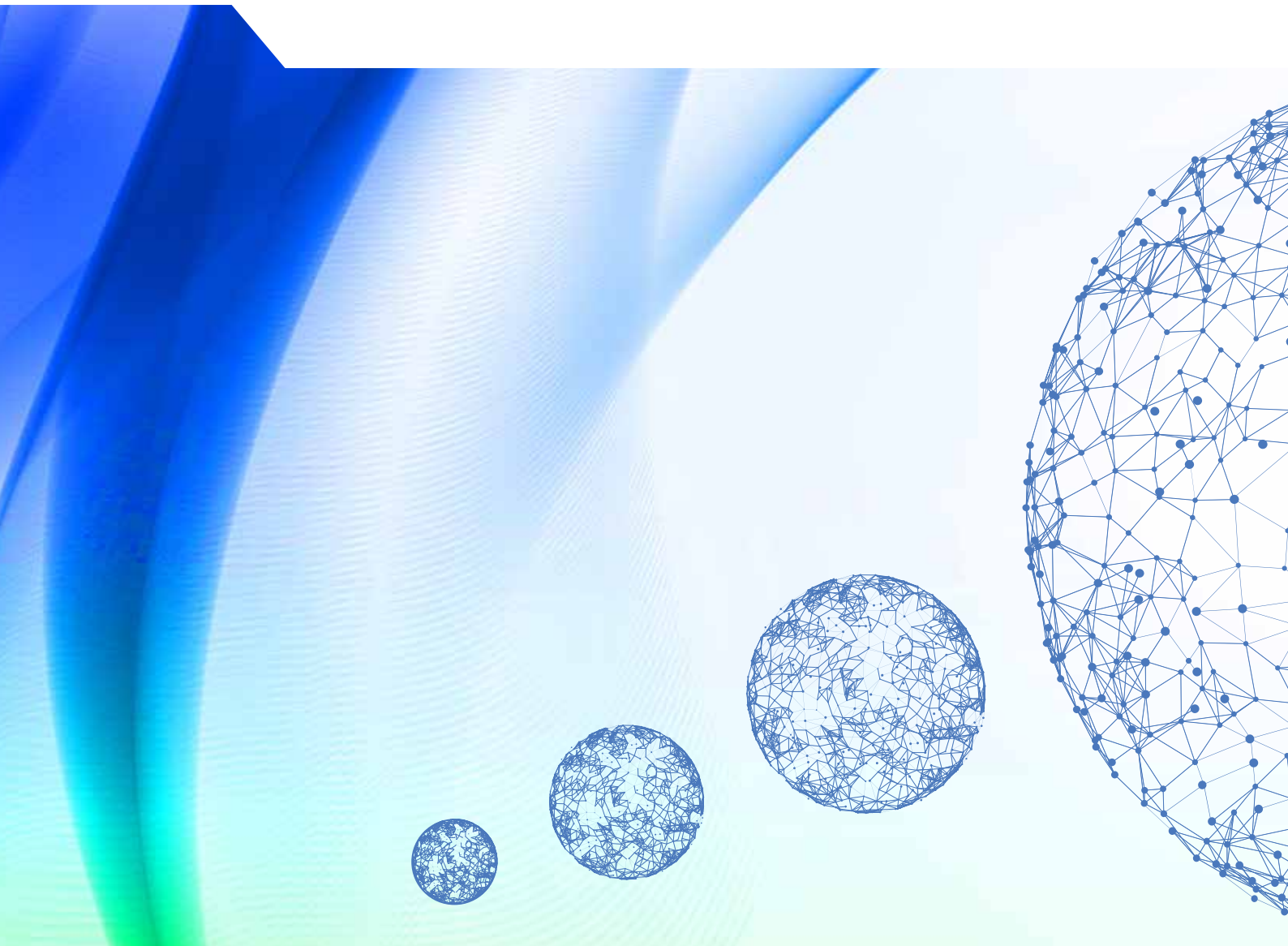


OECD Development Policy Tools

Production Transformation Policy Reviews

ACTIONS TO SUCCEED IN A CHANGING WORLD



Production Transformation Policy Reviews

Actions to Succeed in a Changing World

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Foreword

As countries become increasingly concerned with the future of globalisation and industry and their role in global production networks, defining and implementing policies for economic transformation that deliver on the competitive, social and environmental goals has become paramount.

The current global economic setting is turbulent, complex and fast-changing, and calls for a better understanding of the ongoing technological, digital and industrial re-organisation to enable policy makers to better plan and act for the present and the future. Developed within the framework of the OECD Initiative for Policy Dialogue on Global Value Chains, Production Transformation, and Development, the *Production Transformation Policy Reviews* (PTPRs) provide a new policy tool for assessment and guidance on strategies for economic transformation. The PTPRs thus provide a timely tool for addressing the challenges of production transformation and industrial development, and therefore of the future of work, at a time when these issues are returning to the centre of the development agenda.

Growth is a necessary, but not exclusive, condition for development and incentives need to be provided to guarantee that growth delivers socially inclusive and environmentally sustainable outcomes. When designing and implementing national strategies and policies, governments increasingly face uncertain scenarios. The PTPRs recognise that there is no single way to develop, and that each country and territory defines its own way to strengthen its production base and benefit from globalisation.

Whilst each specific design and implementation strategy must ultimately be built drawing upon domestic capabilities, the PTPRs add value by facilitating peer dialogue and knowledge sharing, both within the country and internationally. This exchange of experiences should be not just part of the review process, but a permanent element of policy making. Bringing together all relevant stakeholders not only enhances ownership and accountability, it is also a key requisite for enabling an economic transformation that creates better jobs and lives for all citizens.

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Transformation and Development

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The elaboration of the PTPR tool could have not been possible without the contribution and support of the Bureau of the Initiative [at the time of the elaboration of the tool]: Viviana Araneda Urbina, Advisor, Bureau of International Trade Relations, Ministry of Foreign Affairs, Chile; Mariana Vijil, Deputy Head of Trade Policy, WTO and EU Trade Agreements, Ministry of Economy and Finance, France; María Verónica Orendain de los Santos, Director for Heavy Industry and High Technology, Ministry of Economy, Mexico; Umut Gür, Head of Department, General Directorate of Economic Sectors and Coordination, Ministry of Development, Turkey; Daniel Kefeli, Director of Sectoral Industrial Policies Division, Ministry of Industry, Energy and Mining, Uruguay; and, the leadership of its Chair, Francisco Monge, Deputy Director General of Foreign Trade, Ministry of Foreign Trade, Costa Rica. The policy tool was developed within the framework Working Group on Country Studies, led by Costa Rica, Uruguay and Turkey. It benefitted from the contributions of UNCTAD, UNIDO and UNU-MERIT (Richard Kozul-Wright, Piergiuseppe Fortunato, Michele Clara and Bart Verspagen, respectively) and from comments from Mario Cimoli (ECLAC). The tool benefitted from review and comments from participants to the 3rd Plenary Meeting, hosted by the Malaysian Ministry of International Trade and Industry on 28-29 October 2014 in Kuala Lumpur, Malaysia. It has been endorsed by participants to the 4th Plenary Meeting of the Initiative, held in Paris, France at the OECD on 12-13 May 2015. Lorenzo Formenti, Chloé Desjonquères and Martha Baxter contributed to the drafting, Kim Millin to the finalisation of the publication.

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Acronyms and abbreviations

ECLAC	Economic Commission for Latin America and the Caribbean of the United Nations
EQuIP	Enhancing the Quality of Industrial Policy
EU	European Union
FDI	Foreign Direct Investment
GIZ	German Agency for International Co-operation
GVCs	Global Value Chains
MNCs	Multinational Companies
OECD	Organisation for Economic Co-operation and Development
PLG	Peer Learning Group
PTPRs	Production Transformation Policy Reviews
SME	Small and Medium Enterprises
TiVA	Trade in Value Added
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
UNU-MERIT	United Nations University – Maastricht Economic and Social Research Institute on Innovation and Technology
WB	World Bank Group

Background

The Production Transformation Policy Reviews (PTPRs) are a policy assessment and guidance tool elaborated in response to countries' demand in the framework of the OECD Policy Dialogue Initiative on Global Value Chains, Production Transformation and Development [the Initiative herein forward] to support knowledge sharing and policy dialogue and to increase the evidence on varieties of development trajectories (OECD, 2013e; OECD, 2016).

The PTPR framework is the result of a collective process that started in 2014 with a Working Group on Country Studies set up in the framework of the Initiative and led by Costa Rica, Uruguay and Turkey. The Working Group benefitted from the participation of UNIDO and UNCTAD and from the contributions of the Advisory Board and a group of experts. The framework has been discussed and fine-tuned in the Expert Meeting hosted by the Ministry of Development of Turkey and TEPAV in Istanbul, Turkey, in October 2014; it has been discussed at 3rd Plenary Meeting of the Initiative hosted by the Ministry of Trade and Industry of Malaysia in Kuala Lumpur, in October 2015. The PTPR Framework has been endorsed at the 4th Plenary Meeting of the Initiative in May 2015 in Paris, as the policy assessment and guidance tool which offers an original framework for policy diagnosis and guidance, providing a valuable process of dialogue and exchange with government and business stakeholders within the reviewed country and abroad.

1. The need for a new policy assessment and guidance tool

Developing and emerging economies, as well as OECD countries, are increasingly looking for mechanisms to identify ways of adding value to current production patterns and capturing higher gains from trade and foreign direct investment (FDI), while at the same time generating growth patterns that are environmentally sustainable and socially inclusive (ECA, 2011; Aghion et al. (2013); OECD, 2013a; 2014a). After decades in which development was considered a spontaneous process that would have been automatically achieved by letting the (global) markets function freely, there is a growing recognition that government choices and institutions, together with business choices, and the capacity of each economy to provide incentives for win-win public-private interactions, play a pivotal role in shaping developing trajectories and in determining the capacity of each economy to generate jobs, distribute wealth and respect the environment (Cimoli et al., 2009; Perez and Primi, 2009; Noman et al., 2012; OECD, 2013a; Salazar-Xirinachs et al. 2014; Lin, 2012; Mazzucato, 2013; Noman and Stiglitz, 2015; Primi, 2015). This return of the “real economy” dimension into the development debate is also reflected by the discussions on the post-2015 development agenda (Fukuda-Parr, 2012), and in the changes in development approaches of many developing and emerging economies (ECA, 2011; OECD/AfDB/UNDP, 2014; OECD, 2013a; UNCTAD (2014).

While there is growing consensus among developing and emerging economies that improving the current production, consumption and trade patterns is necessary for development, “what to do” and “how to do it” in the best way and taking into account the impacts of new technologies, changing demand patterns and the overall changing global economic landscape are still open questions (OECD, 2013a; UNCTAD, 2013; UNIDO, 2013; ECA/AU, 2013). These concerns are not only relevant for developing and emerging economies. OECD countries, in turn, are also increasingly discussing how to re-launch growth, create more and better jobs, retain industrial capabilities and improve their positioning in global markets (Baldwin et al. 2013; EC, 2014, 2010a, 2010b; OECD, 2014a, 2013b).

The PTPRs respond to the need of designing and implementing better strategies to cope with the opportunities and challenges offered by globalisation and digitalisation by

identifying governance systems that enable countries and territories to sustain growth and industrial development while leaving no one behind. The reasons for setting up this new policy assessment and guidance tool are manifold, and include:

- The growing attention (and in certain cases, resources) given by countries to the design and implementation of policies to increase domestic value added and the retention capacity of jobs and rents derived from production and trade, taking into account the opportunities and challenges posed by the global economic landscape.
- The return of “industrialisation” and “economic structure” to the development debate, as key determinants of development patterns and of the capacity of the economy to generate and redistribute rents (as shown by the Sustainable Development Goals). The recognition that designing and implementing these policies in the increasingly complex and uncertain global economic landscape requires sophisticated diagnostic and articulation capacities with a growing and varied set of stakeholders.
- The recognition that our economies are increasingly interconnected and that, while planning and implementing industrial and production transformation policies takes place at a national level, there are multiple stakeholders with whom this strategy is called to interact within countries and globally, therefore requiring new forms of partnerships in strategy setting, policy design and implementation.
- Increased demand from citizens and communities for greater accountability in delivering production transformation policy solutions that work and that are not only economically viable, but also socially and environmentally sustainable.

2. The PTPRs: Enabling multi-stakeholder dialogue for better strategies

Box 2.1. What are the PTPRs?

The PTPRs are the policy assessment and guidance tool developed in the framework of the OECD Initiative for Policy Dialogue on GVCs, Production Transformation and Development.

The PTPRs offer an in-depth multi-stakeholder dialogue process and provide a guiding framework to policy makers in order to identify options and actionable policy responses to promote structural transformation, based on the comparative assessment of countries’ assets, upgrading potential and priorities.

The PTPRs provide lessons learned on how to promote effective economic transformation and identify a roadmap ahead for the reviewed country based on in-depth domestic consultations, dialogue with the business community and peer-assessment. The PTPRs foster an open and participatory process in strategy setting and encourages dialogue within the reviewed country and with international partners through knowledge sharing and peer-learning.

General objectives

- To provide a guiding framework for policy makers to identify actionable policy responses to promote structural transformation based on a comparative assessment of countries’ assets, potential and priorities.
- To increase collective knowledge on the variety of development trajectories and patterns, and on development narratives based on in-depth reviews of countries’ experiences.

Specific objectives

- To provide a comparative assessment of the current economic structure and interconnectedness of the country, with a view to detecting potential for change. The diagnosis includes structural and governance assessments of production and innovation systems in the country.
- To provide an assessment of current strategy, institutional arrangements and financing options for policy implementation with a view to detecting strengths and weaknesses, as well as opportunities for improvement.
- To assess, in a comparative way, the positioning and potential for improvement in a selected industry/value chain with a view to identifying recommendations on how to move forward and increase the impact of policies.
- To identify key recommendations, based on peer review exercises, to improve policies for production transformation and upgrading in value chains by identifying actionable policy proposals, clarifying sequencing and co-ordination requirements.

3. The starting point: Existing tools and studies

The growing interest on how to mobilise public investment and choices to promote production transformation in order to overcome current structural weaknesses, sustain growth and achieve higher living standards, has given rise to a large number of studies, of different nature, scope and theoretical foundations, which provide inputs on what governments could do to take advantage of the current economic landscape.

There are numerous studies and tools that provide inputs and/or address, from different perspectives, the challenges of designing and implementing policies for production transformation. The following paragraphs identify four main categories of existing studies and highlight in what ways they can contribute to the PTPRs:

Studies on trends, future scenarios of production and trade patterns

There are numerous studies, carried out by think tanks, global research institutes and international organisations, which provide an overview of global (and regional) trends in the organisation of production and trade patterns in the global economy (OECD/AfDB/UNDP, 2014; OECD, 2014a; 2013a, b; McKinsey, 2012; IDA, 2012; UNCTAD, 2013; ECA/AU, 2013; UNIDO, 2013). These studies are of diverse nature and have different purposes, but they share a commonality in that they provide an overview of global economic patterns highlighting:

- A rapidly changing world
- Growing uncertainty about the future
- The emergence and diffusion of new technologies
- The rise of new actors and powers at the global level
- The Growing relevance of interconnectedness and networks for contemporary economies
- New preferences and demands on the consumer side.

These studies offer important inputs to the PTPRs by providing insights on identifying relevant future trends which could open up new opportunities and challenges for achieving upgrading and production transformation.

Studies on industrial organisation, GVCs, sectoral studies, firm-level analyses

Recently, there has been an upsurge in studies focusing on how the production and delivery of specific goods and services is done with a view to identifying options to tap into potential opportunities opened by the unbundling of production at the global level (Baldwin, 2012). Among these studies, many make explicit reference to the GVCs framework (GTZ, 2007; Sturgeon, 2008; Gereffi and Stark, 2011; Kaplinsky and Morris, 2001; Schmitz, 2011); others focus on new trends in firm behaviour and are based on firm-level evidence from industrial and innovation surveys (OECD, 2009; Cimoli et. al. 2011); others focus on cluster dynamics and evolution and sectoral trends (Malerba, 2004; UNIDO, 2009; Wintjes and Holladers, 2010). Other contributions propose frameworks to analyse countries' potential for structural change (Hausmann and Klinger, 2006; Lin 2012). These studies, beyond the differences, provide relevant insights on the diagnostics of production specialisation and internationalisation, highlighting:

- The relevance of networks for innovation, production and trade and the specificities of networking patterns in emerging and developing economies;
- The changes in the behaviour of the main players in each industry/sector (e.g. emerging tendency of re-shoring; new forms of delocalisation; new internationalisation strategies)
- The importance of positioning in global (regional, local) production networks for development outcomes in the medium and long term;
- The time and costs associated with learning and upgrading;
- The differences across industries and sectors in terms of potential spill-overs and linkages.

These studies provide in-depth evidence on how firms, industries and clusters operate in practice and offer a good base for the diagnostic phase of the PTPRs.

Policy reviews

Many international organisations have developed different methodologies to carry out policy reviews with the objective to assess trends and identify policy recommendations to improve the quality and outcomes of the policy-making process. There are multiple reviews which address specific policy areas that are relevant for the production transformation challenges, such as for example innovation reviews (carried out by the OECD, 2014b, 2006, UNCTAD, 2012, 2011; UNESCO, 2009, 2006; among others), skills reviews (OECD, 2014c; 2014d), regional innovation reviews (OECD, 2013c), and investment framework policy reviews (OECD, 2013d, 1997). These reviews address specific policy challenges and provide in-depth country assessment of assets, advantages, opportunities and threats of the current landscape, with a view to identifying actionable policy solutions for the reviewed countries. Beyond the differences, these reviews highlight important elements, which can be of help in defining the methodology of the new PTPRs:

- Having a clear framework for comparable diagnostics matters for the quality of the review process.
- Quality and effectiveness of the institutional setting matters for policy outcomes.
- Monitoring and evaluation should be considered as part of the policy cycle and not as ex-post checking phases.
- Each country has a different institutional setting which is important to take into account in the recommendation phase.
- The methodology of the reviews influences their outcomes: i.e. involving peers from countries has proved to be effective in transforming the reviews into real-time learning/capacity-building tools for all countries involved.

These reviews not only provide relevant inputs on methodology, but also represent a helpful body of knowledge on how different policy solutions work in different contexts. With respect to the production transformation challenges, these reviews offer contributions to knowledge on important drivers of transformative change. To address the overall economic transformation objective, more needs to be done on the bundle of investments needed and on the policy co-ordination side.

Road-maps and toolkits for practitioners and policy makers

Different toolkits targeted at practitioners and policy makers are being developed with a view to supporting evidence-based decision making in the realm of production transformation and innovation strategies. On the innovation side, there are multiple toolkits and platforms, such as the OECD/WB IPP (Innovation Policy Platform <https://www.innovationpolicyplatform.org/>), which is a web-based and interactive platform about science, technology and innovation policies, providing information about innovation systems and policies. ECLAC also has a web platform which provides guidance on theory and practice of innovation policy, including information based on trends, institutional setting and policy tools, mostly targeting Latin American countries (www.cepal.org/iyd/). More recent are the efforts to develop toolkits for production transformation policies, such as the UNIDO/GIZ EQUiP toolkit (Enhancing the Quality of Industrial Policies), which is currently being developed and which provides a comprehensive mapping of industrial specialisation, dynamics and organisation at the global level, in order to foster evidence-based policy making choices. UNCTAD is working on the identification of new opportunities for production transformation and export on the base of the existing industrial structure and available capabilities at country level in emerging and developing economies. The EU has developed the Smart Specialisation Platform which provides information and capacity building tools for policy makers on innovation and industrial policies, and which serves as a “one-stop shop” for EU member states in order to facilitate synergies and complementarities between the different EU programmes which target production development and transformation in the regions of the EU member states (<http://s3platform.jrc.ec.europa.eu/home>). These platforms, which are built following different approaches and responding to different needs, contribute to provide evidence on:

- Production structure specialisation and evolution
- Assets and capabilities for innovation
- Composition of the policy mix for production transformation and innovation.

These platforms contribute to building and diffusing comparative evidence for improving the diagnostics and to collecting qualitative information about how policy tools are designed, managed and assessed in different countries.

4. The value proposition of the PTPRs

The unique value proposition of the PTPRs rests on four pillars:

- **An original perspective: the starting point and the focus are on the challenge (production transformation) rather than on the specific drivers of change (skills, innovation, trade, etc.).** The starting point is the definition of development as a process of socio-economic change and the identification of structural change as a necessary, though not unique, step towards development. The PTPRs therefore focus on challenges (i.e. how to shift from one specialisation pattern to another? how to upgrade in regional and global production networks?) rather than focusing on policies that address individual drivers (such as improving innovation, skills, infrastructure, internationalisation, etc.).

- **A forward-looking exercise.** Promoting production transformation and upgrading in value chains is about detecting future opportunities. PTPRs offer policy makers a guiding framework to scan future opportunities and identify policy tools and public-private partnerships that can be leveraged to tap into these opportunities. PTPRs provide inputs for actionable policy solutions based on increased understanding of potential future changes and associated responses to maximise opportunities and mitigate risks.
- **An assessment sensitive to the temporal and territorial dimensions.** The PTPRs take into account the specificities of each country, as well as its stage of development. While existing reviews often respond to current challenges and offer solutions to be implemented in the short term, the nature of the policy dialogue process across countries of different levels of development calls for medium and long-term perspective for the assessment and recommendation in order to identify what could trigger the accumulation of capabilities over the medium and long term in different contexts. The PTPRs take into account the territorial dimension within countries looking at imbalances and dynamics in specific regions and cities and highlight the multi-level governance options for making transformation strategies more inclusive and sustainable.
- **A process of global knowledge sharing, peer learning and multi-stakeholder dialogue.** PTPRs are developed as a tool for knowledge sharing and peer learning between and within countries. They rely on the assumption that strategies and policies are context and time specific, but that there are overarching principles that can enhance the quality and effectiveness of the policy process. The PTPRs are developed with the goal of contributing to the quality of design and implementation of policies based on open dialogue and peer review between OECD and non OECD countries, reflecting the reality in which national boundaries are limiting for taking policy actions for production transformation in the current global economic landscape. Therefore, these reviews reflect at their core the interconnected nature of economic processes in the current economic context. The PTPRs involve a deep process of dialogue and consultation within the reviewed countries, fostering therefore a multi-stakeholder discussion about the challenges and opportunities of economic transformation and the related policy options to identify key areas where shared actions can be mobilised to achieve change.

The PTPRs benefit from the participation of peers in the review process in two ways: through two peers selected by the reviewed country and through the PTPR Peer Learning Group (PLG). The PTPR Peer Learning Group (PTPR-PLG) is set up as part of the review process. It is open to member countries of the Initiative upon their expression of interest, as well as to other countries and stakeholders as indicated by the Chair of the Bureau of the Initiative and the reviewed country. The PTPR-PLG meets at least once during the PTPR process, preferably back to back to one of the Plenary Meetings of the Initiative. The objective of the PTPR-PLG is to discuss in depth and identify lessons learned from others about key policy issues that emerge during the PTPR process. It also allows other countries and stakeholders to benefit from the PTPR learning process.

5. The conceptual framework

Main assumptions

The PTPR framework rests on three main assumptions that derive from the current context:

- Growth is necessary for development, but there is a need to take into account not only the rate of economic growth, but also the qualitative dimensions (in terms of the capacity of this growth to be job-rich, to be inclusive and environmentally sustainable). In this respect, the micro-dynamics that growth generates in the production structure, the capacity to generate systems that add value globally and locally, matter, in addition to the pure quantitative assessment of growth.
- Production structure matters for development. What countries produce and trade shapes not only economic growth but the capacity of economic systems to generate and redistribute rents and determines overall development outcomes. This tool, by focusing on the production transformation challenges, can contribute to the implementation of the 2030 Agenda for Sustainable Development which seeks to go beyond the previous approach which had prioritised the social dimension of development, over the production development challenges. Countries' abilities to achieve social prosperity and inclusiveness in the long term are also determined by the economic structure and the patterns of integration into global trade.
- Policies, in the form of formalised strategies or multiple initiatives, play an important role in shaping development trajectories and in supporting the transition towards superior development stages characterised by the accumulation and diffusion of organisational, production and technological capabilities.

These assumptions have two corollaries, which are of critical importance for the policy assessment exercise:

- Production transformation strategies aim not only at identifying ways to improve current production and service delivery, but also at inducing transformative change in the economy by shifting from low-knowledge content activities to higher-knowledge content activities.
- The policy domain for addressing the challenge of production transformation and upgrading in value chains goes beyond one single ministry and/or agency and needs to take into account national as well as regional and local actors.

The 5 pillars of successful transformation and upgrading strategies in contemporary economies

The current economic landscape is undergoing major technological, demand-side and geopolitical changes, and it is highly likely that the future will look considerably different from the past. The uncertainty and complexity of the current landscape call for more sophisticated policy approaches to promote production transformation and development, which need to take into account upfront the opportunities and challenges of developing in a globalised and interconnected world. In this context, assessing a country's current specialisation and potential for transformation and identifying the role for government and business is a complex task. The PTPRs add value to the current process of strategy setting and policy implementation by providing a simple and focused way to assess and benchmark countries' capabilities and potential for transformative change.

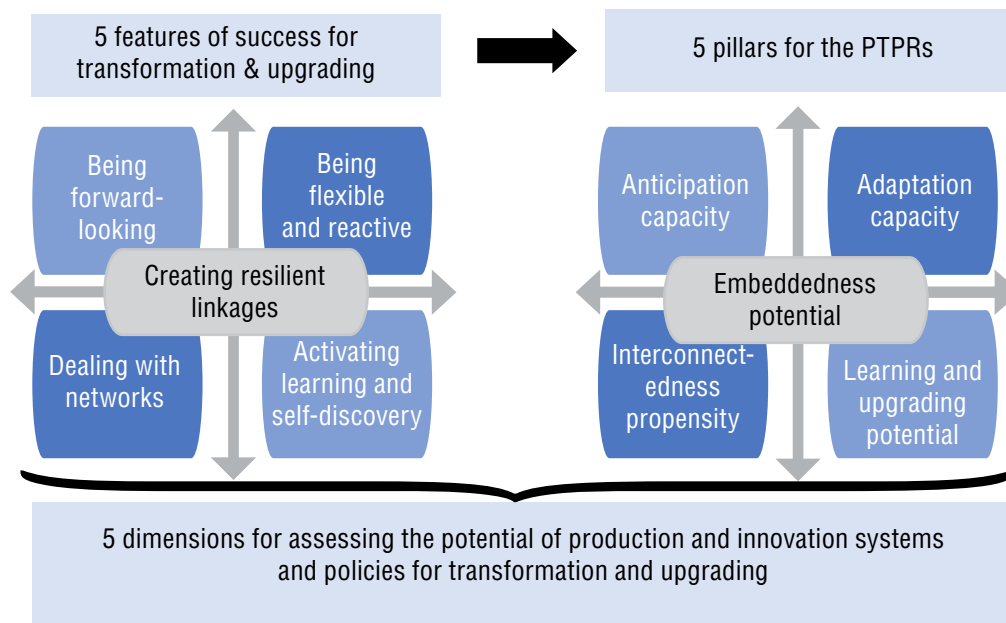
The PTPRs propose an interpretative framework for assessment and recommendation which takes into account the characteristics of the global economic landscape in which countries are embracing production transformation strategies as the starting point of the analysis. The PTPRs focus on assessing countries' capabilities and potential in five domains (Anticipation capacity, Adaptation Capacity, Learning and Upgrading Potential, Interconnectedness Propensity and Embeddedness Potential). These five pillars derive from the recognition that there is no unique model of development. Countries develop and achieve upgrading in a variety of ways. Their performance is determined by a mix of internal and external factors and by the effectiveness of the mix of existing capabilities.

In particular, in the current economic landscape, five features have been identified as distinctive in explaining the success of the capacity of economic systems:

- The capacity to be forward-looking
- The capacity to be flexible and react to changing circumstances
- The capacity to activate learning dynamics and to engender self-discovery processes
- The capacity to deal with increasingly complex networks
- The capacity to create resilient linkages and create/retain value.

Based on the features identified above, the PTPRs focus on assessing countries' readiness and potential for transformative change taking into account countries' specificities and international benchmarking. Figure 1 illustrates the five-pillar based framework for the PTPRs (Figure 1).

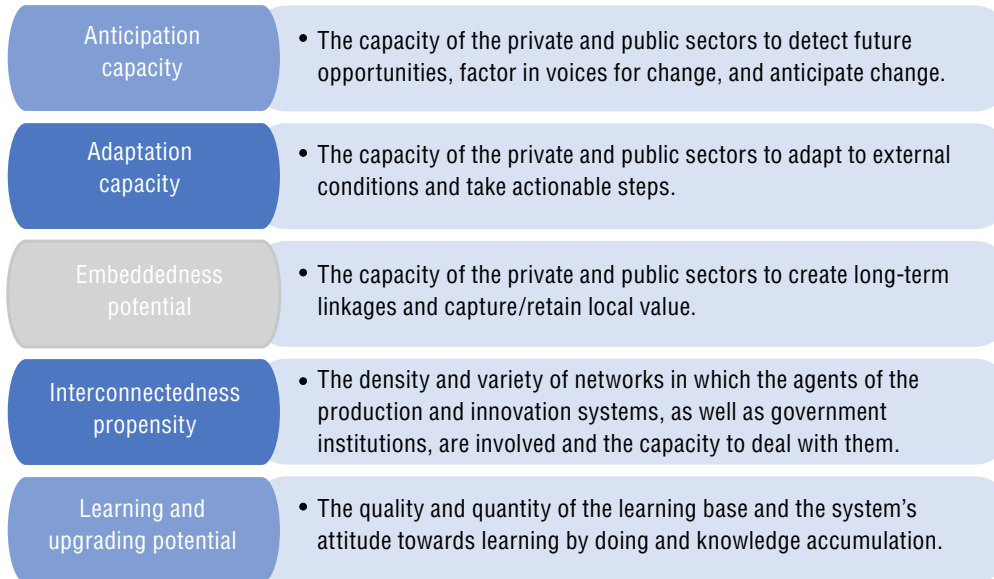
Figure 1. PTPRs' interpretative framework



Source: Authors' elaboration.

The five pillars of the PTPRs are defined as explained in Figure 2.

Figure 2. Definitions of the 5 pillars of the PTPRs



Source: Authors' elaboration.

Anticipation and adaptation capacities are key features of a policy framework capable to cope with the increasingly uncertain economic landscape. Many countries are embracing policies to promote industrialisation as a way to sustain growth while at the same time achieving social and environmental sustainability. Many countries are also showing renewed attention towards manufacturing and the linkages between manufacturing and services. In this context, some countries are taking steps in increasing the government's capacity to anticipate change by increasing the dialogue with non-government actors, including civil society, the scientific community and the private sector. Chile has set up a Commission in the Senate focused on discussing future trends to identify how policies can be better informed and take actionable steps, taking into account the epochal changes the global economy is undergoing in this context. Ireland set up an Expert Group on Future Skills Needs (EGFSN) in 1997, which advises the Irish Government on current and future skills needs and on other labour market issues that will impact on Ireland's enterprise and employment growth. The EGFSN provides skills foresight and benchmarking, strategic advice on education and training for skills development, data collection and analysis on the demand and supply of skilled labour and monitoring and implementation.

The density and variety of networks in which firms operate as well as the capacity of government institutions to operate in networks and co-ordinate are increasingly important determinants of success. For example, the stability and variety of client networks for supplying companies increases their capacity to cope with growing competitiveness pressures. At the same time, governments increasingly need to be endowed with the capacity to co-ordinate and operate in networks to deliver better policies. Co-ordination matters between levels of government, between ministries and specialised institutions, and between public and private actors. For example, public-private partnerships are determinant in getting the right skills for upgrading. Building the right set of skills is a key

feature of success for transformation and upgrading. In the new fast-changing context, concerted actions between national and local governments and the business community have proved successful in training workers and managers in an effective way. Intermediary institutions, such as Chambers of Commerce, are proving to be instrumental in promoting learning and upgrading of capabilities in Small and Medium Enterprises (SMEs). Malaysia is considered a success case in skills upgrading. Some major factors highlighted as crucial in its success have been the flexibility of the training system and its capacity to get the companies' experts to teach so that trainees get the most up-to-the-business training. For example, in 2014, the Malaysian-German Chamber of Commerce has partnered with the Department of Skills Development of the Ministry of Human Resources of Malaysia (MOHR), the German-Malaysian Institute (GMI), other government institutions and German and Malaysian companies, to deliver a free training programme in industrial management and in transport and logistics management to SMEs employees. Trainees receive practical training in their company and theoretical courses at a local training institute. In Malaysia, the Penang Skills Development Centre (PSDC) is an industry-led training institution active in corporate training and workforce transformation, which operates in partnership with around 200 among domestic and foreign enterprises and partner universities. Trainings are implemented in direct collaboration with the industry, with an active involvement of the private sector in the definition of curricula, training and in the Centre's Managing Board, where they hold the majority of seats.

The five pillars (Anticipation Capacity, Adaptation Capacity, Learning and Upgrading Potential, Interconnectedness Propensity, Embeddedness Potential) will serve as a guiding framework for carrying out a diagnostic of the country's assets and capabilities and potential for change (Chapter 1), for assessing policy capabilities and challenges (Chapter 2) and for discussing concrete policy options to address the challenges as identified by the reviewed country or for focusing on concrete upgrading opportunities in a specific value chain, as indicated by the reviewed country (Chapter 3).

6. The PTPRs in practice

Methodology

PTPRs are carried out on countries' demand over a 15-month period.

PTPRs focus on assessing development strategies with respect to their anticipation and adaptation capacities, learning and upgrading potential, interconnectedness propensity and embeddedness potential with a view to identifying actionable recommendations to improve the quality and impact of policies for production transformation and upgrading.

The PTPRs benefit from:

- **Expertise of a local team in the reviewed country.** The reviewed country will set up a local team to follow up the review process and a Task Force with key government stakeholders in the areas of relevance for production transformation, internationalisation and GVCs and, eventually, key country experts.

The local team is expected to:

- Contribute to the brainstorming on the identification of challenges and potential opportunities for the country;
- Identify the peer reviewers

- Provide the necessary background information for the elaboration of the study and co-ordinate the responses to the review’s questionnaire;
 - Organise the agenda of field missions and ensure access to key contacts/ counterparts;
 - Review the draft chapters of the Review, provide feedback and revise the final report.
- **Peer-review process.**
 - The reviewed country will select two peer reviewers with relevant expertise in the priority fields of the review. The peers are expected to share knowledge and information during the review process and participate to field missions and activities.
 - The PTPRs also benefit from a multi-stakeholder peer review process and policy dialogue through the setting up of a dedicated PTPR-Peer Learning Group (PTPR-PLG).
 - The PTPR Peer Learning Group (PTPR-PLG) is set up as part of the review process. It is open to member countries of the Initiative as well as to other stakeholders willing to join. The PTPR-PLG members commit to accompany the PTPR process by sharing knowledge and information. The PTPR-PLG meets at least once (and a maximum of two times) during the PTPR process back-to-back with the Plenary Meetings of the Initiative. The PTPR-PLG Meetings have the objectives of setting up a targeted peer-dialogue process on key issues as they emerge during the PTPR process and enable to identify key recommendations based on peer and multi-stakeholder dialogue. The PTPR-PLG also responds to the objective of allowing a wider group of key stakeholders, in addition to the peers, to benefit from the learning process of the PTPR.
 - The PTPR process benefits from overall global peer review through the Plenary Meetings of the Initiative that will allow for a global peer dialogue on specific issues that emerge from the Review.
 - **Field mission(s).** The PTPRs benefit from a broad consultation process within the country. They entail at least three field missions with semi-structured interviews and up to four Round Tables with public sector private sector, universities and other relevant stakeholders. The field missions also involve a scenario-setting exercise to identify opportunities for production transformation and upgrading. **Desk research and background analysis.** The review process includes a preliminary phase of review of existing OECD and non-OECD diagnostics and studies.
 - **Collaborative approach.** The implementation of the PTPR process requires the setting up of a multi-disciplinary review team. The Review team can benefit from the participation and partnership with members of the Advisory Board of International Organisations, and other partner institutions. The review team is expected to:
 - Draft the report, incorporate inputs and co-ordinate its publication;
 - Carry out background research jointly with the local team;
 - Mobilise and manage the contribution of the peers;
 - Carry out the field mission(s).

Structure of the PTPR report

The PTPR report is structured in three chapters. Chapters 1 and 2 provide a diagnostic of the country's economic structure and institutional capacity and their readiness to embrace the transformation path focusing on the five pillars (anticipation and adaptation capacities, learning and upgrading potential, interconnectedness propensity, embeddedness potential). Chapter 3 focuses on a key topic as selected by the reviewed country (e.g. one specific industry/value chain, its evolution and future prospects, a key binding constraint for transformation, e.g. logistics, reputation, innovation, etc.). Table 1 presents a preliminary overview of the PTPR outline.

Table 1. Preliminary structure of the PTPRs

Executive summary (3 pages)	Short summary of key findings
Assessment & recommendations (7/10 pages)	Main findings and recommendations based on analyses from Chapters 1, 2 and 3.
Chapter 1 (20/30 pages)	Diagnostics, trends and potential opportunities Qualitative and quantitative snapshot and benchmarking of the country's performance Scenarios for the future Opportunities and challenges
Chapter 2 (20/30 pages)	Country strategy, institutional framework and financing Overview of the country's strategy Assessment of institutional and financing framework of the policy mix (including monitoring and evaluation capacities) Opportunities and challenges for policy implementation with a focus on policy complementarities and on policy co-ordination.
Chapter 3 (20/30 pages)	Special focus (as proposed by the reviewed country) Identification of the country's opportunities and challenges Comparative assessment of experiences in peer countries to identify key steps for improvement Assessment of opportunities and challenges for policies (institutions, financing and co-ordination)

Source: Authors' elaboration.

Outcomes

- Enhanced strategy setting capacity through increased multi-stakeholder dialogue and consultation processes within the country and with key international partners.
- A comprehensive and peer based assessment of countries' opportunities for diversification and upgrading in the future global and digitalised economy.
- A Road-map with actionable policy recommendations to improve the economic transformation strategy and related policy tools
- Increased knowledge about varieties of development trajectories and stock taking of lessons learned in how governments can face specific challenges in production transformation and upgrading.

Timeline, activities and deliverables

The following table presents a tentative time-line for the PTPR process

Timeline	Activities	Actions required by the local team and the peers	Deliverables
Month 0	The country requests the PTPR	Requesting country Sharing of current strategy and key challenges Agreement on the ToR for the PTPR	
Month 1	<ul style="list-style-type: none"> The agreement is signed Setting up of the local team and review team Selection of peers Creation of the Task Force on Economic Transformation 	Requesting country Identification of key actors for the Task Force on Economic Transformation Identification of peers to be invited	
Month 1 to 6	<p>1st Mission to the country</p> <ul style="list-style-type: none"> First meeting of the Task Force on Economic Transformation Semi-structured interviews with government, business, think tanks and civil society <p>Desk research</p> <ul style="list-style-type: none"> Collection & review of background information <p>PTPR-PLG Meeting back to back with the Plenary Meeting of the Initiative</p> <p>Presentation at the Plenary Meeting of the Initiative (according to the calendar)</p>	<p>Local Team</p> <ul style="list-style-type: none"> Organisation of the agenda & background information sharing Participation and agenda shaping for the PTPR-PLG <p>Peers</p> <ul style="list-style-type: none"> Participating in the mission, information sharing and contributing to the intermediary deliverables 	<p>Intermediary Deliverable 1. First draft of chapter 1</p> <p>Intermediary Deliverable 2. First draft of chapter 2.</p>
Month 7 to 10	<p>2nd Mission to the country (and tentative 3rd Mission)</p> <ul style="list-style-type: none"> 2nd meeting of the Task Force on Economic Transformation Semi-structured interviews with key government, business. 2 Government Business Round Tables <p>Drafting</p> <ul style="list-style-type: none"> Collection & review of background information & Desk Research 	<p>Local Team and Peers</p> <ul style="list-style-type: none"> Organisation of the agenda & information sharing Commenting on and contributing to the Intermediary deliverables. 	<p>Intermediary Deliverable 3. First draft of chapter 3.</p>
Month 11-12	Drafting	<p>Local Team & Peers</p> <ul style="list-style-type: none"> Commenting on and contributing to the final drafts 	<p>Report ready for editing/type-setting.</p>
Month 12-15	<p>Publication process</p> <p>Launch of the review in high level event and open dialogue with multi-stakeholders</p>	<p>Local Team & Peers</p> <ul style="list-style-type: none"> Participate to the launch of the review 	<p>Final report published and available on line</p>

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ACTIONS TO SUCCEED IN A CHANGING WORLD

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This document clarifies the rationale for the PTPRs as a policy assessment and guidance tool, presents the conceptual framework, clarifies the value proposition, and provides information about the review process.

Consult this publication on line at <http://dx.doi.org/10.1787/9789264276628-en>

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