

Productive Capacities and Economic Transformation

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United Nations Conference on Trade and Development

Productive Capacities (I)

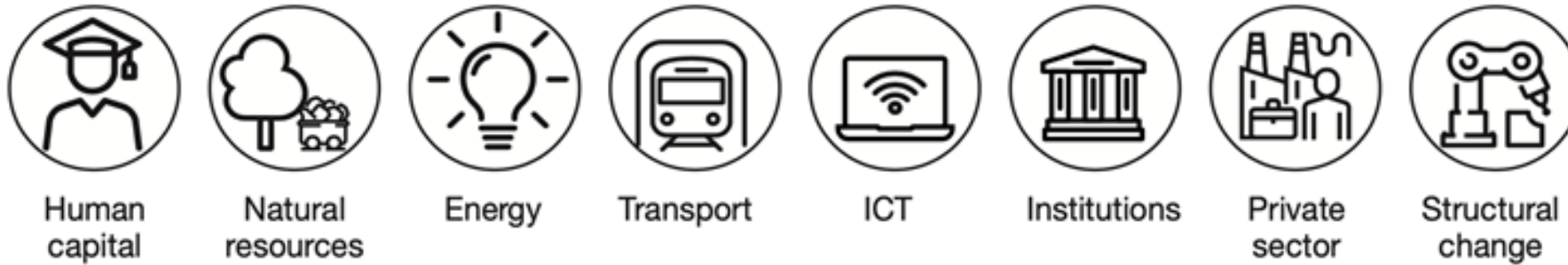
UNCTAD (2006) defines productive capacities as consisting of:

- **productive resources** (factors of production, including natural resources, human resources, physical capital and financial capital);
- **entrepreneurial capabilities** (the skills base, local technological and innovation capabilities, the level of sophistication of supporting institutions at national and sectoral levels, etc.);
- **production linkages** (flows of goods and services in the form of backward and forward linkages, market-based information flows, inter-firm interactions, the development of local value chains, etc.),

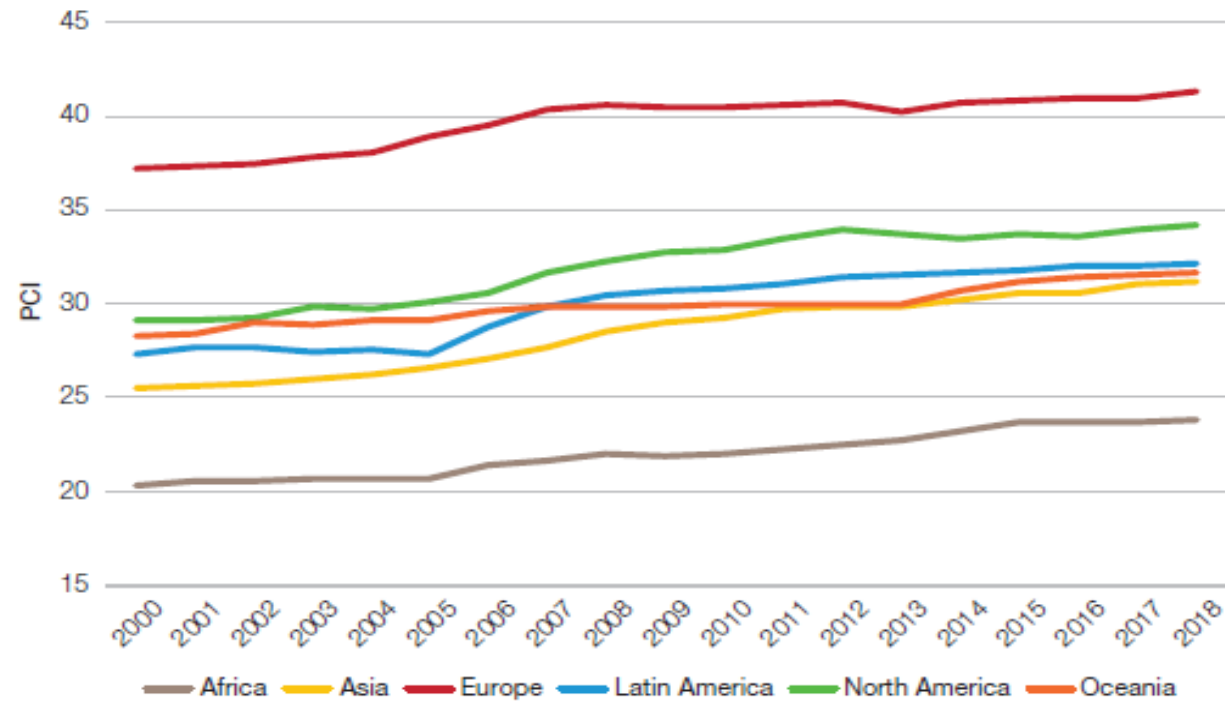
that together determine a country's ability to produce goods and services that will help it grow and develop.

To support policymaking, UNCTAD also developed a multidimensional **Productive Capacities Index (PCI)** which assists in identifying gaps and limitations in productive capacities.

Productive Capacities (II)



- Energy (6 indicators)
- Human Capital (6 indicators)
- ICTs (5 indicators)
- Institutions (6 indicators)
- Natural Capital (5 indicators)
- Private Sector (9 indicators)
- Structural Change (4 indicators)
- Transport (5 indicators).



Source: UNCTAD.

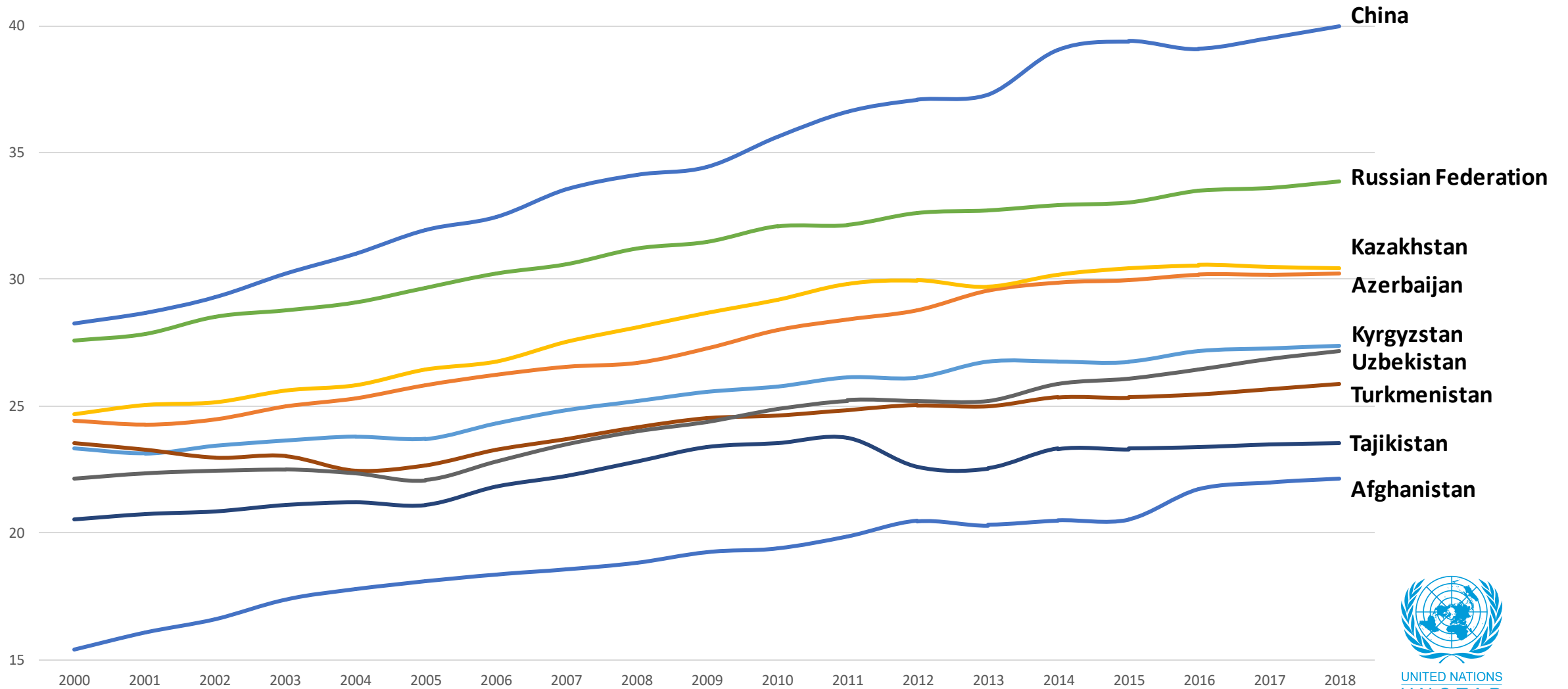
Note: For analytical and comparative purposes in this document, North America includes countries geographically north of the Panama Canal, and Europe includes developed, developing and transition economies in Eastern Europe.

Productive Capacities (III)

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT



Productive Capacities Index



Why are productive capacities important? (I)

- In short: to take “the driving seat” in national development

“Domestic aspects”:

- To address development challenges through economic drivers and robust holistic approach in terms of policy formulation and implementation, and institution building
- **To decrease reliance on extractive industries** (wherever applicable)
- To build manufacturing sector, modernize agriculture and build services (with decent jobs)
- **To diversify the national economy**
- To create (decent/productive) jobs and build resilience (in view of proliferation of external shocks)

Why are productive capacities important? (II)

“International aspects”:

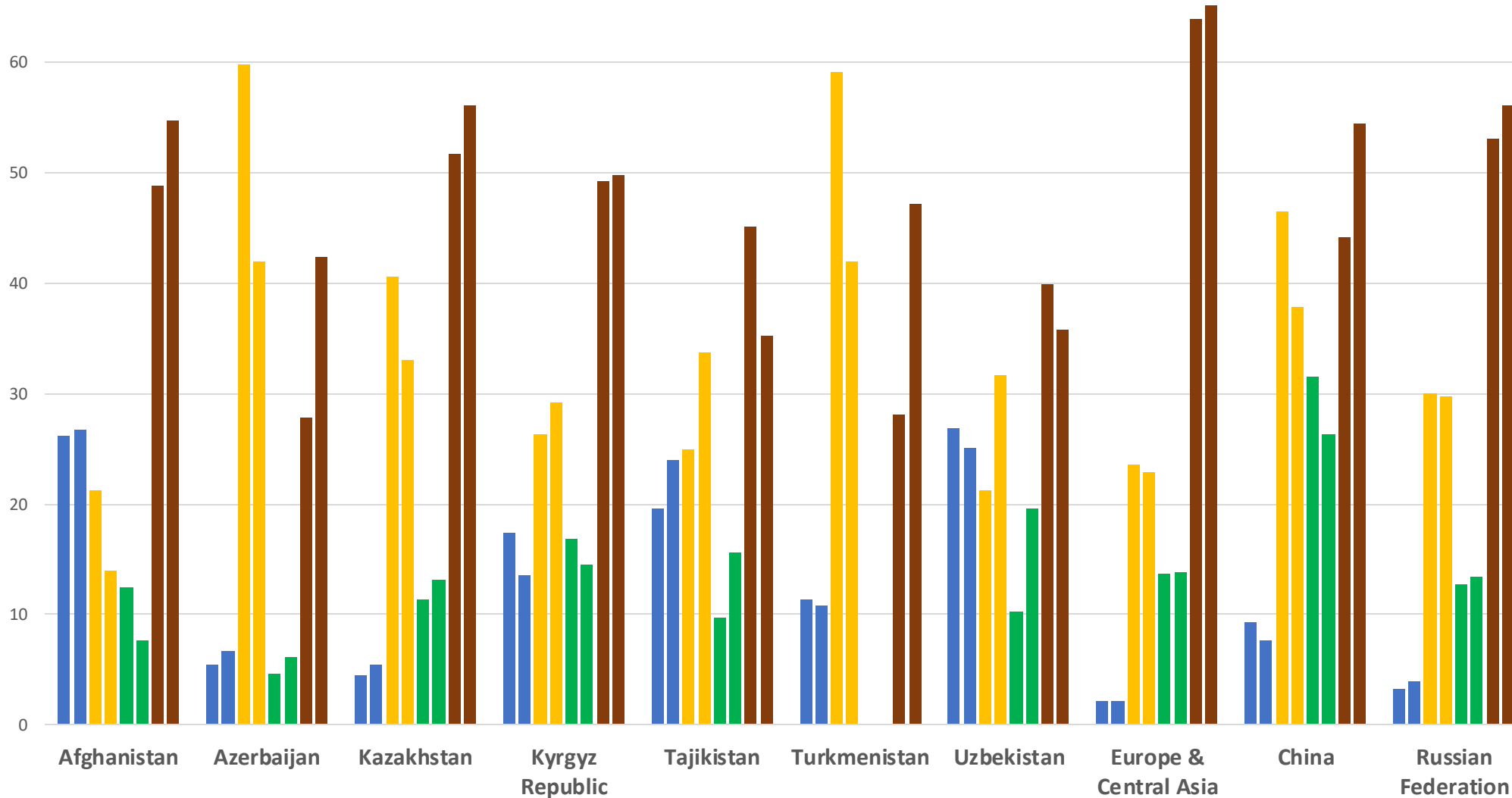
- To benefit from regional integration processes
- To facilitate international trade (particularly export)
- To join the regional and global production value chains at a higher segment of value addition
- **To address development challenges related to being landlocked**

Critically:

- To accelerate **structural economic transformation...**
... that will create conditions for sustainable, green and inclusive development

Structure of value added (2010 and 2020) (% of GDP)

70



Source: World Bank database (2022)

The success stories (**Japan** and **Korea**)

- Gradual increase in value addition in the assortment of domestic production: coal, iron and steel (**1950s and before**, **1970s**) and textiles (**1960s**); electric power building and shipbuilding, petrochemicals to produce synthetic fiber and chemical fertilizer (**1960s**, **late 1970s**); machine production, car industry and electronic industries, including the computer industry (**1970s**, **1980s**); high-tech (**since late 1970s**, **late 1980s**);
- Export-Orientated Industrialization (EOI);
- Specific geo-political and geo-economic conditions (the Cold War);
- State as the guiding force of modernization and structural transformation (**state capitalism**, **competent bureaucracy**), (**Developmental State**);
- Private sector as key partner of public sector in development;
- Investment over consumption.

The success stories (China)

- The policy in China shows certain similarities with and differences from Japan and Korea;
- The subsequent strategies encompassed or targeted a broad range of sectors and have been gradually turning towards knowledge intensive industries
 - (a) agriculture;
 - (b) HCI;
 - (c) Machinery & electronics;
 - (d) Energy & environment;
 - (e) High tech & space technology;
- Import Substitution Industrialization (ISI) replaced by Export Orientated Industrialization (EOI);
- From HCI developmental illusion to labour intensive to skills and technology intensive;
- State at the centre of systemic transformation and developmental advancements (Post-Socialist Developmental State).

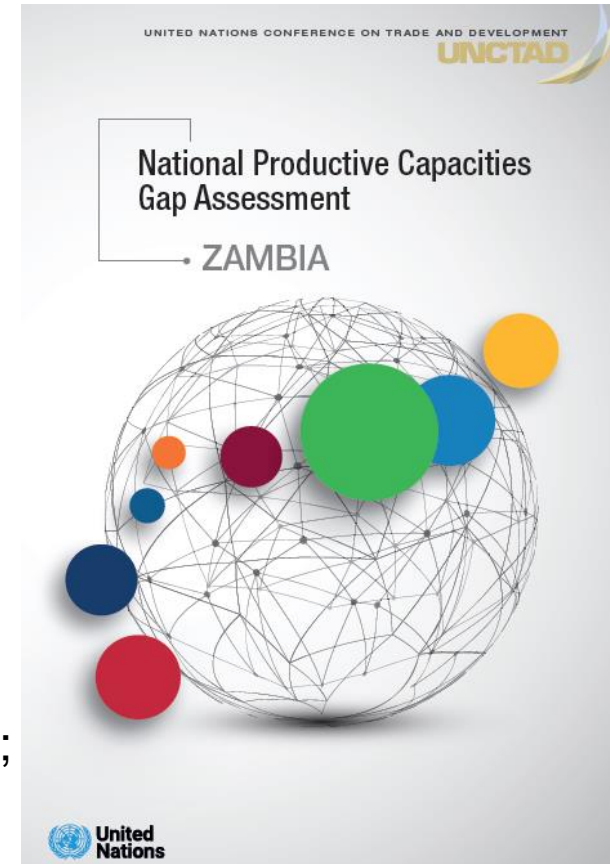
Building Productive Capacities (programme details)

Initial steps:

- Sensitization workshop with the policy makers representing the Government to ensure national ownership (a needs assessment mission);
- Training for policy makers and statisticians on PC and Productive Capacities Index;
- Preparation of a **National Productive Capacities Gap Assessment (NPCGA)** (includes 8 categories: human capital, natural capital, energy, transport, ICT, private sector, institutions, structural change);
- Detailed policy recommendations are developed (sectoral, supporting, sustainable);
- In cooperation with the Government, a detailed programme is developed how to build the necessary productive capacities (the programme last 5-7 years).

Further info:

- External financing is sought for the programme.
- Website: <https://unctadstat.unctad.org/EN/Pci.html>



Thank you!

