Building productive capacities in Least Developed Countries (LDCs), Landlocked Developing Countries (LLDCs), Small Island Developing States (SIDS) as well as Middle-Income Countries (MICs) for more resilient recovery and sustainable development in the post-COVID-19 era

It is my pleasure to address you this morning on the important subject of building productive capacities in developing countries.

As we know, productive capacities entail the sum of natural resources, human capital and economic synergies that determine the degree to which a country can produce goods and services. As such they represent a key foundation that will drive the COVID-19 recovery as well as the sustainable development agenda across the world.

Unfortunately, as the IMF report Global Economic Outlook informs the pandemic has resulted in a setback in human capital accumulation which has made the policy choices facing developing countries decidedly more difficult.

Historically, those countries that invested heavily in developing their productive capacities have made consistent and inclusive development gains. Research on the growth of East Asian economies has shown the strong impact of productive capacity development policies in enabling increased participation in economic sectors of progressively higher complexity.

Productive capacity development can generate a virtuous cycle. An economy with higher productive capacity is likely to attract more investment and internationally mobile firms, which can in turn further enhance productive capacities. This is why only a handful of economies in the world account for the bulk of high value added and complex activities. By contrast, most developing countries, especially LDCs, LLDCs and SIDS, are relegated to being suppliers of unprocessed commodities and miss out on opportunities for capturing value addition.

LLDCs and SIDS are at an additional disadvantage in developing productive capacities due to their remoteness and geography, which hinders the transfer of skills. The critical priority of building productive capacities is therefore recognized in the Programmes of Actions for these Groups of Countries. For SIDS, the negative impact of geographical remoteness is further compounded by the smallness of their economies, limited domestic markets and a narrow resource base.

The key question now is, 'what needs to be done to develop productive capacities in LDCs, LLDCs and SIDS - as well as middle income countries?'

There is no simple answer – as evidenced by the largely unfulfilled ambitions in the developing world, especially in structurally weak economies.

Yet successful cases from history offer some clues.

First, the long-term development of human capital should be the utmost priority. This should include formal education, technical and vocational education as well as opportunities for the lifelong development of skills. I would note that this strategic imperative is recognized in the SGs recent report titled "our Common Agenda".

In the next 30 years, an increasing share of global value added is likely to stem from intangible products in digital industries. And the ability to participate in these industries is directly correlated with the level of human capital available.

This transition of the global economy towards intangibles presents new opportunities for landlocked developing countries and small island developing states as the significance of geography becomes diluted.

Second, to fully harness the potential of human capital, investment in infrastructure is paramount.

An here I am referring to both physical infrastructure related to transportation and electricity. to digital infrastructure encompassing internet and mobile connectivity. We should consider infrastructure in its widest sense. In recognizing this however, we must take account of the fact that physical infrastructure is and of itself is not sufficient. Bear in mind that while 80 per cent of people in LDCs are covered by a mobile broadband networks, less than 20 percent of the population is connected. So, internet usage is important, not just coverage.

The fiscal constraints were already acute in many developing countries and have been intensified by the pandemic. It is therefore crucial to tap into other sources of investment in the form of international project finance; public private partnerships; and infrastructure-related greenfield FDI projects.

Third, the development of productive capacities should be aligned to structural change policies in a way that is mutually reinforcing.

The transition from low value added to high value added activities is crucial for LDCs, LLDCs and SIDS. At present there is an over-reliance on the exports of unprocessed commodities.

FDI has remained largely concentrated on natural resource processing. Against this backdrop, policies to facilitate growth of high productivity economic sectors, including by promoting investment in structural change, should be an urgent priority for policymakers in these countries.

South-South and triangular cooperation can be an important and dynamic pillar to increase the speed and reach of productive capacity building measures.

To support LDCs, LLDCs and SIDS in achieving these objectives, the international community has to play its part.

First, by providing additional financial resources to LDC, LLDCs and SIDS in the form of debt relief, project related financing, or blended finance. This is critical, especially in the aftermath of the pandemic.

Second, by transferring knowledge and skills with the direct participation of the private sector.

And third, through granting regulatory privileges that lead to an increase in exports with a high domestic value addition share in LDCs, LLDCs and SIDS.

Thank you for allowing me to contribute today, I look forward to the rest of the discussion.