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Summary of interactive thematic round table 7

Developing productive capacities in least developed countries

1. The round table was chaired by Mr. Jürgen Zattler, Deputy Director General, Federal Ministry of Economic Cooperation and Development, Germany; and moderated by Ambassador Mr. Debapriya Bhattacharya, Bangladesh. The panellists were: Mr. Kande Yumkella, Director-General, United Nations Industrial Development Organization; Mr. Abdoulie Janneh, Under-Secretary-General and Executive Secretary, United Nations Economic Commission for Africa; Mr. Sid'Ahmed Ould Raiss, Minister of Commerce and Industry, Mauritania; Mr. William Kalema, Director, Uganda Manufacturers Association Consultancy and Information Services (UMACIS), Uganda; Mr. Richard Newfarmer, Special Representative of the World Bank to the United Nations Office at Geneva and to the World Trade Organization; and Ms. Anna Kajumulo Tibaijuka, Under-Secretary-General and Executive Director, United Nations Human Settlement Programme.

2. There was consensus that productive capacities should be at the heart of national and international policies to promote sustained growth and poverty reduction in least developed countries (LDCs). That required a policy shift from a narrow focus on Millennium Development Goals to a broader focus on promoting economic growth as well as achieving the goals. It was felt that growth policies in turn should not simply be concerned with allocative efficiency, but should also seek to harness natural and human resources, accelerate capital accumulation and build technological capabilities. Participants commended UNCTAD's research and policy analysis for its *Least Developed Countries Report* and identified the measures listed below as the most important priorities nationally and internationally.

3. It was felt that Governments of LDCs needed a strategy that was nationally owned, tailored to local needs and adapted to changing national and international circumstances. The world economy was at a turning point and would pose major new challenges to the LDCs. The looming global economic deceleration would reduce international trade growth and private financial flows to LDCs, and would sharpen international competition for export markets and attracting foreign direct investment (FDI).

4. Building productive capacities required scaling up investment. It had to be financed basically from private savings, both domestic and foreign. Governments would need to establish incentives for savings and capital formation for both public and private investment. It would also have to promote a financial system which effectively mobilized and appropriately channeled funds. Governments should also seek to attract FDI and harness it to develop domestic enterprises. It was felt that official development assistance (ODA) should complement private savings.

5. Measures were also required to increase the productivity of capital and labour, particularly through technological learning and innovation. Building technological capabilities enabled producers to export by meeting stringent quality standards and certification requirements increasingly demanded by international markets. Participants stated that LDCs should seek technology-driven increases in productivity through leveraging linkages with the global economy. Technological learning could be accelerated through national policies for science, technology and innovation.

6. In order to develop their productive capacities, LDCs would have to tackle a range of supply-side constraints. The most important of those were:

- (a) Physical infrastructure, especially energy, transport and communications. Energy supply was critical and, together with transport and communications, it made possible internal and international connectivity of economic agents;
- (b) Poor social infrastructure, especially for health and education, which resulted in insufficient supply of human resources, skills and managerial capabilities;
- (c) Weak financial systems; and
- (d) Insufficient investment in research and development, technological learning and innovation systems.

7. It was seen as important to integrate environmental sustainability concerns into the development of productive capacities and to take measures to adapt to climate change.

8. It was also felt that the sectoral orientation of LDCs' strategies for developing productive capacities should encompass agriculture, industry and services as follows:

- (a) Agriculture would have to receive new domestic and international policy attention. It required increased investment and technological upgrading. The new generation of agricultural policies should not focus solely on agricultural production, but rather would have to be developed in the context of agribusiness and value chain development. A balance would have to be struck between staples and cash crops, which strengthened food security while also allowing for the growth of exports;
- (b) Industrial development was a response to the LDCs' need for diversification of production, employment and exports. Industry development required a new type of industrial policy based on dialogue and consensus between the public and private sectors;
- (c) Efficient commercial services were necessary to the development of both agribusiness and industry. That included not only transport and logistics, but also finance, consulting and other knowledge-intensive services.

9. Although agricultural development was vital in most LDCs, and its neglect had been highlighted by the current global food crisis, population and poverty in LDCs would become increasingly urban in the first half of the twenty-first century. The expansion of the secondary and tertiary sectors was necessary, as they

generated jobs to absorb surplus workers leaving agriculture and thereby reduced poverty. Structural transformation must favour more knowledge-intensive goods and services in all sectors of economic activity.

10. Entrepreneurship was the basis for building productive capacities and the private sector had a crucial role to play. While microenterprises contributed to managing poverty, building entrepreneurship required developing small and medium-sized enterprises (the “missing middle”). Preconditions for the development of the private sector were peace, stability, rule of law, predictability, transparency, equity in taxation and democratic practices. New forms of public–private partnerships must be developed. Women made a major contribution to productive capacities development. They ran a substantial share of microenterprises in LDCs and women entrepreneurship was a major force in private sector development.

11. Development required building a series of safety nets, particularly in the fields of food and energy security and environmental management. Public policy must pay attention to distributional effects of growth, so as to ensure its benefits were shared by most of the population and internal conflicts were avoided.

12. The domestic policies and strategies outlined above must be complemented by new and more effective international support measures, particularly in the areas of aid, trade and investment.

13. Participants felt that, in order to support the development of productive capacities in the LDCs, ODA must:

- (a) Increase in volume;
- (b) Have its composition changed towards supporting economic infrastructure and productive sectors, and strengthening knowledge in LDCs;
- (c) Be more effectively delivered; and
- (d) Be more demand-driven, including concerns of the private sector and civil society.

14. It was felt that Aid for Trade and the Enhanced Integrated Framework should be effective vehicles for developing productive capacities in LDCs.

15. In addition, participants felt that LDCs should be granted duty-free and quota-free access for goods in major markets. Such measures must be complemented by favourable rules of origin and elimination of non-tariff barriers. Governments of LDCs also needed to have policy flexibility to adopt agricultural, trade and industrial policies which promoted local value added and technological learning. LDCs should also be granted enhanced access conditions for the temporary movement of services providers.

16. Development partners should also consider home country measures to encourage more FDI flows to LDCs and help leverage more technological learning from it.

17. Both national strategies and international support measures needed to be elaborated and implemented in a context of good governance, from the household level to the country and global levels.