

Building Productive Capacities in LDCs: Leveraging the Global Economy

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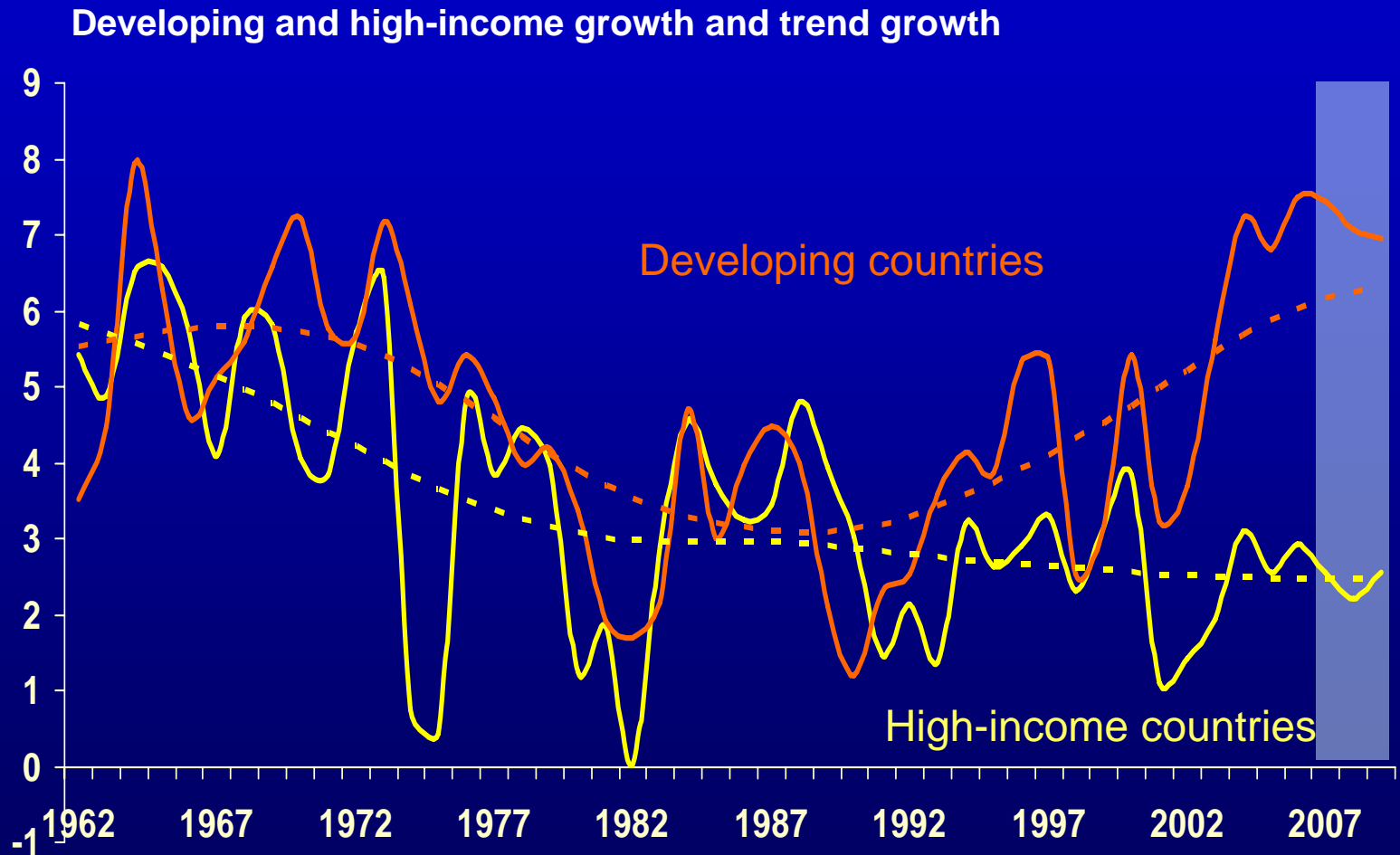
UNCTAD XII

April 24, 2008

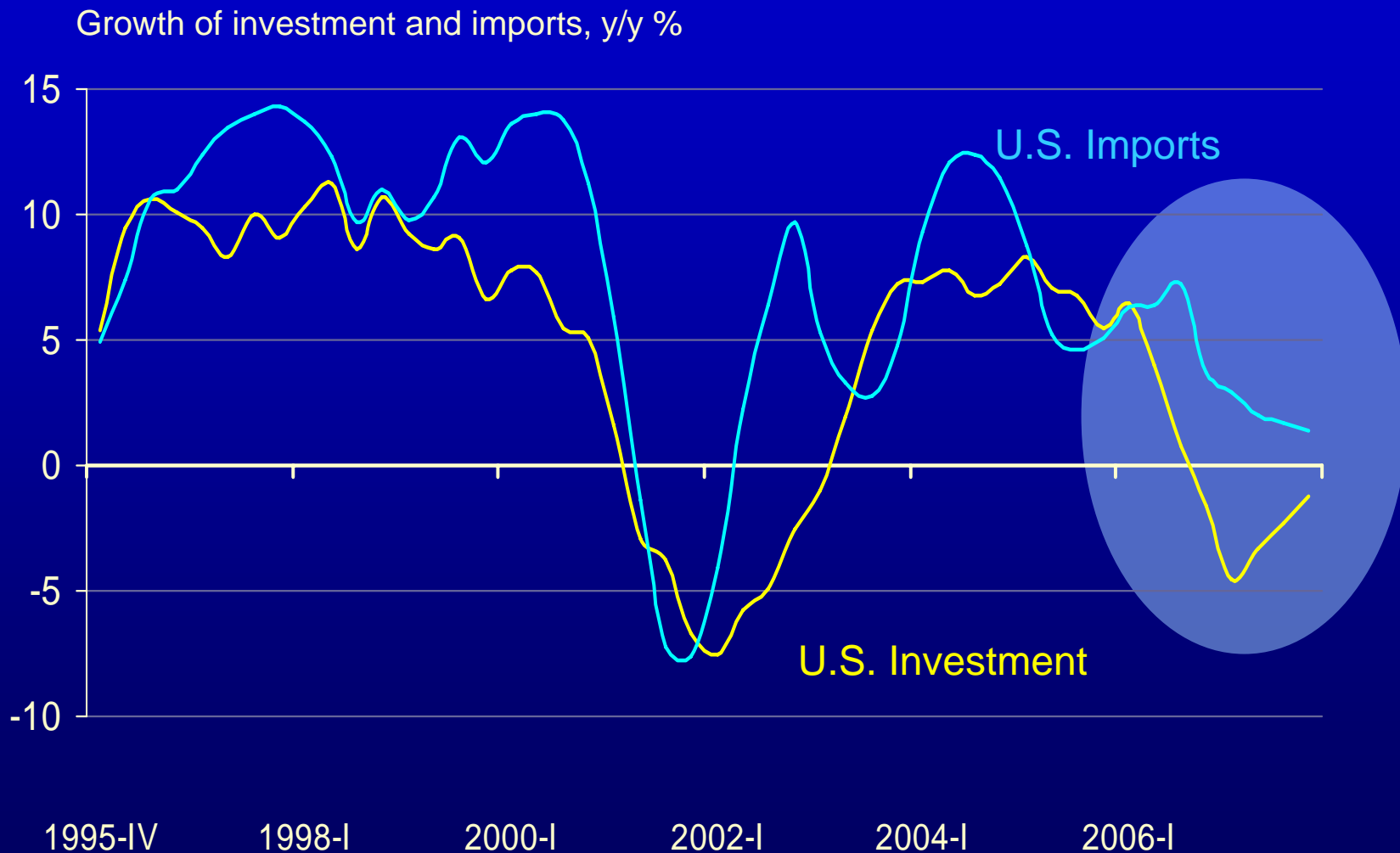
Main points

- The slowdown in the global economy will complicate the efforts of most LDCs to create new domestic capacity – as sustaining high growth will have to be based on increasing global market
- Countries that have grown rapidly have leveraged the global economy to build domestic production capacity – through technology-driven increases in productivity
- Because “one size does not fit all”, each country has to design its own strategy to improve competitiveness... and then implement it effectively

Trend developing country growth has diverged sharply from trend high-income growth... perhaps unsustainably

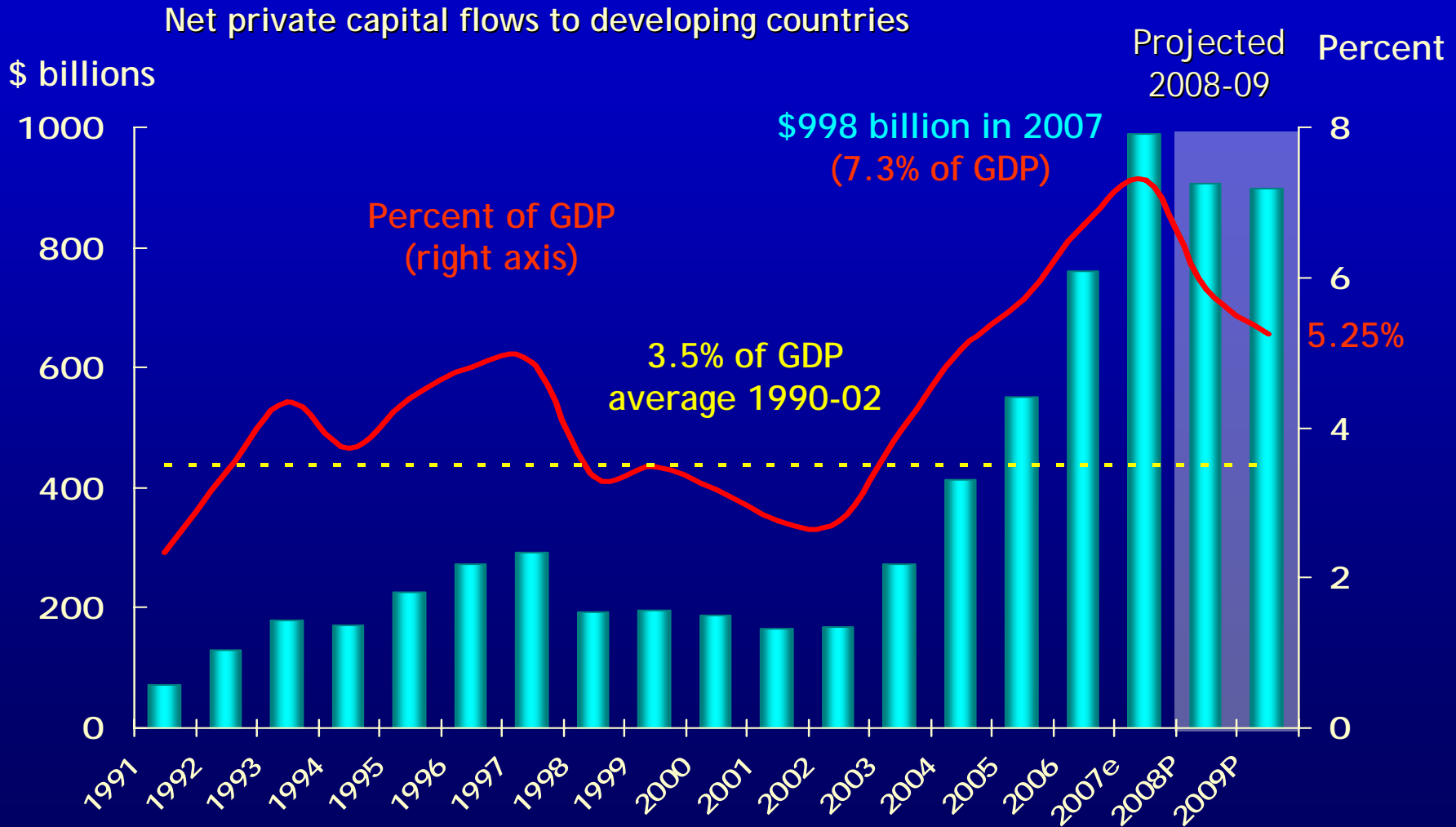


Weakening of U.S. domestic demand affects import demand



Source: World Bank, DECPG.

Private capital flows expected to ease



Source: World Bank, DECPG

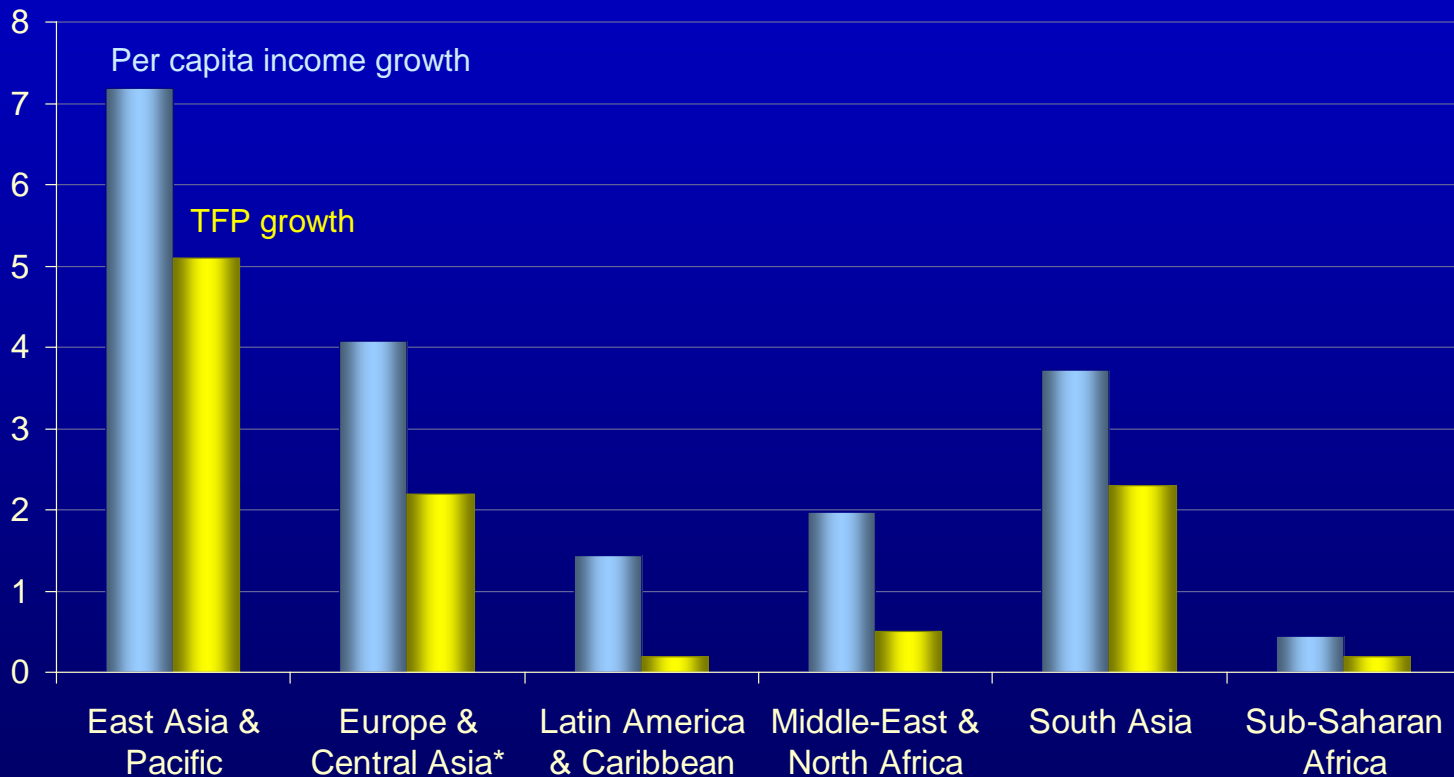
Maintaining growth in this environment requires new efforts to increase productivity and expand exports

Some lessons from the Growth Commission

1. High-performing countries used the global economy to increase productivity – through trade, FDI, technology flows, and migration
2. HP countries created incentives for savings and capital formation - both private and public investment
3. HP countries invested heavily in education and health of workers
4. “Policy recipes” and sequencing of policy reforms differed, but all high performing countries had a strategy and implemented it effectively

Productivity growth is central to income growth and poverty reduction

Average annual per capita income and total factor productivity growth, 1990-2005



* Data for Europe & Central Asia cover period 2005/1995

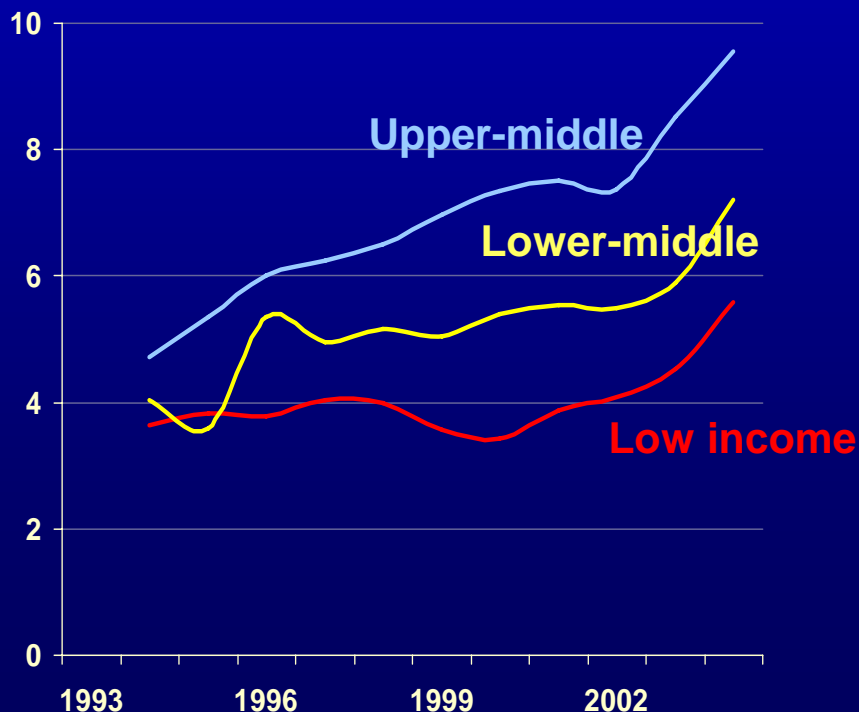
Source: World Bank, Poncet 2006

Openness is a key driver of productivity growth

Trade

- Import competition (Hoekman and Javorcik 2007; Amity, 2007)
- R&D content of imports (Coe, et al, 1997)

High-tech Imports (% of GDP)



Total Factor Productivity

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- Exporting (Kraay, 2007)

FDI

- Technology + Inv (Hoekman and Javorcik, 2007)
- Spillovers (?) (Djankov and Hoekman, 2007)
- Competition (Pack, 2007)



The diagram illustrates the relationship between openness and productivity. On the left, two categories are listed: 'Trade' and 'FDI'. Under 'Trade', three bullet points are listed: 'Import competition', 'R&D content of imports', and 'Exporting'. Under 'FDI', three bullet points are listed: 'Technology + Inv', 'Spillovers (?)', and 'Competition'. Two white arrows point from the 'Trade' and 'FDI' sections towards a large white circle on the right. Inside the circle, the text 'Total Factor Productivity' is written in white. The background is a solid blue color.

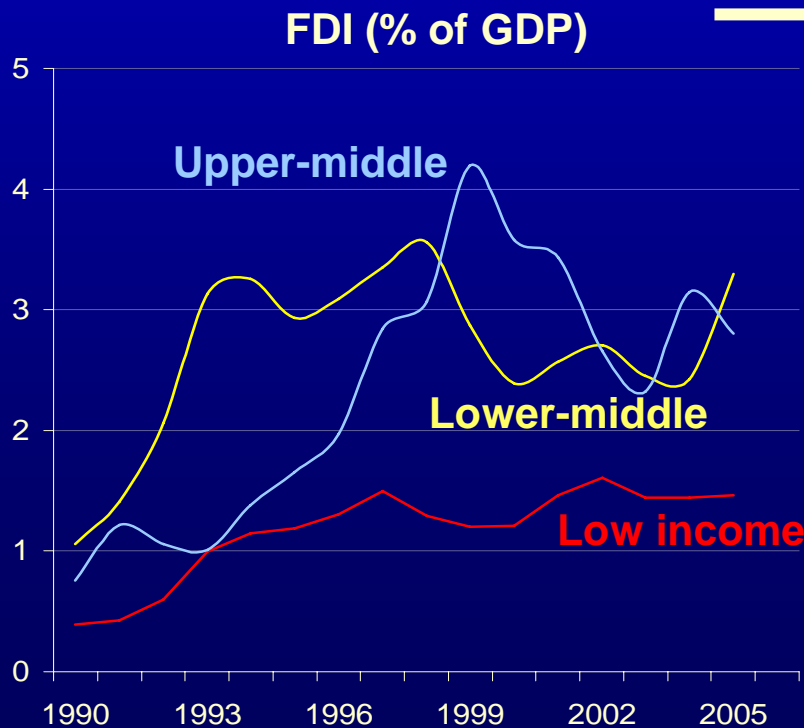
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Direct Access to Technology

- Internet
- Purchase via patents

Diaspora and Migration

The diagram features a large white circle on the right side of the slide containing the text 'Total Factor Productivity'. Five white arrows point from the left towards this circle, originating from the 'Trade', 'FDI', 'Direct Access to Technology', and 'Diaspora and Migration' sections. The 'Trade' section has three arrows, 'FDI' has one, 'Direct Access to Technology' has one, and 'Diaspora and Migration' has one.

Total Factor Productivity

No single recipe... strategies to improve competitiveness have to be customized...

- Tax, tariffs
- Labor markets

Incentive structure (price system)

- Telecoms
- Transport
- Power

Lowering cost of backbone services

- Standards
- Diversification
- Export promotion
- Public private partnerships

Proactive policies

National program to support competitiveness

Conclusions...

- Building national productive capacity is urgent, but the focus should be as much on creating the conditions to improve productivity through technological absorption as efficient investment
- Developing a customized strategy to improve competitiveness that is cross-ministerial in scope is crucial in the new global environment
- Finally, strategies have to be designed with close collaboration of the private sector, implemented forcefully with the support of the entire economic cabinet – and with feedback mechanisms to change, cutting losses and building on success

References and further reading

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