Expanding productive capacity: Lessons learned from graduating LDCs

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CDP

Committee for Development Policy

CDP work on LDCs

INDEPENDENT EXPERTS

THINKING AHEAD

Innovative and practical policy advice for a better world

CDP website: http://cdp.un.org

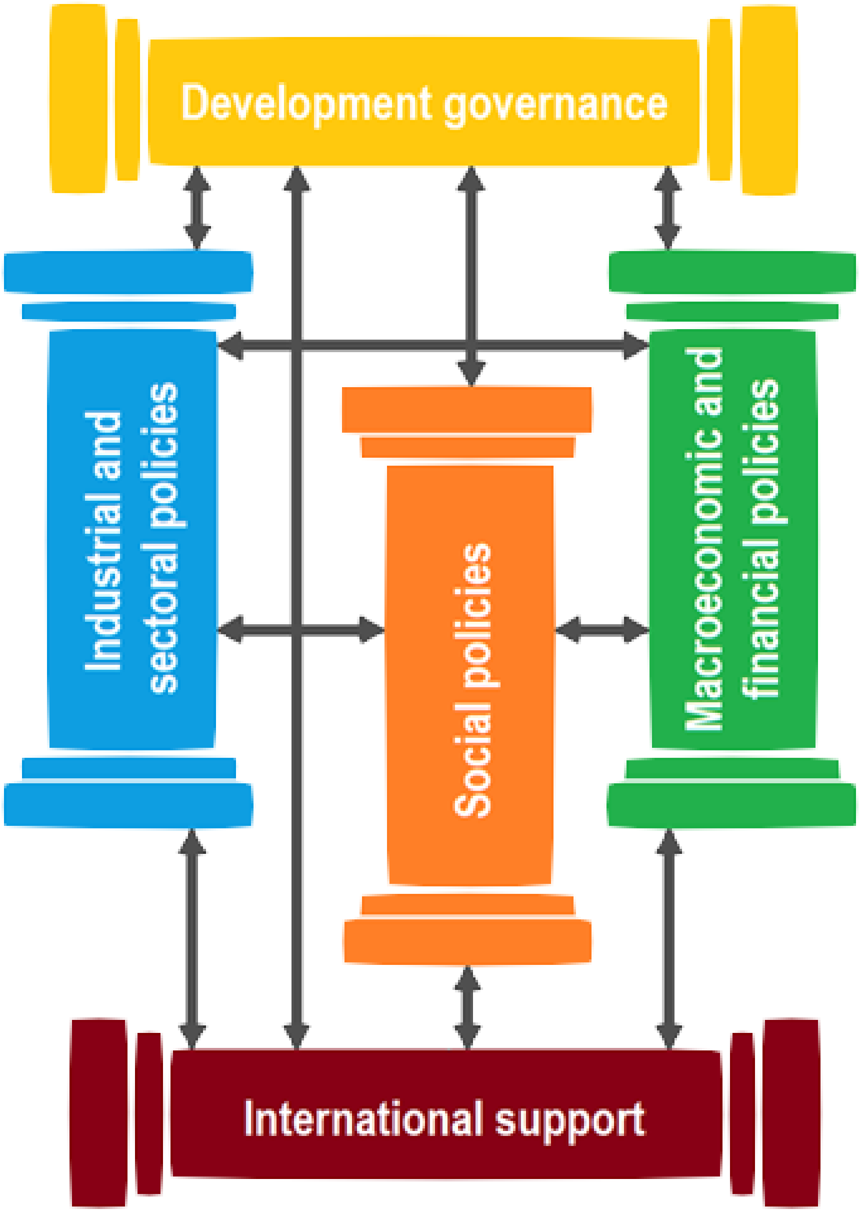
- Reviews triennially the list of LDCs
  - Recommends countries for inclusion and graduation
- Developed and refined the criteria and procedures for identifying LDCs
- Monitors graduating and graduated LDCs
- Analytical papers on LDCs

Background

- CDP work programme 2015-2017 on productive capacity
  - Phase 1: Development of framework and policy strategies
  - Phase 2: Identify actual policies and strategies chosen by graduating LDCs
- Main outputs

https://www.un.org/development/desa/dpad/2018/productive-capacity/

CDP Framework on expanding productive capacity for achieving the sustainable development goals



Graduation pathways

- Graduation requires generating income, building human assets and/or reducing economic and environmental vulnerability
- Graduation related, but not identical to building productive capacity for sustainable development
- Pathway I: Rapid economic growth through resource extraction. Small progress in HAI and EVI
- Pathway II: Economic specialization and investments in human assets
- Pathway III: Investment in human assets and (often slow) structural transformation
- Pathways are no choice variable

Main lessons - Pathway I

- **Angola, Equatorial Guinea**
- Oil drives rapid economic growth
- Human assets remain very low, vulnerability high
- Weak development governance is key constraint
  - Insufficient reinvestment of resource rent
  - Public expenditures misaligned with priorities
  - Budget rules and wealth funds work only if backed by strong governance
- Vicious cycles: Resource dependence feeds weak governance and reduces urgency for diversification away from resources
  - Channeling natural resource revenues into productive capacity is possible with good development governance (see pathway II)
- Scope for industrial and sectoral policy limited (Dutch disease,…)

Main lessons - Pathway II

- Landlocked: **Botswana**, **Bhutan**
- SIDS: **Cabo Verde, Maldives, Samoa**, **Vanuatu, Solomon Islands**
- Income channeled into building human assets
- Vulnerability remains high; exogenous
- Absence or restoration of conflict critical
- Good development governance main factor
  - State legitimacy, national vision
- Economic specialization: natural resources or services (tourism)
  - Economic growth and environmental sustainability are linked
  - Linkages to rest of economy small, as are employment effects
  - Often persistent inequalities
- Policies for harnessing external sources of finance
  - FDI, ODA, bilateral agreements, remittances

Main lessons - Pathway III

- Larger economies: **Bangladesh**, **Ethiopia, Rwanda**
- Slow structural transformation
- Development governance built after war and conflict
  - Active State, ensuring coordination of economic activities
  - National ownership of the process of development
  - Creates room for ‘unorthodox’ policies
- Increase agricultural productivity first
- Innovative social services delivery
- Industrial policies (hard and soft) important, but ‘picking winners’ doesn’t always work
- Trade preferences can work, but require basic capacities, ‘right’ market conditions and domestic policies

Thank You

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http:// www.un.org/en/development/desa/dpad