Remarks

by

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at the

UNCTAD High-level Panel Session on "Accelerating Progress in Building Productive Capacities in Least Developed Countries and other Vulnerable Developing Economies"

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Room XVII, E-Building, Palais des Nations, Geneva

Excellences,
Colleagues,
Ladies and Gentlemen,

I am very pleased to participate in this high-level panel discussion on 'Accelerating Progress in Building Productive Capacities in the Least Developed Countries and other Vulnerable Developing Economies'.

An aggregate scorecard on the progress in the implementation of Istanbul Programme of Action shows that most LDCs have not been able to achieve strong, sustained and equitable economic growth, structural transformation of their economies and meaningful poverty reduction. These developments have been largely attributed to the limited ability of these countries to produce efficiently and effectively; in short, to their weak productive capacities.

Building productive capacity is therefore an essential condition for structurally transforming economies, for successfully integrating in the global economy and for effectively achieving sustained, broad-based and employment-creating economic growth.

In recognition of the centrality of productive capacity, the Programmes of Action for the LLDCs and SIDS—just as the Istanbul Programme of Action—have also argued for building productive capacities in these countries.

Specifically, as LDCs face supply constraints, which translate into weak exports and subsequently low levels of sustainable development, the first priority of the Istanbul Programme of Action for the LDCs is to build productive capacity. Similarly, structural economic transformation is one of the key priorities of the Vienna Programme of Action for the LLDCs. The Samoa Pathway also recognizes the need to build productive capacities and address supply side constraints for Small Island Developing States.

As the strength of productive capacities could be measured through, among other things, the size of the manufacturing sector and that of trade flows, allow me to review of recent trends in building productive capacities in LDCs, LLDCs and SIDS using these above indicators.

Starting from the manufacturing sector, the sectoral composition of GDP shows a systematic decline in the contribution of manufacturing to GDP among Landlocked Developing Countries and Small Island Developing States, on average. While the average share of manufacturing to GDP in the LDCs exhibited an upward trend in the recent past, the share is very low. In 2016, the share was 12.1%, lower than the 2002 share, which was about 12.4%. As highlighted in the 2017 State of the LDCs report published by my Office, given that manufacturing tends to stimulate relatively stronger productivity growth, the lack of robust upward trend in the share of manufacturing in GDP is very concerning.

Another point to note from the time series data on the structure of vulnerable economies is that the experiences of these vulnerable countries seem to diverge from the development trajectory of the rich countries where manufacturing typically experiences an inverted U-shaped relationship. That is, the expectation is that the share of manufacturing rises in the early stages of development and falls as countries get more developed. Instead, in all the three groups of vulnerable countries, the services sector contributes a significantly higher proportion to GDP, on average. Among the Small Island Developing States, the contribution of the services sector to GDP was slightly over 70% in 2015 up from about 50% in 2002. In general, this information suggests that these groups of vulnerable countries are turning into service economies prior to experiencing proper experience industrialization.

This reality may be rooted in the fact that most of the vulnerable countries remain reliant on a few export commodities, which often have low value addition. In addition, most vulnerable countries export to a limited number of markets. UNCTAD data on exports clearly shows that LDCs, LLDCs and SIDS only retain a very small proportion of the global markets.

Turning to trade, the most recent data shows that the share of the LDCs' exports in world trade declined further to 0.91 per cent in 2016, whereas their share in world population was 13 per cent. This is the second consecutive year that the share of LDCs' exports in global trade has fallen below 1 per cent since 2007. Based on this new trend, LDCs are unlikely to meet the target of doubling the share of LDCs' exports in global exports, as agreed in the Istanbul Programme of Action for LDCs, and, the Sustainable Development Goals.

The export shares in global trade for Landlocked Developing Countries and Small Island Developing States are even much lower. In 2016, the export share for Landlocked Developing Countries was only 0.88 and only a meagre 0.14 for SIDS, on average. This depicts how small these vulnerable countries are, relative to the world markets. Their small market share essentially makes them price takers.

Given these experiences, the question on how vulnerable countries can accelerate progress in building productive capacities still remains. The answers to this question are not easy, especially that the growth for many of these countries is largely services-led. One major challenge with a services-led growth for vulnerable countries is that service industries are typically highly-skill intensive and are not as labour intensive as the manufacturing or even the agriculture sector. This creates a major challenge for many vulnerable countries whose labour is largely unskilled and therefore, may not be fully absorbed by higher productivity activities in the services sector but rather informal activities with low returns.

As outlined in the Istanbul Programme of Action for the LDCs, building productive capacity requires investment in science, technology and innovation. It also requires investment in infrastructure, including, transport, electricity and, information and communication technology.

It is time to think about innovative solutions on how to accelerate productive capacities in vulnerable countries and make these economies more technologically dynamic. As I just mentioned, one way of improving productivity is through enhancing Science, Technology and Innovation. For example, fully operationalization the Technology Bank for the LDCs could create opportunities for harnessing Science, Technology and Innovation to ensure global competitiveness.

You may be aware that on 23 of December 2016, the UN General Assembly adopted a resolution on the Establishment of the Technology Bank for the LDCs, a subsidiary organ of the General Assembly. Broadly speaking, the

Technology Bank aims to strengthen the science, technology and innovation capacity of LDCs.

I will now highlight some of the key accelerators of productive capacity that were identified and implemented by some of the LDCs in the first five years of implementing the Programme of Action. These include:

1. Enhancing private investment and establishing economic zones to stimulate economic diversification;
2. Investing in transport and transit infrastructure to improve connectivity and stimulate socio-economic development. For example, in East Africa, several LDCs have constructed or rehabilitated their roads to improve connection within the countries and with their neighbouring countries;
3. Reducing the energy challenge through investment in renewable energy, with support from partners; and,
4. Implementing institutional and legal reforms to improve the investment climate

While these actions brought about some positive results, there is need to build on these strides while thinking about more innovative solutions to accelerate productive capacities. OHRLLS has conducted meetings and commissioned reports in the areas of financing sustainable energy and increasing access to broadband in LDCs on which we can build. This is especially important now when the global economy is becoming more digitalized, yet, traditional challenges remain.

Finally, I would like to call on development partners, the private sector, multilateral agencies and UN Agencies such as UNCTAD and UNIDO to continue to provide LDCs, LLDCs and SIDS with financial, technical and capacity-building support. This would help to further build vulnerable countries' domestic capacities to achieve structural economic transformation, value addition, reduce commodity dependence, and attract investment, amongst others.

Thank you.

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