

***Building Productive Capacities for Sustainable Development in LDCs***  
***“Preparatory meeting on the road to UNCTAD 15 and LDC5”***

**Trade and Development Board**

**UNCTAD**

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**11 May 2021**

Excellencies and  
Ladies and Gentle men

Let me first thank you, Mr President, for the kind invitation and for giving me the opportunity to participate in this preparatory meeting for UNCTAD 15 and the 5<sup>th</sup> LDC Conference.

This year marks the 50<sup>th</sup> anniversary of the establishment of the LDC Category in 1971 – which provides an opportunity to re-assess the progress made by the LDCs in last 50 years.

Fifty years is a long time – even for a development process.

In the 20<sup>th</sup> century, we have seen countries moving from low-income to middle- and high-income economies and catching-up with developed countries, in less than 50 years. Sadly, however, since 1971, only 6 countries have graduated from the LDC category – which means – more or less – one country per decade. Meanwhile, the number of LDCs have increased from the original 25 in 1971 to 46 countries at the latest count.

These realities provide the backdrop for re-examining – during the forthcoming LDC Conference - the international support measures provided to LDC, their effectiveness, and why – to date - only limited number of countries have graduated (although we know that more countries are scheduled for graduation within this decade). More importantly, the Conference offers an opportunity to re-examine why the LDCs continue to be the most ‘vulnerable’ economies in the world.

For my brief intervention, I wish to focus on the issue ‘vulnerability’ and the role of productive capacities in addressing both the ‘economic and environmental vulnerabilities’ of the LDCs.

The Covid-19 pandemic has elevated the issue of economic ‘vulnerability’ into the forefront of the development agenda.

Interestingly, the Covid-19 shock has exposed the ‘vulnerabilities’ of all countries – rich and poor; large and small; and developed and developing.

In this respect, the pandemic was not discriminatory – as witnessed, for example, by the challenges facing the health sector in some advanced economies.

That said, however, for the LDCs, the impact of the Covid-19 shock has been to intensify even further their pre-existing economic and social vulnerabilities and expose their limited capacity to effectively respond to external shocks.

Unlike other countries – LDCs’ vulnerabilities arise from their structural impediments and their underdeveloped production system. In this respect, LDCs’ vulnerability is structural in nature and in-built into what distinguishes them as least developed countries.

Looking ahead, therefore, a strategy for LDCs’ recovery from the Covid-19 crisis should aim to go beyond getting back to pre-Covid-19 growth and development trajectory. It should aspire to build their resilience to external shocks and ‘prepare them better’ for the next pandemic or future global crisis.

As UNCTAD has consistently highlighted - over many years - the root cause of LDCs vulnerability is the limited development of their productive capacities. By productive capacities, we mean the wide range of technological and production capabilities, financial resources, infrastructure, institutions, efficient market systems, and the skills and the policy-implementing capacities that a country needs to produce a wide range of goods and services that it consumes domestically and exports competitively.

Ultimately, these are the capabilities that distinguish developed from developing countries and separate those that are ‘vulnerable’ from countries that have developed the resilience to withstand external shocks and organize policy response for recovery.

In short, it is only when countries expand their productive capacities that they are able to:

- diversify their economies;
- add value and produce a wide range of products and services;
- create, well-paying and decent jobs;

- reduce their dependence on production and exports of commodities;
- promote technological learning;
- improve labour productivity,
- tackle environment-related challenges;
- kick-start the process of structural transformation; and
- reduce 'vulnerability' to external shocks.

In other words, the most effective route to building 'resilience' is to develop productive capacities.

Fortunately, this is recognized by LDCs as demonstrated by the inclusion of productive capacity as one of the priority areas in the IPoA. However, LDCs need to do more than simply listing 'productive capacity' as one of many inter-related priority areas.

In this respect, I hope the LDCs and their Development Partners will give serious consideration to the recommendation by the CDP that they should adopt "expanding productive capacities for sustainable development" as a framework for organizing the programme of action for LDCs for the decade 2021-2030. The CDP believes that the concept of expanding productive capacity will enable LDCs to design an integrated, coherent and synergetic programme of Action - instead of the usual 'shopping list' approach to priority setting without clarity how policy actions are related to each other.

In my opinion, the timing is right for considering CDP's recommendation. For a long time - there were two important elements missing in our understanding of productive capacities:

The first was lack of clarity on the policies and strategies that countries need to implement - in order to develop their productive capacities; and

the second was the issue of measurement. In other words - how do countries know whether their productive capacities are expanding or not?

Thanks to the extensive work done by UNCTAD over the years - and more recently by the CDP - we now have better understanding of the macro, sectoral and micro-level policies and incentive measures that countries need to introduce to build their productive capacities. Obviously, the types of policies required will vary among countries - given their heterogeneity - which means - seeking 'one-size-fits-all policy-

approach' will be a mistake. However, as shown in UNCTAD's LDC Report 2020, designing country-specific policies is not only possible but also necessary to ensure that the development of productive capacities is aligned with countries' specific comparative advantages and their economic and social conditions.

Similarly, on the measurement of productive capacities, UNCTAD has recently launched the *Productive Capacity Index (PCI)*, which is a policy tool to help governments gauge the level of development of their productive capacities, assess the gaps and identify the specific policies required to develop the various components of productive capacities.

In summing up, for the LDCs, the development of productive capacities is not a choice but a necessity and a precondition for building resilience, diversifying their economies, coping with external shocks, moving-up the value-chain and achieving - what UNCTAD calls "graduation with momentum".

Let me stop here, but I wish to thank you again - Ambassador - for the opportunity to be part of this dialogue.

Thank you for your attention.