

# What are Productive Capacities and Why Do They Matter?

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# The Genesis of the Concept of Productive Capacities at UNCTAD

- ▶ Search for answers to fundamental questions about LDCs & development :
  - ❑ What are the root causes of underdevelopment in Least Developed Countries?
  - ❑ Does it matter what countries produce and export?
  - ❑ Why is it that some countries can produce and export a wide range of products while other countries rely on a few products only?
  - ❑ Why is it that some countries can produce and export higher-value and more sophisticated goods while other countries cannot?

# What are Productive Capacities? (2)

## UNCTAD's definition of Productive Capacities:

- **Productive resources:** (factors of production, including natural resources, human resources, physical capital and financial capital);
- **Entrepreneurial and technological capabilities:** (the skills base, local technological and innovation capabilities, the level of sophistication of supporting institutions at national and sectoral levels, etc ); and
- **Production linkages:** (flows of goods and services in the form of backward and forward linkages, market-based information flows, inter-firm interactions, the development of local value chains, etc).



# What are Productive Capacities? (3)

In general, productive capacities constitute the '*natural and human capital, entrepreneurial skills, technological and innovative capabilities, dynamic private sector, infrastructure, institutions, and a developed market system*', which together determine the capacity of a country to produce goods and services for domestic consumption or to export competitively.

The operative word here is '**Together**' - why?

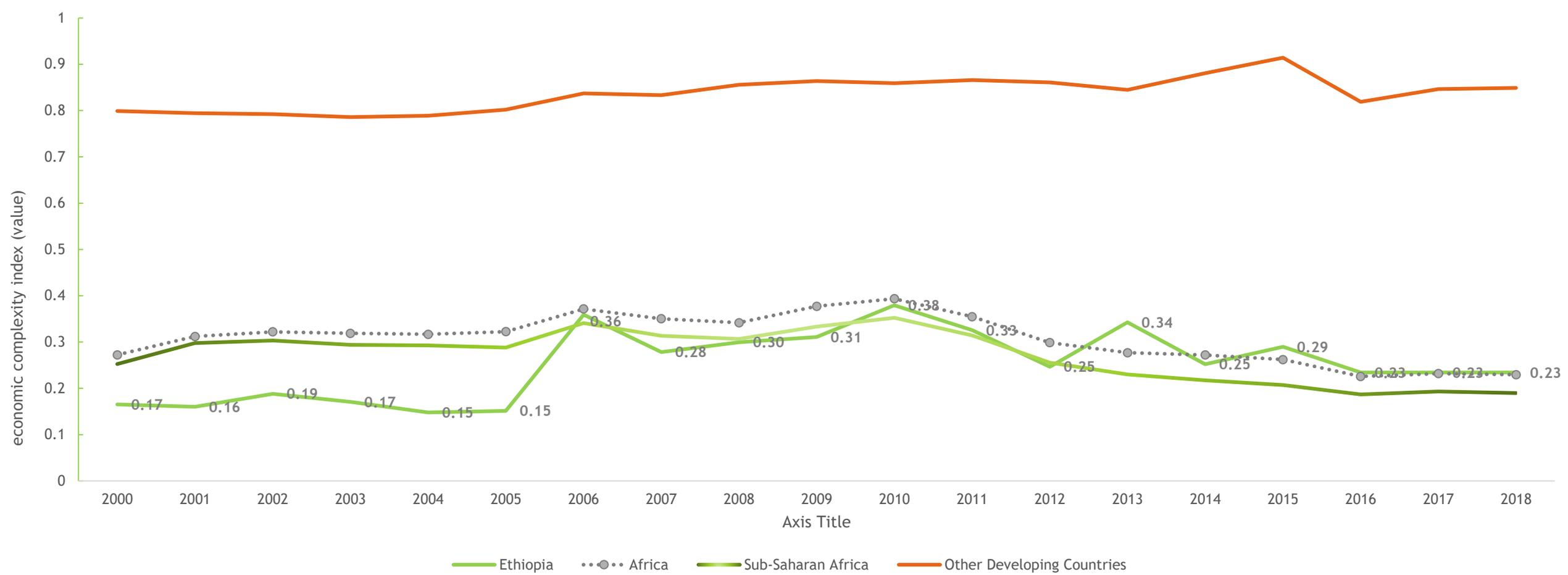
Because, it is only when all the key components of productive capacities are developed that a country is able to **produce** or **manufacture** a diverse range of products and also determine **which goods to produce**, and **at what quality and level of productivity**.

# What are Productive Capacities? (4)

Key messages on productive capacities:

- ❑ Ideally, developing productive capacities requires investment in diverse areas.
- ❑ However in reality - not easy - resource constraint countries.
- ❑ Therefore, 'prioritization' and 'strategic approach' is critical, depending on the country's resource endowment and comparative advantages.
- ❑ Policy tools introduced by UNCTAD could assist:
  - ❖ **Productive capacities Index (PCI)**
  - ❖ **Productive Capacities Gap Assessment (PCGA)**

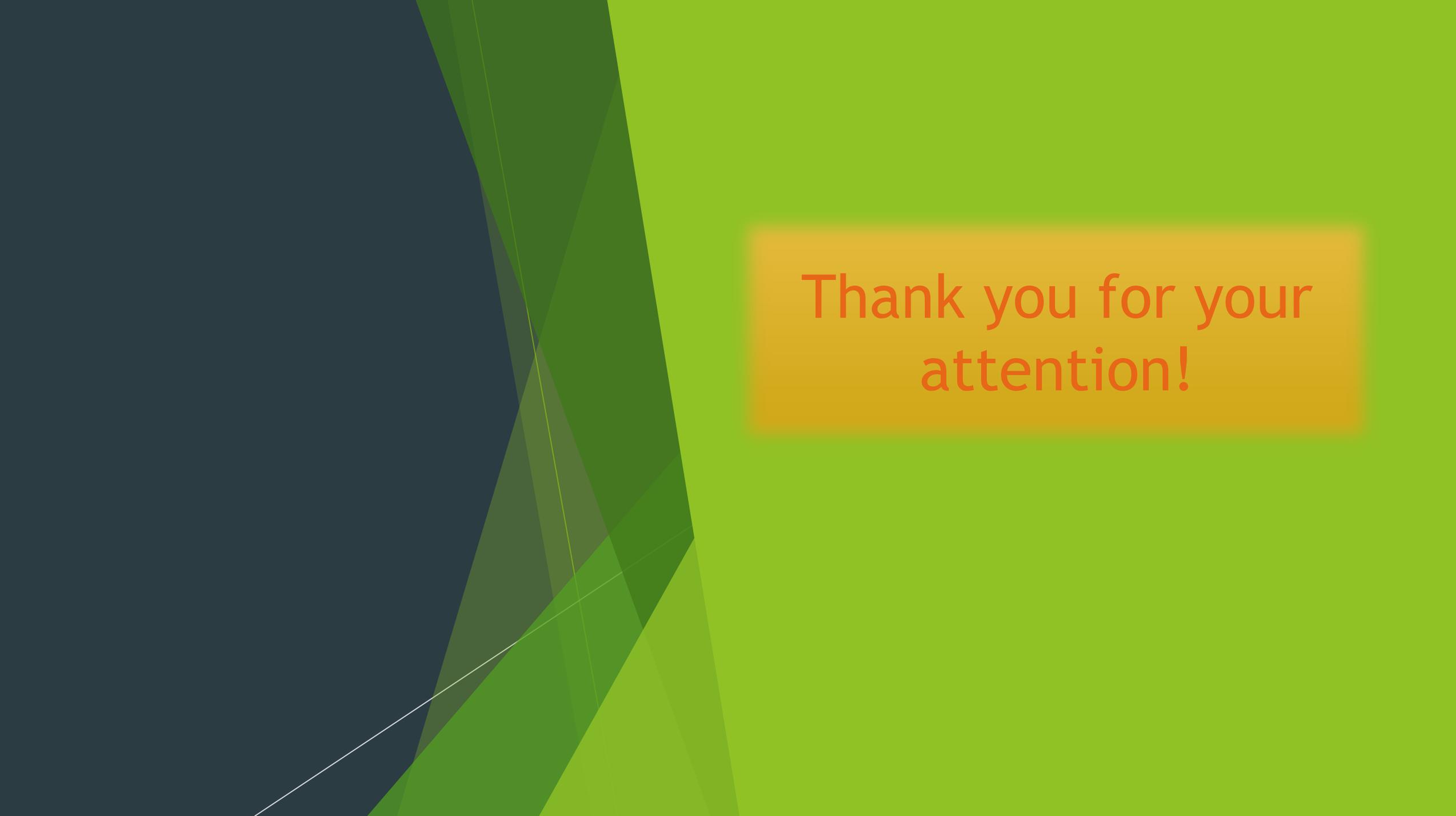
**Overall key message:** The more developed the productive capacities of a country, the greater the 'complexity of the economy' and the probability for **manufacturing** diverse and more sophisticated products. It is more likely also for fostering **structural transformation**.



# Economic Complexity Index

# Building Productive Capacities is key to Manufacturing.

- ▶ **Manufacturing:** The transformation of **raw materials** and **other inputs** into **finished products** using labour (skilled and unskilled) and the application of technology & capital.
- ▶ **No country** has achieved successful industrialization without developing **manufacturing capability** - with exception of small 'City States'
- ▶ What makes **manufacturing critical**?
  - It enables countries to **add-value** and produce **more sophisticated** and finished products.
  - It generates **demand for inputs** from other sectors - **Backward Linkages**.
  - It creates opportunities for **well-paying** and **productive jobs**.
  - It reduces dependency on **commodity** and **low-value production**.
  - It enabled **technological learning, innovation** and Improvement in **productivity**.
  - It increased **standard of living** and reduces poverty, etc.

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Thank you for your  
attention!