Building Productive Capacities in LDCs, LLDCs, SIDS and MICs
Joint Session of ECOSOC and GA's 2nd Committee
20 October 2021
Presentation
Taffere Tesfachew

I wish to thank Ambassador Frazier and Ambassador Kelapili for inviting me to participate in this special event – addressing the issue of productive capacities – in the context of economies that are highly vulnerable to external shocks such as LDCs, LLDCs, SIDS and countries locked in the middle-income trap.

But, first, please allow me - Ambassador - to take this opportunity to congratulate Madame Rebecca Grynspan on her appointment as the Secretary-General of UNCTAD – an organization that has done more than any other international organization to advance our understanding of the concept of productive capacities, what determines their development, how we measure progress, and why they matter for resilience building, particularly in vulnerable economies.

Given the limited time, my brief intervention today will focus on one of the four important questions asked in the concept note prepared for this session: Why are productive capacities important for the development process in vulnerable economies? I will also refer briefly to another question raised in the concept note - what are the key interventions needed to enhance productive capacities?

So why do productive capacities matter for structurally weak economies? I wish to highlight three points:

First, we know that as countries develop, they expand their capacities for production and trade – but, not all types of production and trade have the same impact on growth, productivity improvements, income generation and structural transformation. Production and exports of high-value and more sophisticated goods generate more income and have positive implications for economic development than – for example - reliance on primary commodities or low-value manufacturing goods.

What a country produces and exports, therefore, matters significantly as some goods are associated with high-productivity and high-value production and offer more opportunities for market expansion, technological learning, innovation, and job creation, than other goods. That is why developing productive capacities is critical as they enable countries to produce goods and services that will allow them to move-up the value chain and catch-up with more developed economies.

My second point is that – while we have made progress in our understanding of the importance of productive capacities – there is still a need for clarity in how the term is understood by policymakers – since it has implications for policy choices and policy sequencing. There is a tendency to perceive every investment in productive sectors as actions contributing towards productive capacity-building. While to some extent true, it is erroneous to associate every investment in economic activities with the strengthening of the sum total of a country's productive capacities.

As noted by UNCTAD, productive capacities constitute "the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop". The operative word here is "together". Thus, ideally, the development of productive capacities requires investment in diverse areas, particularly in productive resources, human and financial capital, technological capabilities, basic infrastructure (especially, energy generation and distribution and transport network) and the development of private sector and institutions. These are the building blocks of productive capacities. Thus, in formulating policies and strategies towards productive capacity-building, it is essential that governments recognize the multidimensional and interconnected features of productive capacity building.

My third point concerns the policy interventions needed to develop productive capacities. These have, sadly, received less attention in recent discussions – along with the question of how to measure countries' progress in building productive capacities. Fortunately, UNCTAD has solved the measurement issue by introducing the ***Productive Capacities Index (PCI).*** This practical policy tool determines the level of development of productive capacities and pinpoints the gaps in capacity building that require policy attention. The Index is based on eight key building blocks of productive capacities and up-to 46 indicators that are compiled by various UN agencies and the World Bank and the IMF. This innovative policy instrument will enable the LDCs, LLDCs, SIDS and Middle-income economies to identify the specific areas where policy intervention is required and assist them in establishing benchmarks against countries with whom they aspire to catch-up.

In contrast to the measurement issue, more work is required on the policies and strategies that countries need to enhance their productive capacities. Identifying a set of policies and a strategy for developing productive capacity that applies to all vulnerable economies is impractical due to their heterogeneity. At sectoral and micro level, countries will have to identify the specific policies and strategies that match their national development goals, sectoral priorities, comparative advantages and economic specialization.

That said, however, there are generic, sectoral and cross-cutting policies (for example, investment in human capital development, infrastructure, science & technology, private sector development, institutions, energy, etc.,) that are essential for developing productive capacities regardless of country specificity. Pursuing these policies is an essential requirement for laying the foundations necessary for building productive capacities.

Generally, there are numerous and diverse policy instruments that vulnerable economies can utilize to develop their productive capacities. I do not have the time to go through them, but in concluding my remarks, I wish to highlight three basic guidelines that governments should consider in designing policies to expand productive capacities.

First, the need for an integrated approach to policy formulation and implementation to ensure a balanced development of productive capacities. This will avoid lopsided growth and mismatch in resource allocation. Indeed, it was partly based on this logic that in 2019 the UN CDP recommended that the LDCs adopt "expanding productive capacities for Sustainable Development" as a framework for organizing the LDCs Programme of Action for the decade 2021-2030. The CDP believes that this approach will give focus to the Programme of Action – instead of the "shopping list" approach to priority setting adopted in previous programmes.

Second, the need for coherence and complementarity between policies for the development of productive capacities and the international support provided by development partners. In other words, to have a maximum impact on national development objectives, international support measures provided to LDCs and "Aid for Trade" support offered to LLDCs, SIDS, and some Middle-income countries, should complement rather than undermine the development of productive capacities.

Finally, the need to maximize the potential role of regional trade and Regional Value Chains (RVCs) as sources of development of national productive capacities. The disruptions in Global Value Chains (GVCs) due to Covid-19-related lockdowns and the rapid growth in automation have raised concerns about the future of GVCs as the dominant channels of international trade. Intra-regional trade has the advantage of not only increasing trade but also boosting productive capacities as countries collaborate in Regional Value Chains (RVC) to produce products for both regional markets and to export internationally.

I feel I should stop now. I hope the points raised will contribute to our discussion.

Thank you for your attention.