Graduating and Graduated Countries: Lessons learned in developing productive capacity

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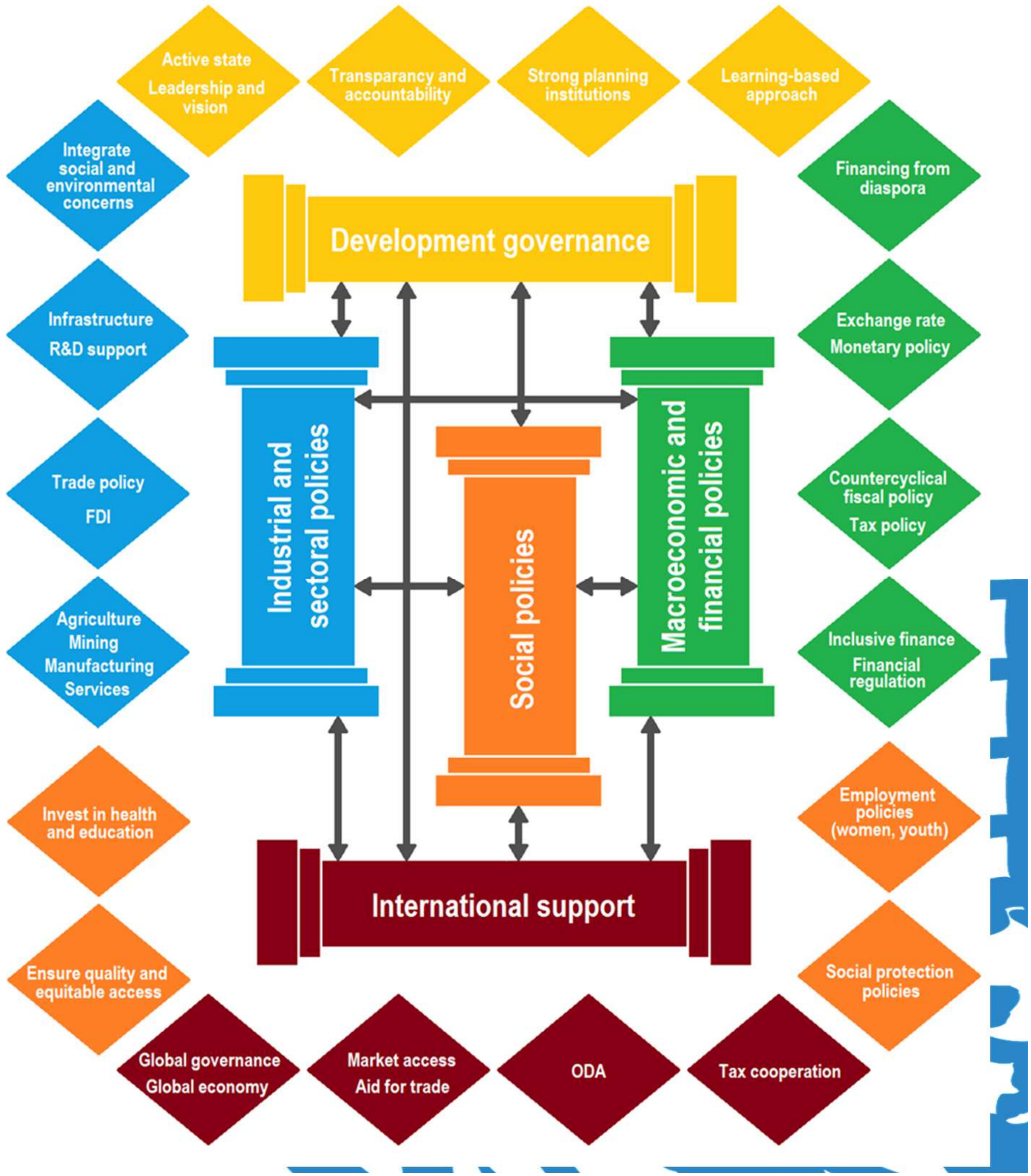
Background

- Why?
  - CDP chose topic at Plenary in 2016, follow up to 2016 theme
  - Identify actual policies and strategies chosen
- New topic?

"It cannot be over-emphasised that what development implies for the developing countries is not simply an increase in productive capacity but major transformations in their social and economic structures."
CDP Report to ECOSOC
1970

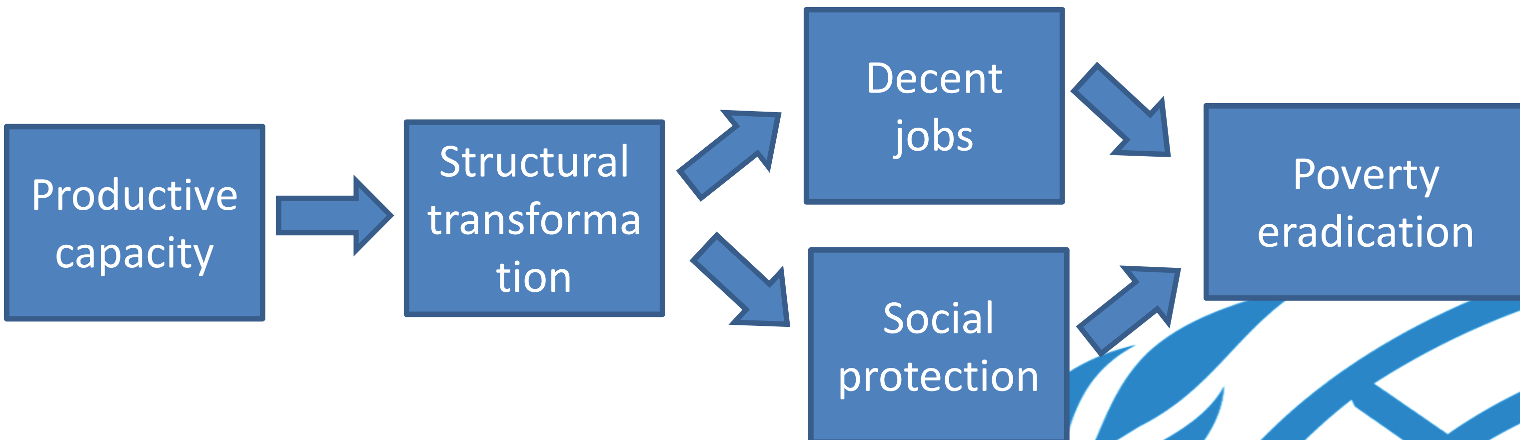
- Who?
  - Inputs from CDP Sub-group (Dzodzi, Keith, Le Dang, Onnalena, Rashid, Tea, Vitalii)
  - CDP Secretariat (Dan, Marcia, Matthias, Roland); Tes Teffachew (ex-UNCTAD)
- How?
  - Inputs, consolidated paper, EGM, revised paper

CD Framework on expanding productive capacity for achieving the SDGs



Productive capacity and poverty eradication

1. Building productive capacity and poverty eradication intrinsically linked



   - Economic growth per se insufficient
   - Policies in all five elements of framework needed
     - Advantage of CDP framework
   - Link increasingly known, but what policies?
2. Eradication of poverty requires focus on countries where problem is most severe: LDCs

Graduation pathways

- Graduation requires generating income (GNI pc), building human assets (HAI) and/or reducing economic and environmental vulnerability (EVI)
- Graduation related, but not identical to building productive capacity for sustainable development
- Pathway I: Rapid 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
- Risk of overinvestment in infrastructure
- 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
- 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
- Good development governance main factor
- Absence or restoration of conflict critical
- Economic specialization: natural resources or tourism
  - Only some diversification, but difficult
  - Small linkages and employment effects
  - Persistent inequalities
- Policies for harnessing external sources of finance for investments
  - FDI, ODA, bilateral agreements, remittances

Main lessons - Pathway III

- Larger economies: **Bangladesh**, **Ethiopia, Rwanda**
- State-led development
- Slow structural transformation
- Development governance built after war and conflict
  - Active State, ensuring coordination of economic activities
- Agriculture and rural areas first
- Successful capital accumulation
- Innovative social services delivery
- Trade preferences can work, but require basic capacities, ‘right’ market conditions and domestic policies

Moving the work forward

- Feed into UN process (HLS/HLPF/IPoA)
- Wider dissemination (see later this week)
- Utilize for capacity development
  - UN DESA and beyond (EIF,…)
- Utilize for related work
  - UNCTAD productive capacity indicators
  - Others

Thank You

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