and generate more inclusive growth. It notes that the Nigerian government has already generated an economic transformation programme as part of the implementation plan for Nigeria's Vision 20: 2020, but argues there is a lack of depth in the delivery plans for initiatives and interventions included in the programme. Looking ahead, the report advocates a central role for government in supporting key industries and improving health care, education, infrastructure (particularly energy and transportation infrastructure, but also telecommunications and water and sewerage infrastructure) and access to capital. This will require improvements to the delivery of government programmes and projects, focusing on six areas: empowering capable leaders, prioritising programmes, intensifying pressure to perform, using delivery units, building critical capabilities and leveraging external stakeholders. It will also require efforts to better link urbanisation to rising productivity and incomes, accelerate agricultural productivity, generate a greater number of non-farm jobs, enable small business growth, boost formal employment and skills, ensure effective action and collaboration by government, non-governmental organisations and the private sector and capitalise on the country's demographic dividend (it is estimated that between now and 2030 Nigeria's working age population will grow by 50%). The report also notes that improvements to labour productivity will be important – while past improvements in this area have been a key driver of growth in the Nigerian economy (even more so than labour force expansion), labour productivity still lags that of other large developing countries. Finally, the report highlights the potential contribution of natural gas deposits in Nigeria to supporting economic transformation though expanding energy generation and the development of gas-based industries.

RWANDA

Government:
The Rwandan government articulates its development strategies in Rwanda Vision 2020 (Government of Rwanda, 2012a). Rwanda's agriculture sector needs to be transformed from subsistence to agro-processing, while there is a need for industry development and to boost exports. The Vision argues that the Rwandan service sector is growing, but '[t]he issue [...] is not simply one of a strategy based on agriculture, industry or services, but rather, identifying Rwanda's comparative advantage and concentrating strategies towards it. A rich supply of labour, a large multilingual population, and strategically located as the gateway between East and Central Africa makes it advantageous for intraregional infrastructure. The industries established will need to address basic needs, for which there is a readily available market, as these products can satisfy local demand and even move towards export.' The government will continue to support investment in the service sector as it has significant potential. This includes investment in infrastructure in energy and transport to lower the cost of doing business as well as human capital to provide an efficient workforce.

Donor:
DFID (2014i) states in its Operational Plan that Rwanda needs to 'create wealth and investment and invigorate the private sector, improve basic services, increase the accountability of the state to its people, and address potential causes of conflict and fragility, including regional instability'. It adds that Rwanda's already impressive progress is shifting from rebuilding after the genocide to 'economic transformation and growth, requiring a vigorous private sector attracting strong investment and generating revenues to replace high levels of aid.'

Furthermore, 'DFID sees the need for four fundamental transformations to underpin Rwanda's continued transition: i) the shift from an agricultural economy to private sector-led growth, enabling small- and medium-sized businesses to grow and create employment, including for poor men and women; ii) significantly improved basic services that deliver the Millennium Development Goals and build human capacity, skills and resilience; iii) increased accountability of the state to its citizens (including women, girls and the extreme poor) and transition to more open and inclusive politics and enhanced human rights; (iv) increasing domestic revenue generation and decreasing dependence on aid. The UK development programme in Rwanda is designed to support these transformations.'

The World Bank articulates its goals in Rwanda in its Country Partnership Strategy. Private sector-led growth will alleviate poverty through four areas (World Bank, 2014b):

1. Economic transformation towards services to achieve high growth;
2. Rural development to bring the poverty rate below 30%;
3. Productivity and youth employment as markers of strong human capital;
4. Accountable governance to improve citizen satisfaction and service delivery.

The UNDP Poverty Environment Initiative in partnership with the government of Rwanda has set the goal of achieving structural change in Rwanda through investment in export-oriented sectors, emerging sectors (in particular those related to knowledge economy) and potential new sectors. This economic transformation has five components/goals (Government of Rwanda, 2012b):

1. Increase the domestic interconnectivity of the Rwandan economy through investments in hard and soft infrastructure:
    - Increase Rwanda's electricity generation capacity to 563 MW, leveraging large-scale private investment;
    - Give preferential access to electricity, water, roads and land to priority sectors of the economy and/or large investors;
    - Increase inter-linkages between large firms and suppliers in priority sectors, leading to increased investments by large firms in upstream activities.
2. Increase the external connectivity of Rwanda's economy and boost exports:
    - Build a new airport;
    - Transform logistics systems;
    - Invest in soft and hard sector-specific infrastructure.
3. Transform the private sector by increasing investment in priority sectors.
4. Transform the economic geography of Rwanda by managing urbanisation and promote secondary cities.
5. Pursue a 'green economy' approach to economic transformation.

Academic:
According to a report by Malunda and Musana (2012), the Rwandan agricultural value chain has potential for improvement. At present, there are few linkages between FDI and local supply chains. The report recommends that the 'Rwanda Development Board, the institution mandated with increasing investment, coordinate with relevant ministries such as commerce, agriculture and finance to help strengthen these linkages by identifying potential sectors which generate this broad based growth'. Rwanda has a goal of becoming a hub from which business, financial and conference services can be outsourced.

TANZANIA

Government:
The Tanzania government introduced the Vision 2025 strategy to promote the transformation of the economy to middle-income country status by 2025 (United Republic of Tanzania, 2000). This addresses the need to 'have created a strong, diversified, resilient and competitive economy that can effectively cope with the challenges of development and can also easily and confidently adapt to the changing market and technological conditions in the regional and global economy'. However, the 'economy has remained largely untransformed' because of low agricultural productivity (largely rain-fed agriculture), low productivity levels in other sectors and an economic structure predominated by primary production, increasing its vulnerability to international commodity markets. There has been low capacity of the Government in economic management policy responses, implementation and excessive administrative regulations reducing the potential to harness market forces.' The targets set out in the Vision 2025 document are to create an economy with the following characteristics: a diversified and semi-industrialised economy, with a substantial industrial sector comparable with typical middle-income countries; macroeconomic stability; a growth rate of 8% per annum or more; an adequate level of physical infrastructure; an active and competitive player in regional and global markets. The Vision outlines an important role for education to upgrade and improve capacity, promote science and technology, promote information and communication technologies and mobilise and effectively utilise domestic natural, financial and human capital resources. In transforming the economy and improving competitiveness, the quality of livelihoods should be raised, and agricultural productivity should be increased, with diversification towards dynamic industrialisation in resource-based industries. More generally, good governance is a key instrument for creating an effective regulatory environment and promoting the role of the private sector.

Under the umbrella of the Vision 2025 strategy, Tanzania is developing five-year plans to implement the Vision. The first Five-Year Development Plan (FYDP I) 2011/2-2015/16 titled 'Unleashing Tanzania's Latent Growth Potential' identifies five priority areas: (i) infrastructure, including both hard infrastructure (such as energy, port, railways, roads, air transport and water and sanitation) as well as soft infrastructure such as information and communication technologies; (ii) agriculture, focused on pro-poor inclusive growth, including in the areas of crops, fisheries, forestry and livestock; (iii) industry, including promoting the transformation of the country's production and export structure, with a focus on manufacturing and mining; (iv) human capacity development, through education and health investment; and (v) strategic interventions in tourism, trade and financial services (President's Office Planning Commission, 2012). Nearing the end of the FYDP 2011/2-2015/16 period, progress in terms of implementation has been mixed. The Planning Commission reports that the macroeconomic environment showed improvement, in addition to power infrastructure (such as the reliability of energy), and there were improvements in road infrastructure and banking services (linked to IT banking). However, there has been less progress with respect to implementation in the areas of agriculture (growth of approximately 4.2% has fallen short of the target 6% growth rate) and human capital development and job opportunities remain limited (particularly in the field of energy development, engineering and medical) (President's Office Planning Commission, 2015). The next five-year plan is under preparation, with current discussions focused on value addition on natural resources, industrial strategy to maximise Tanzania as a transit route for the region and, more generally, targeting skills development and job creation to the youth, and developing the foundations for those priorities (including financial services, improving the business environment and infrastructure) (President's Office Planning Commission, 2015).

The Tanzania National Strategy for Growth and Poverty Reduction (MKUKUTA II) outlines key priority areas under three clusters: (i) growth for reduction of income poverty, including inclusive and accelerated growth, employment opportunities and good economic governance; (ii) improvement of quality of life and social well-being, focused on the poorest and most vulnerable groups and addressing inequities in accessing economic opportunities and social services; and (iii) good governance and accountability (Ministry of Finance and Economic Affairs, 2010). It sets out a number of goals and operational targets towards achieving these priority areas. These include pursuing sound macroeconomic management, employment-enhancing growth that is inclusive and sustainable, leveraging returns on natural resources for growth and increases in incomes, as well as education.

Donor:
DFID Tanzania's (2014j) operational plan to 2016 sets out the 'critical role that the private sector and market systems play in combating rural poverty through greater competitiveness, investment and regional integration'. The focus is on ensuring inclusive and equitable growth through three strategic objectives. The first is wealth creation through scaling up programmes to increase the incomes of the rural poor and improve rural infrastructure, promote access to finance and energy, reduce trade and transport costs to increase the competitiveness of exports, improve resilience to climate change and the business environment and prepare for the effective use of gas resources. The other two objectives focus on the need to deliver the MDGs and improve governance and accountability of the government to the electorate.

Academic:
In a report on socioeconomic transformation, the Economic and Social Research Foundation and Policy Research for Development, two local think tanks, define such transformation as 'a process of structural change characterized by quantitative changes in the sectoral composition of output and employment across agriculture, industry and services, and by the falling share of agriculture therein', and link 'these processes of change with broader socioeconomic changes in the economy and society' (Wuyts and Kilama, 2014). The report states that successful transformation relies on a virtuous circle of cumulative causation between economic growth, increasing productivity and income convergence between agriculture and non-agriculture sectors. It argues that in Tanzania the absence of rapid growth of jobs outside agriculture has limited the growth of the labour force to growth in agriculture and, in doing so, has increased the size of the informal sector. High population growth has made the challenges of absorbing labour particularly acute, requiring rapid growth of the productive sector in order to generate productive employment. This has triggered shifts in the gender ratios and age structures of rural and urban populations – with significant shifts of working-age populations to urban centres and a higher proportion of females in urban centres. The growth process to date has not delivered successful transformation. While the share of exports in GDP has increased and the GDP share of agriculture has fallen consistently, the level of agricultural employment has remained consistently high and the informal sector has expanded, with 90% self-employment in Tanzania. There is a chicken-and-egg argument on whether increasing

productivity in agriculture results in excess labour, fuelling the expansion of industry, or whether labour productivity in agriculture remains low, acting as a refuge for labour that is presented with a lack of employment opportunities. Moving forward, the report outlines key salient features in the East Asia experience of effective economic transformation going hand in hand with rising standards in education, skills development and the development of productive capacities at the enterprise level and in public employment. Jobless growth, as is present in Tanzania, constitutes a major impediment to raising standards in education (Tanzania has demonstrated falling quality of education), skills formation and capacity-building. Raising productivity in the production of domestic wage goods is also important to avoid a situation where increasing competitiveness of labour-intensive production (including for exports) results in stagnating or declining real wages.

UGANDA

Government:
The Ugandan government plans to spur economic growth by promoting science, technology, innovation and information and communication technology to enhance competitiveness – as outlined in the National Development Plan under the Theme Growth, Employment and Socioeconomic Transformation for Prosperity (Government of Uganda, 2010). The key focus is to intertwine economic growth with poverty eradication. The Plan expects that investment in human capital will also contribute to economic growth. More generally, it argues that, 'Achieving socio-economic transformation requires continuous improvement in the way we produce and deliver goods and services within the economy. This can be realized through accelerated use of applied technology, research and innovation.'

Poverty reduction through economic transformation will be targeted in the following ways:

- Creation of the necessary fiscal space for investments. This will involve curtailing growth in recurrent spending in non-productive activities – such as duplicated roles of monitoring and evaluation – with the savings used for more investments in the Plan's priority sectors.
- Prudent fiscal management. This entails formulating and implementing fiscal policies that balance maintaining macroeconomic stability and growth without necessarily sacrificing goals relating to poverty reduction or income distribution.

The government's Vision 2040 document sets out the aim to transform Uganda into a modern and prosperous country by 2040 (Government of Uganda, 2013). It is 'conceptualized around strengthening the fundamentals of the economy to harness the abundant opportunities around the country'. Identified opportunities include: oil and gas, tourism, minerals, ICT business, an abundant labour force, geographical location and trade, water resources, industrialisation, and agriculture'. The key fundamentals targeted through the Vision 2040 policy document are as follows:

- Infrastructure – energy, transport, water, oil and gas and information and communication technology;
- Science, technology, engineering and innovation;
- Land use and management;
- Urbanisation;
- Human resources;
- Peace, security and defence.

The document also emphasises the importance of good governance for delivering the strategy effectively.

Donor:
The DFID Operational Plan for 2011-2016 sets out the vision to 'support Uganda in its transition to a prosperous, stable and accountable democracy, positioned to exploit the benefits of oil for all Ugandans and able to protect the interests of the most vulnerable' (DFID, 2014k). The priorities include helping Uganda to achieve the MDGs, including improvements in the health sector and gender equality policy, reform and services; support for inclusive economic growth, addressing some of the most binding

constraints to growth (e.g. lack of power, poor transport infrastructure and expensive financial services) and making Uganda the hub of a regional market; building resilience to the impacts of climate change; strengthening governance and security; and ensuring a rapid humanitarian response.

The World Bank (2013) examines jobs creation and economic transformation in a report titled *Jobs: Key to Prosperity*. As Uganda has a young population, investments in human capital are imperative for economic growth and transformation. The report indicates that, 'The first and most critical [goal] is to create more productive jobs in farms and firms.' This can be done through technology, land security, better access to agricultural credit and an improved environment for agriculture commercialisation. In the long run, higher-productivity sectors will see labour force growth, and must be made more productive. This can be done in the informal sector by increasing access to finance, supporting skills training and improving the business environment for informal firms through appropriate government policies. In the formal sector, enterprise can be developed by improving survival and productivity. Increasing the skills level of the labour force will play a major role in economic transformation, as will 'promoting a more efficient urbanization process to support firm growth and job creation in urban areas'. The government needs to 'implement policies that allow firms to use land for higher-value activities', 'reduce congestion costs that counteract the benefits of urbanization', 'implement measures to encourage increases in the movement of products across boundaries' and 'minimize regional gaps in access to basic services, in particular education and health'.

Academic:

The Makerere Institute of Social Research recommends investment in human capital for Ugandan economic development (Kasozi, n.d.). A change in the relationship between the Ugandan government and local universities is required: 'Universities should renegotiate with the government for a new relationship, most preferably through the granting charter as Kenya and Tanzania did.' The public funding model should shift to include more sources of income, increased autonomy and increased accountability, and should assure parents of multiple sources of fees. Universities will need to become more accessible to the general public by writing reports in colloquial language and demystifying their activities. Through all of these suggestions, the Ugandan labour force will become more skilled, assisting in economic transformation and GDP growth.