



Division for Africa, Least Developed Countries and  
Special Programmes (ALDC)  
UNCTAD



# UNCTAD Short Courses (Under) P166 for Permanent Missions in Geneva

## The UNCTAD Productive Capacities Index (PCI): A New Tool for Policy Formulation in Developing Countries

Mussie Deleegn  
Chief, LLDCs' Section  
Division for Africa, Least Developed Countries and  
Special Programmes, UNCTAD  
16 April 2021, Geneva (Virtual)



# Outline

- I. What do we mean by productive capacities?
- II. Why are productive capacities important?
- III. Productive Capacities Index (PCI): Categories and indicators
- IV. Implications for multilateral processes and negotiations

Please visit: <https://pci.unctad.org> for all the resources on the index

# I. What do we mean by productive capacities?

Productive capacities are



the productive  
resources



entrepreneurial  
capabilities



and production  
linkages...

which determine a country's  
capacity to produce goods and  
services

# ..... and structural transformation

⇒ structural transformation of economies



Shifting productive resources:

labour, technology,  
capital, natural resources

low-productivity  
activities



high-productivity  
activities



## II. Why do productive capacities matter for economies?

Productive capacities are key to:

- generate higher, sustained and inclusive growth;
- address growth paradoxes or “tragedies” in developing countries, weak and vulnerable economies:
  - ✓ higher economic growth but poor social outcomes;
  - ✓ higher income levels but lower human development outcome;
  - ✓ better economic performances but low-middle- income traps;
  - ✓ progress in key determinants but little or no structural change;
  - ✓ increased investment in physical infrastructure with no parallel improvements in economic outcomes;
- ***To build economic resilience by unlocking binding constraints on development and address persistent vulnerabilities of economies to negative shocks.***

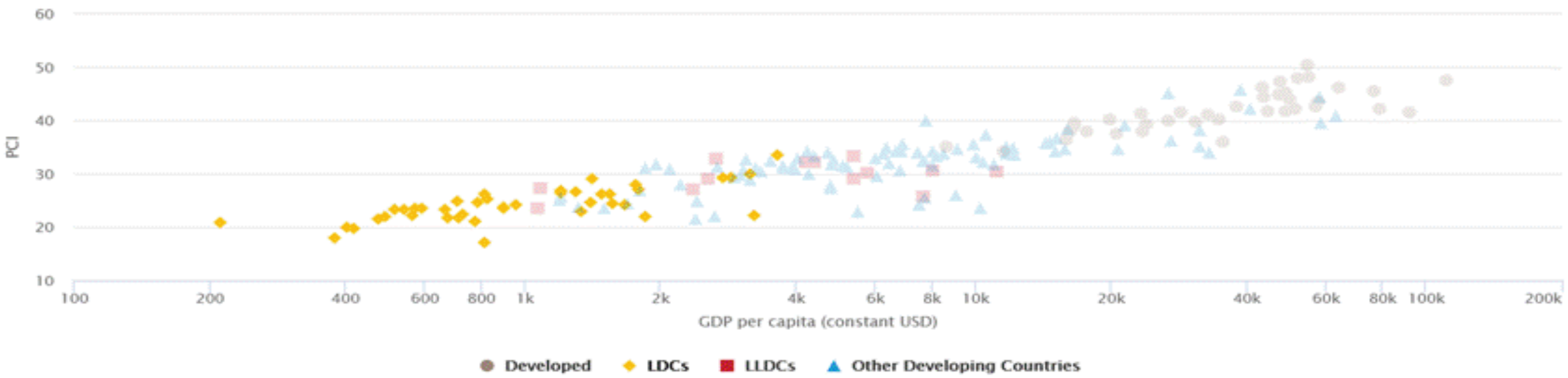
# .....(Continued) productive capacities matter?

- break the low-income/middle income traps in short period of time;
  - create dynamic and competitive sectors with diversified exports;
  - generate employment, enhance industrialization and structural economic transformation.
- ***Productive capacities are foundations for inclusive growth and development by effectively tackling binding constraints on development.***

# Productive capacities propel economies to higher-income

Correlation between the Productive Capacities Index and Gross Domestic Product per Capita, 2018

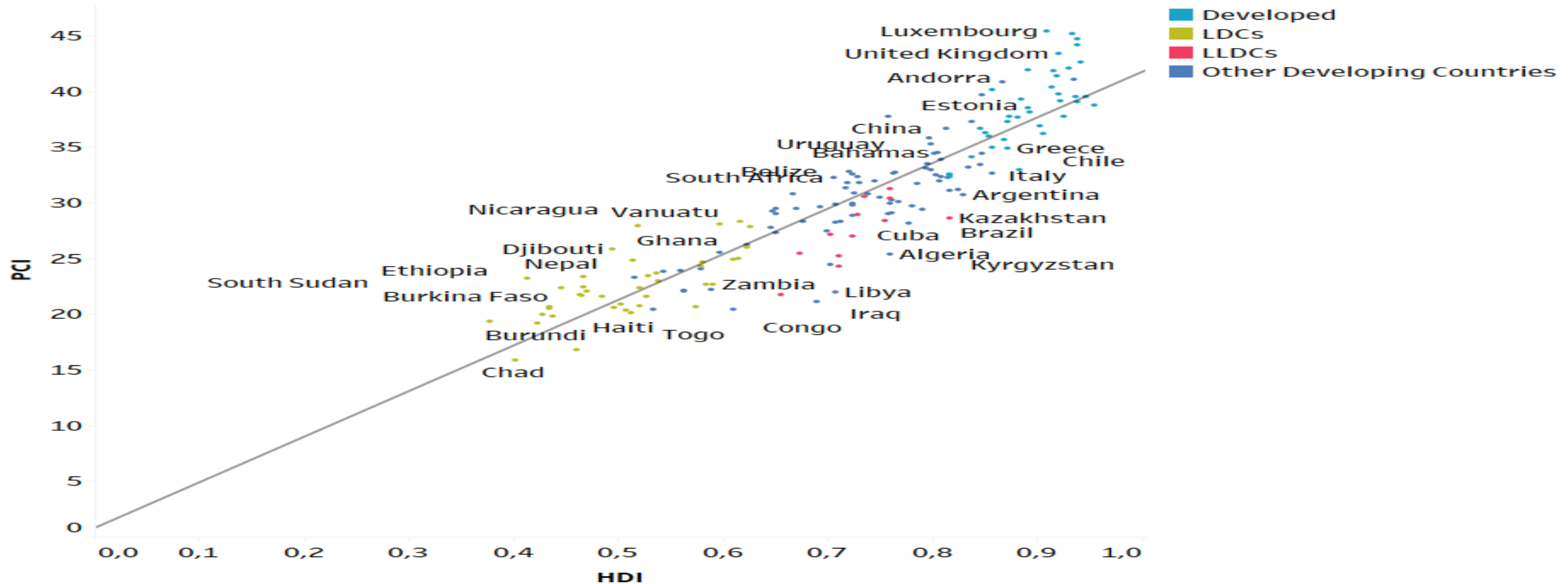
$\rho = 0.91$



# Productive capacities strongly correlate with Human Development Index (HDI)

## Correlation between the Productive Capacities Index and the Human Development Index

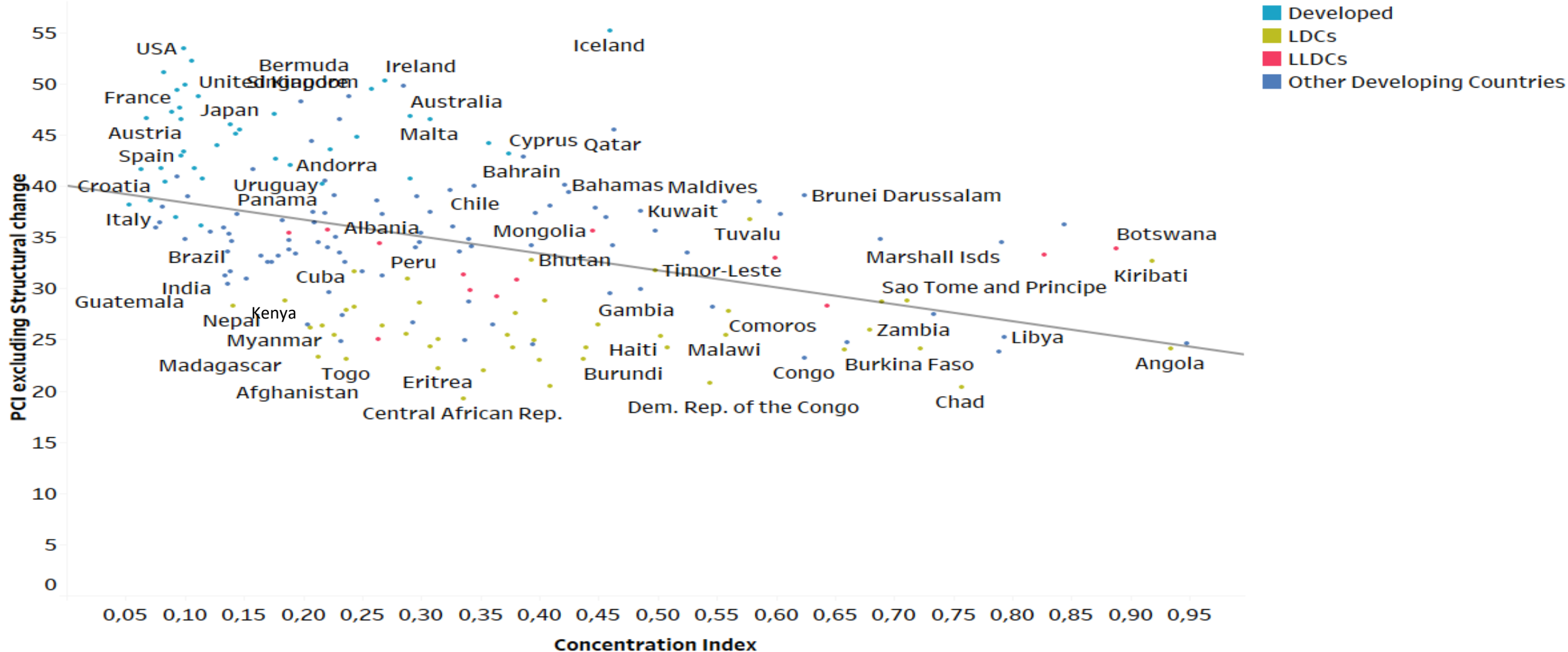
$$\rho = 0.92$$





# Productive Capacities negatively correlate with MECI

**Correlation between the Productive Capacities Index and the Merchandise Export Concentration Index**  
 $\rho = -0.43$



# IV. Implications of the PCI for delegations in multilateral forums and negotiations

The Productive Capacities Index (PCI):-

- is a tool to identify gaps, limitations and prospects for production transformation in developing countries;
- assists in leveraging development partnerships by indicating areas that require further interventions by stakeholders;
- helps in contextualizing multilaterally negotiated and agreed International Support Mechanisms (ISMs) for weaker and structurally vulnerable economies:-
  - ✓ What are the sectors of comparative advantages?
  - ✓ What are the key binding constraints on development?
  - ✓ How should donor-supports be redesigned and targeted?
  - ✓ How can market access or special and differential treatments target areas of comparative advantages or unlock binding constraints?