Expanding productive capacity: Lessons learned from graduating LDCs

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CDP work on LDCs

• Reviews triennially the list of LDCs
  • Recommends countries for inclusion and graduation
• Developed and refined the criteria and procedures for identifying LDCs
• Monitors graduating and graduated LDCs
• Analytical papers on LDCs
Background

- CDP work programme 2015-2017 on productive capacity
  - Phase 1: Development of framework and policy strategies
  - Phase 2: Identify actual policies and strategies chosen by graduating LDCs

Main outputs

CDP Framework on expanding productive capacity for achieving the sustainable development goals
Graduation pathways

- Graduation requires generating income, building human assets and/or reducing economic and environmental vulnerability
- Graduation related, but not identical to building productive capacity for sustainable development
- Pathway I: Rapid economic 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
  – 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
  – Channeling natural resource revenues into productive capacity is possible with good development governance (see pathway II)
• 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
- Absence or restoration of conflict critical
- Good development governance main factor
  - State legitimacy, national vision
- Economic specialization: natural resources or services (tourism)
  - Economic growth and environmental sustainability are linked
  - Linkages to rest of economy small, as are employment effects
  - Often persistent inequalities
- Policies for harnessing external sources of finance
  - FDI, ODA, bilateral agreements, remittances
Main lessons - Pathway III

• Larger economies: Bangladesh, Ethiopia, Rwanda
• Slow structural transformation
• Development governance built after war and conflict
  – Active State, ensuring coordination of economic activities
  – National ownership of the process of development
  – Creates room for ‘unorthodox’ policies
• Increase agricultural productivity first
• Innovative social services delivery
• Industrial policies (hard and soft) important, but ‘picking winners’ doesn’t always work
• Trade preferences can work, but require basic capacities, ‘right’ market conditions and domestic policies
Thank You

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