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Expanding productive capacities to enhance developing countries' financial sustainability

Parallel event

Summary prepared by the UNCTAD secretariat

1. In his opening remarks, the Deputy Secretary-General of UNCTAD underlined that expanding productive capacities was essential for long-term financial sustainability in developing countries. Strengthening innovation, value addition and production helped diversify exports, reduce aid dependency and create wider fiscal space. The Deputy Secretary-General noted that the issue of productive capacities had long been central in the work of UNCTAD, including with regard to measurement, through the productive capacities index, and implementation.

2. The parallel event, following opening remarks by the Deputy Secretary-General of UNCTAD, featured six panellists: Minister of Trade, Industry, Regional Integration and Employment, the Gambia; Principal Secretary, State Department for Trade, Kenya; Secretary of State, Ministry of Commerce, Cambodia; Head of Department, Professor in Engineering Management, Department of Industrial and Systems Engineering, Hong Kong (China) Polytechnic University; Senior Adviser, Economic Transformation in Africa, Tony Blair Institute for Global Change; and National Director for Planning, Ministry of Finance, Cabo Verde. The Executive Director, Executive Secretariat, Enhanced Integrated Framework, World Trade Organization, moderated the discussion, introducing the event by highlighting persistent challenges faced by developing countries, while emphasizing that addressing such bottlenecks through the enhancement of productive capacities could empower transformation.

3. One panellist stated that in the current fractured multilateral system and in a context of limited external financial resources, domestic resources might be the only way forward, since transformation could not wait for perfect global cooperation. In the Gambia, some of the key ways forward involved digital transformation, including the digitalization of tax collection, enabling traceability and transparency; fair incentives, to boost the formalization of the informal sector; and technology and diaspora investment mobilization through special economic zones. The panellist noted that the Gambia aimed to benefit from greater continental integration, to advance industrial transformation.

4. Another panellist stressed the need for policy coordination, noting that Kenya had land, capital and labour, yet required a shift to a unified national strategy for trade and production. Investments in technical and vocational education and training aligned skills with

market needs. Capital constraints remained a challenge, with debt repayments capturing a large share of the national budget. The panellist noted that Kenya was adopting programme-based budgeting to prioritize high-impact investments and that infrastructure improvements, such as with regard to ports, roads and airports, were enhancing trade logistics. In addition, the private sector was viewed as a key driver of growth.

5. One panellist highlighted the significant growth in Cambodia of productive capacities over the past decade, facilitated by UNCTAD and international organizations through policy support and capacity-building. Such progress could enable Cambodia to graduate from the least developed country category in 2029. However, a narrow industrial base, limited market access, high microenterprise and small and medium-sized enterprise financing costs and infrastructure gaps remained. The panellist stated that Cambodia was working to improve the business environment and broaden economic diversification, involving public, private and international stakeholders.

6. Another panellist presented lessons from East Asia, where resource-poor countries had achieved strong productive capacities through strategic borrowing for productive purposes and targeted investments. Good sequencing, the prioritization of key sectors and the creation of special economic zones had contributed to development progress. He stressed the importance of regional and international cooperation. In addition, as automation increased, investing in human capital became more important, rather than relying solely on low-cost labour. The panellist highlighted the need for institutional predictability and data-driven tools, such as the productive capacities index, to support policy and attract long-term investment; flexible, resilient value chains were key.

7. One panellist stated that building productive capacities was central to economic and export diversification. Countries with high-value diversified exports were more attractive to investors and more resilient to external shocks. He stressed the importance of investment in infrastructure, entrepreneurship and good governance. In addition, domestic resource mobilization was the most sustainable financing source, offering policy flexibility and long-term stability. The panellist stated that while foreign direct investment and loans could help, they needed to be strategically used and well-managed. Building productive capacities was also vital to maintaining progress after graduation from the least developed country category.

8. Another panellist shared insights from the graduation of Cabo Verde from the least developed country category and the ongoing transition towards an upper middle-income economy. Cabo Verde faced an annual financing gap of 10 per cent of gross domestic product, required for investments. In addition, Cabo Verde imported 80 per cent of its consumption goods. The panellist stated that, through a sustainable finance assessment with UNCTAD, Cabo Verde was pursuing innovative financing, tapping into diaspora resources and private capital. Beyond tourism, Cabo Verde aimed to diversify the economy to ensure that productive capacity growth translated into sustainable revenue.

9. During the ensuing discussion, some participants addressed external financing sustainability and productive capacity development, including the concept of “East Asian structuralism”, which involved the proper sequencing of development, balancing domestic and export demand and embedding production within social and ecological systems. The moderator noted that expanding productive capacities reduced balance of payments pressures by boosting exports and substituting imports.