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ACCELERATING GLOBAL ACTIONS FOR A WORLD WITHOUTH POVERTY

Enhancing national capacities for job creation and poverty eradication

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1. Introduction

Economic growth across developing countries has been remarkable since 2000. Developing countries have experienced faster growth in GDP per capita than advanced ones. This economic growth has fuelled poverty reduction and improvements in living standards. However, many countries around the world continue to endure high poverty rates, even as GDP continues to grow, due to an increase in inequality or high levels of initial inequality. Structurally weaker economies have not been able to generate adequate employment opportunities and the absolute number of people living in extreme poverty in these countries continues to increase despite the relatively high growth experienced over the past decade.

The fast growth era was characterized by global trade growing twice as fast as output in the early 2000s, but that rate slowed down after the global economic crises of 2008. In this context, developing countries, including the most vulnerable ones such as low-income economies and least developed countries (LDCs) depend significantly on trade for their growth and sustainable development. Yet, they lack productive capacities to fully benefit from trade. Thus, from a policy standpoint, it is crucial to address how trade can fit into development strategies to manage its several dimensions and fulfil its potential.

Despite economic success and notable policy reforms, many countries – particularly LDCs and other vulnerable countries- are characterized by structurally weak economies with limited productive capacities that constrain their ability to produce efficiently. Weak productive capacities, in turn limit the scope to diversify their economies. Some of these countries are at an early stage of economic development, suffering from the inter-related challenges of high population growth, extreme poverty, environmental degradation, and political instability. With more than a billion people in absolute poverty around the world, it is of great practical importance to study low productive capacity and its likely impact on economic development and catching up in developing countries.

The structural impediments translate into binding supply constraints and ultimately into weak exports, limited employment generation, and cap overall economic potential. As Kuznets argued, "is impossible to attain high rates of growth of per capita or per worker product without commensurate substantial shifts in the shares of various sectors" – Kuznets (1979: 130). Therefore, building a critical mass of viable and competitive productive capacity in agriculture, manufacturing and services is essential if vulnerable countries are to benefit from greater integration into the global economy, increase resilience to shocks, sustain inclusive and equitable growth and poverty eradication, achieve structural transformation, and generate full and productive employment.

In this regard, the international development agendas define priority areas dealing with productive capacities and employment issues. Productive capacity development and structural transformation are key objectives of the post-2015 framework, in particular the targets of achieving higher productivity through diversification and promoting inclusive and sustainable industrialization. Enhancing national capacities and the role of trade also feature in the Addis Ababa Agenda of Financing for Development, the Istanbul Programme of Action for LDCs, Samoa's Pathway for Small Island Developing States (SIDS), Vienna Programme of Action for Landlocked Countries, and in the African Union's Agenda 2063. The priorities are increasingly reflected in national development plans and visions, particularly, the need to increase value addition in natural resource-based industries, paying special attention to employment generation.

What follows discusses the importance of enhancing national capacities for job creation and poverty eradication, and the role that trade can play in the context of the global development framework.

2. SDGs, Productive Capacity and Trade

There are many factors perpetuating poverty and underdevelopment, which relate to the lack of national capacity to increase productivity and in turn generate inclusive employment. Such factors include backwardness of agriculture, the classic vicious circle of low-savings and income, and rapid population growth. As already discussed, the structure of trade featuring poor countries exporting primary commodities and importing manufactures, terms of trade deterioration of primary commodities, and protection by developed countries, are persistent drivers of within and between countries inequalities.

The 2030 Agenda for Sustainable Development recognizes that "international trade is an engine for inclusive growth and poverty reduction and contributes to the promotion of sustainable development"[1]. At the macroeconomic level, trade serves as a source of finance for both the public and the private sector. At the microeconomic level, it impacts people's opportunities for consumption and production through the employment channel. The importance of the labour channel is twofold. First, (decent) work is an SDG target itself (8.5), and gainful employment helps individuals achieve other SDGs. Second, whereas trade has helped improving the standards of living of millions of people, the employment implications of international trade are not always positive and can be very disruptive. Trade shocks may have long lasting effects due to the reallocation of productive resources across sectors and the fact that their respective markets do not function perfectly. Imperfections in the labour market are ubiquitous in most countries and are usually reflected in high unemployment rates and high shares of informal employment. Therefore, the implications of trade policies on employment are of importance for welfare.

[1] 2030 Agenda for Sustainable Development, paragraph 68.

In addition to SDG 8 and related targets and SDG 9 on industry, innovation and infrastructure, paragraph 27 of the Declaration of the Sustainable Development Goals highlights the need to strengthen the productive capacities of LDCs and adopt policies which among other things lead to increased productive capacity, productivity and productive employment, specifically through SDG 17 on global partnership and the targets of: [2]

- SDG 17.10 aimed at promoting an all-inclusive, rule-based, open, non-discriminatory and equitable multilateral trading system, including through the conclusion of the WTO negotiations on the Doha Development Agenda.
- SGD 17.11 aimed at significantly increasing the exports of developing countries, particularly for LDCs with the view to double their share of global exports by 2020.
- SDG 17.12 on encouraging the timely implementation of duty-free and quota-free market access on a lasting basis for LDCs, in accordance with WTO decisions and ensure that preferential rules of origin applicable to imports from LDCs are transparent and simple, and do not impede market access accorded to LDCs.

3. Trade and Productive Capacity Development

UNCTAD (2006) defines productive capacities as "the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop". UNCTAD (2015) attempts to measure the levels of productive capacities using six broad categories and twenty-two quantifiable indicators, as well as the targets included in the Istanbul Programme of Action for LDCs. The six categories include: i. Structural transformation; ii. Infrastructure (transport, including roads, rail and connectivity); iii. Energy; iv. science, technology and innovation; private sector development, and vi. Financing and investing in the development of productive capacities.

Developing countries attempt to prioritize and enhance productive capacities by mainstreaming such objectives into their national developing strategies and plans. Despite efforts, in vulnerable countries such as LDCs trade performance remains fragile, and their share in global exports remains low - less than 2 percent of world's exports, with a persistent dependence in commodities and natural resources. Also, LDCs are mostly involved in low-value segments of global value chains (GVCs) and in low-skilled activities.

Thus, vulnerable countries would benefit from building productive capacities and diversifying the economic and export structures to confront existing challenges, particularly persistent poverty and rural-urban divide. As the heterogeneity of experience across developing countries shows, although there are recognised problems in managing macroeconomic policies and cycles such as exchange rates and volatility inherent to natural resources rents, the outcome does not have to be necessarily negative if managed properly. Thus, the challenge might not be determined by the pattern of

[2] Resolution adopted by the General Assembly (A/RES/70/1).

specialization per se, or by lack of productive capacity, but by institutional weaknesses (Maloney and Nayyar, 2018).

Thus, economic policies can be framed to help in overcoming challenges and hostile environments, contributing to enhance productivity and subsequently improve the distribution of income and reducing poverty. However, developing productive capacities needs governments' proactive and catalytic role, including through improving infrastructure, creating an enabling environment for investment, and providing support to private as well as public-private initiatives. Coherence and participation by creating synergies across sectors and stakeholders is also crucial, to translate the agreed priorities and commitments into action.

International trade can affect productive capacity, and hence welfare and development, by inducing progressive innovations that could facilitate the mobilization of goods, services and capital, and consequently structural transformation. Reigniting growth and trade in post-crises context will also run through a strategy to diversify the economy and progressively raise productivity levels in key economic sectors. Research and policy evidence shows building productive capacities and achieving structural transformation consists of shifting resources and policy focus from traditional sectors and activities, with low-productivity and low-technology, to new sectors and activities characterised by higher productivity and more sophisticated technology.

While fundamentals play an important role, they do not uniquely determine what a country produces and exports. Breaking the circle of poverty and underdevelopment demands identifying sectors with potential for both an immediate payoff in terms of job creation and the possibility of sustainable long-term growth. But governments have limited resources and often lack the necessary abilities, and thus need to prioritize productive capacity - enhancing policies to achieve sustained economic growth and long-term transformation and realise broader national development goals.

Strengthening the contribution of trade to poverty reduction requires inclusive structural transformation that enhances the participation of vulnerable groups in the trade and development process. To this effect, governments must address economic, political and cultural issues that foster social exclusion, eliminate input market imperfections that prevent vulnerable groups from exploiting market opportunities, and adopt a more gradual approach to liberalization to ensure that the reforms do not have a disproportionate negative impact on the poor. Economic policies can also encourage diversification and quality upgrading. For example, increasing stability, reducing direct barriers to entry, and reforming the financial sectors helped promote diversification. Exports and imports of goods and services can generate or mobilise financial resources and have non-financial outcomes (in some cases trade is the single most important source of foreign revenues e.g. small island developing states, LDCs).

At the sectoral level, there are important variations between developing country regions, in terms of fostering productive capacity and enhancing the utilization rates of existing capacities, which in turn affect diversification and employment prospects. Africa, for instance, is characterized by deindustrialization, low manufacturing shares in exports, as well as poor technological upgrading. Moreover, investments, including foreign direct investment, are concentrated in extractive sectors, which are capital intensive with limited employment, linkages and spillovers to other sectors. The inadequate performance is further undermined by inconsistent and incoherent policies and strategies, as well as poor institutional capacities for policy formulation, experimentation and implementation, in tandem with a weak private sector.

By investing in productive sectors such as agriculture - as well as social sectors and social protection - the state contributes to basic growth fundamentals. Agriculture employs a majority of the workforce in low income and vulnerable countries and contributes significantly to GDP and trade. Despite the importance of agriculture and rural areas, efforts to diversify and transform economies have focused mostly on manufacturing development at the expense of agricultural development. Despite the increasing emphasis on productive capacities and transformation, it is important that the focus of development policy should not be on transformation per se but on how to ensure that it is done in an inclusive manner, across sectors and segments of the population. In relation to employment, policies should be designed to respond to the labour displacement effects, including that of the join forces of trade liberalization and technological innovation.

The investments can originate from the private sector and contribute to raising labour productivity. Increasing public investment also demands mobilizing fiscal revenues. Official development assistance (ODA), a central source of income for many LDCs and low-income countries, has often been misdirected and substituted for domestic fiscal revenues. ODA levels should be maintained, or possibly raised, and debt relief intensified. Aid should be increasingly used to strengthen the economic infrastructure and the capacity of the state to raise revenues domestically. Furthermore, providing a conducive environment for efficient private sector participation in the economy is critical. Deliberate efforts must be made to encourage FDI into sectors such as manufacturing and activities that encourage quality upgrade of existing exports.

4. Human capital development strategies affecting employment and productive capacities

Unemployment, poverty, and inequality are major development challenges. In Africa, for example, economic growth did not create enough employment to absorb new entrants into the rapidly growing labour force. The speed with which demographic transition takes place has serious implications for the population’s age structure and future potential for economic productivity.

Lessons learned across the African continent emphasize the need to scale up support in terms of education and human capital, and support to science, technology and innovation, while addressing exclusion, socio-economic and gender inequalities. Businesses and enterprises, along with households and individuals, face multiple limitations that prevent them from engaging in productive employment, including constraints in human capital and access to other social services, and limitations in the business environment. Low investments in human capital may affect the already low growth rates of income, implying a vicious circle of under-development. Thus, adequate policies to foster human capital, employment and investments to ensure that the additional working-age population can access decent jobs is key for the ongoing development agenda. The role of the private sector in advancing inclusive social infrastructure and in delivering key services such as education, job creation, and in advancing inclusive is crucial to build skills and knowledge, which are necessary for national economic competitiveness and development.

Evidence progressively shows that social protection systems and programs are effective tools to protect individuals and communities from shocks and improve their livelihoods.[3] Adaptive social protection programs, for example, can enhance productivity and promote resilience amongst the poor, helping them to move out of poverty (Drolet, 2014). A key element of adaptive social protection should include: facilitating the employment of poor people in productive and income-generating activities, to raise living standards, diversify livelihoods, and help households manage risks. The investments are enhanced when accompanied by productive measures such as entrepreneurship training, skills training, and links to markets, thereby also addressing youth and women employment (World Bank, 2018).

Finally, community-based programmes have the potential to improve the livelihoods of households and communities, contributing to resilience building and development. In many Sahelian countries land degradation, food insecurity, and poverty form a significant constraint to economic and environmental productivity. In this context, promoting sustainable farming and improved crop yields, can enhance income-generation providing both increased and diversified agricultural output, as well as employment opportunities.

5. Concluding remarks

Fostering productive capacities in structurally weak developing economies is challenging because they are heavily dependent on a few primary commodities for exports and have low financial and human resources, weak institutional capacities, low technological capabilities, and weak production linkages. In this context, achieving the Sustainable Development Goals will depend in part on the extent to which structurally weak developing economies can build and mainstream productive capacities into domestic trade and development polices. It will also depend on the role of development partners to effectively assist countries in lifting the binding constraints to growth and development. Special attention should be given to the role that development partners can play in making trade support the building of productive capacities in LDCs, SIDS and SSA countries to enable them to take advantage of the benefits that trade can bring.

[3] So far, support in the fields of social protection, climate change adaptation, and disaster risk reduction aiming to reduce vulnerability to such shocks have been delivered in isolation. More recently, Adaptive Social Protection recognises that greater integration and knowledge sharing among these areas would increase the chance to achieve a greater impact on people's vulnerability and help them in escaping poverty.

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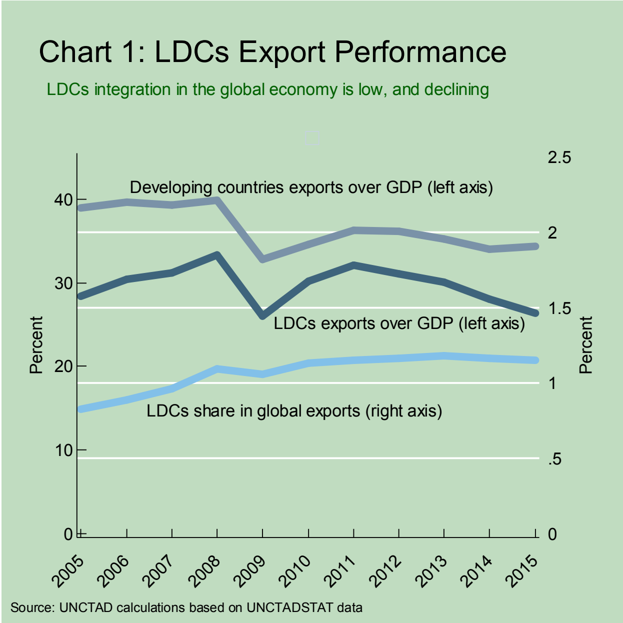
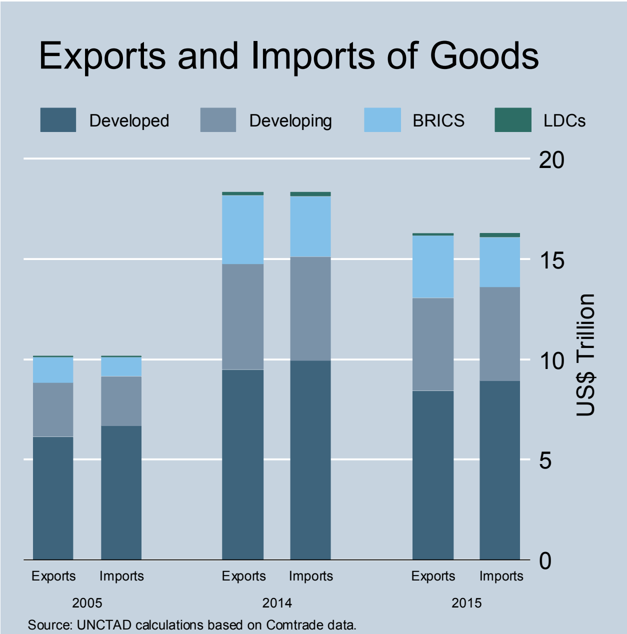
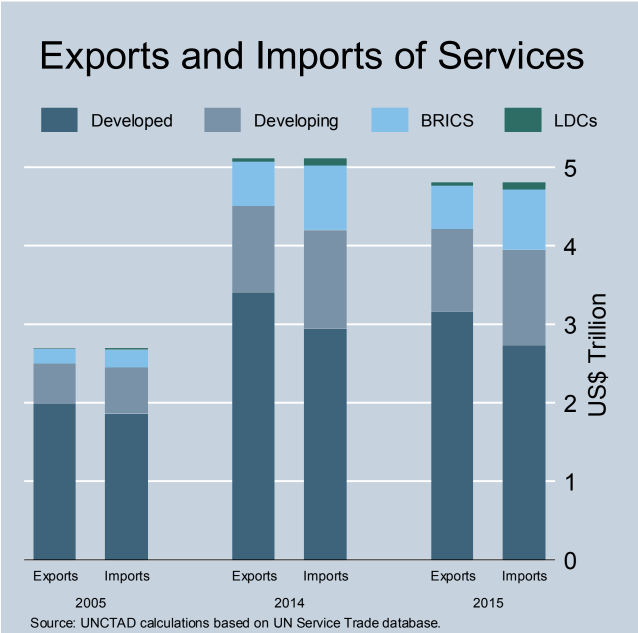
ANNEX

Graph 1: LDC Participation in the global economy

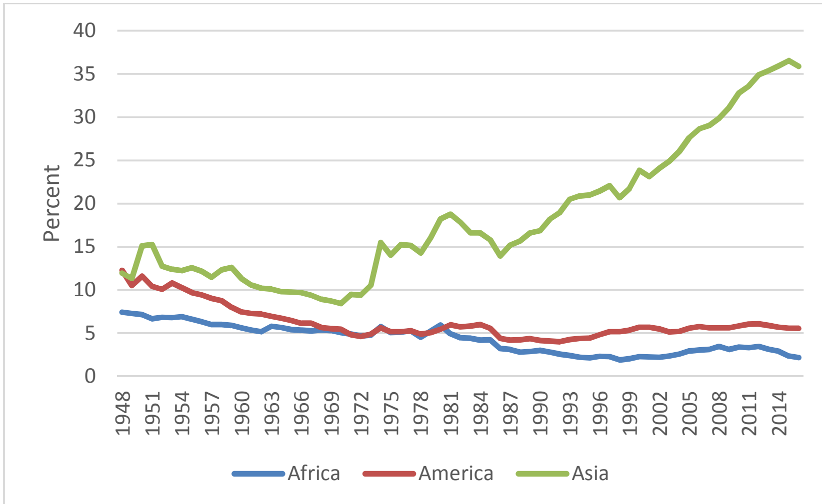


Graph 2: Trade of goods and services





Graph 3: Percentage share of total merchandise exports across developing regions



Source. Author's elaboration based on COMTRADE (2017)