and Social-Coun

e international development policy debate increasingly emphasizes expanding productive capacity as an element key to

policy, the soft approach reduces the scope for corruption and rent-seeking and is more compatible with the multilateral and bilateral trade and investment agreements that have been implemented by many least developed countries over the last decades. Under this approach, new institutional arrangements can facilitate the growth of innovation as a key input into the industrial upgrading process.

Governments need to ensure that there is a positive synergy between social outcomes and increases in productive capacity. is can be achieved through adoption of policies that build positive social outcomes (such as poverty eradication, health and well-being, quality education for all, reduced inequality, gender equality, full and productive employment and decent work) into the transformed structures of production, rather than policies underpinned by the attempt to grow rst and redistribute later. For the creation of positive social outcomes, attention must be given not only to the amount of investment in services, such as education and health, but also to quality and access. Inclusive social policies, in particular those targeting women and girls, are essential. Special attention also needs to be focused on improving the employment prospects of youth, women and other disadvantaged groups.

Of equal importance is having the necessary social protection policies in place to shield people from the eventual costs and negative impacts resulting from structural transformation. In many cases, potential trade-o s – for example, between improving infrastructure through large-scale investments in dams, for example, and displacement of local populations, or between large-scale plantations or agro-processing facilities and the livelihoods of smallholders – can be addressed through bene t-sharing approaches. Other potential trade-o s, for example, between increasing employment in low-skill manufactures and unsafe working conditions, may disappear once the negative impact on productivity of increased sta turnover and absenteeism are factored in. However, this requires an understanding of the risks of negative synergies between productive capacity and social outcomes and the putting in place of measures to counteract them.

e key to rapid economic growth in the developing world is a combination of strategies aimed at the dynamic transformation of production structures, with appropriate macroeconomic conditions and stability. us, macroeconomic policies should support capacity expansion and increase the resilience of the economy to external shocks and internal crisis, reducing external and internal imbalances, while orienting the key policy tools (the interest rate, the exchange rate and nancial regulation) towards capacity expansion. Rather than target only in ation, monetary policy needs to accommodate these multiple objectives. Least developed countries with access to exchange rates as a policy instrument should aim at maintaining stable and competitive real e ective exchange rates. Establishing scal rules and, for commodity-dependent least developed countries, stabilization funds can help ensure that scal policy is counter-cyclical. While capital account management can also contribute to increased stability of the macroeconomic framework, it is no substitute for sound scal and monetary policy. Most least developed countries have space within which to increase tax shares by broadening tax bases and increasing the progressivity of tax regimes, thereby providing additional nancial resources for capacity expansion.

Policies should ensure that the nancial sector contributes to economic growth, nancial stability and equity. e most pressing needs centre around access to nance by the poor and marginalized groups, agricultural nance and nancing of small and medium-sized enterprises, as well as infrastructure nancing. Addressing these needs requires improved regulation and supervision of the sector as well as enhancement of the role of inclusive nance vehicles such as micro nance, mobile banking and credit unions and their further integration into the regulatory framework. Giving stronger roles to national development goods and most African least developed countries remain commodity exporters. Preferential market access has not yet enabled least developed countries to move towards more skill-intensive and higher-productivity manufacturing activities, while the impact of enhanced market access on social and environmental outcomes requires further investigation. e implementation of the World Trade Organization waiver allowing for preferential access in services could play an important role, but only if it includes sectors and modes of supply in which least developed countries have a potential comparative advantage.

As improved market access does not directly solve the problem of the lack of productive capacity, supply-side oriented support to infrastructure-building, enhancing rm productivity and trade policy reform, as envisioned under the Aid for Trade initiative[2], can be instrumental. However, there is an urgent need to shift Aid for Trade allocation towards countries most in need of such support, i.e., the least developed countries in particular. A more precise de nition of Aid for Trade is also needed to enable the evaluation of its impacts and e ectiveness. In many least developed countries, support is also needed for better identifying and addressing trade constraints. Moreover, additional resources should be channelled to regional projects, as some trade-related issues, such as that of transport corridors, can be tackled only within a regional framework.

Aid for Trade projects need to consider their impact on trade as well as on di erent groups (for example, formal versus informal workers, male versus female workers, and large versus small businesses) so that inequality does not rise in recipient countries. ere is potential for Aid for Trade to become aid for innovation, if support for basic research and science and technology becomes part of it. To strengthen national ownership, matching(c)-15(o)8.9(m)4(e a)-28.3(i(t )16(n)8.5(n d) MCID 5 24BDC BT f)-2.7(o)8.6(r A)-0.21(u)-T