

TRADE AND DEVELOPMENT REPORT 2016

Structural transformation for inclusive and sustained grow



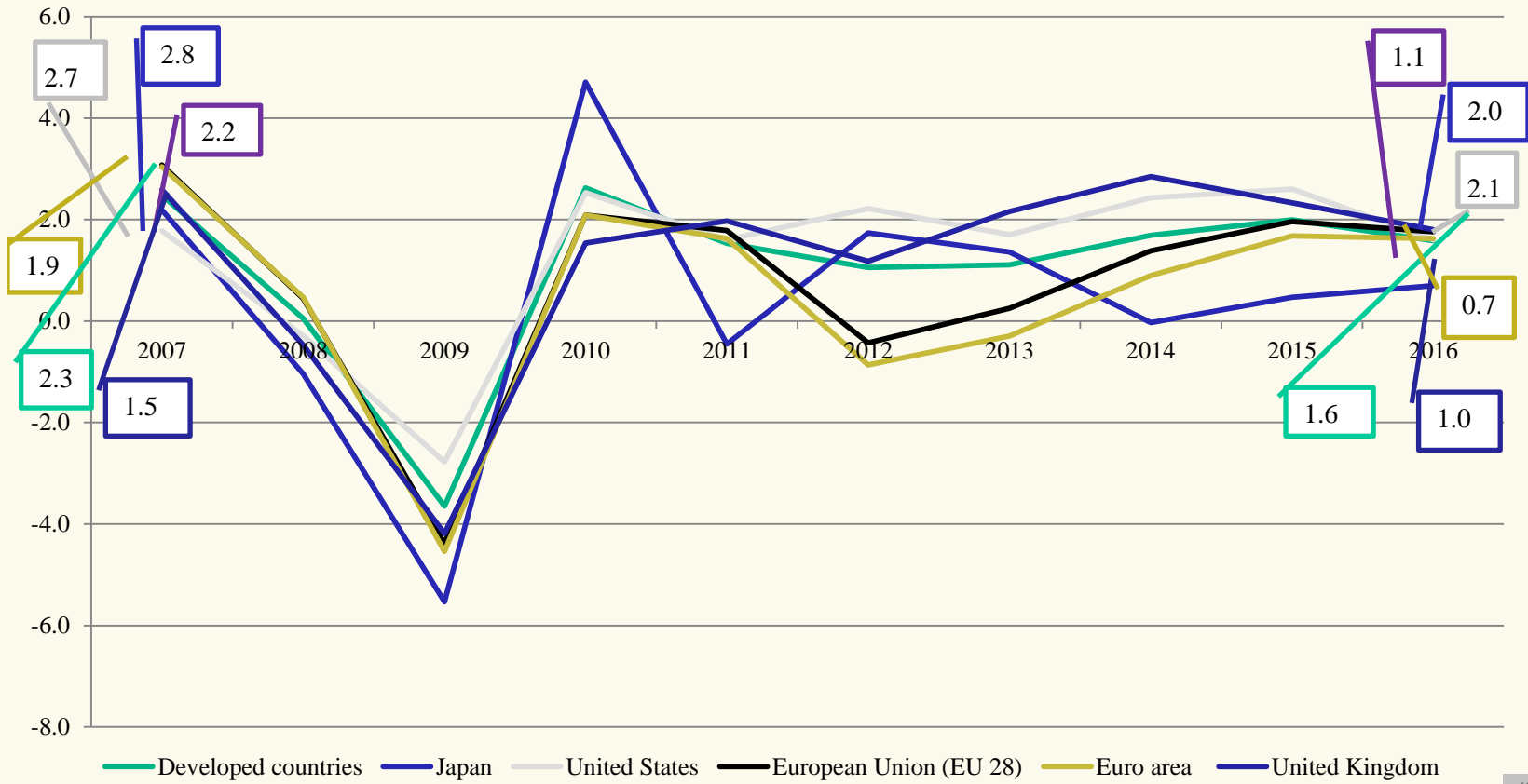
Main messages

- The global economy is living dangerously; biggest threat comes from weak demand in North but developing countries feeling the downdraft
- But globalization is still working, right? Rising inequality, slowdown of trade: a “great convergence”
- Growth did pick up in the naughties but catching-up isn't any easier:
 - Manufacturing still matters; many countries stalled or losing ground
 - Export-led growth has hit diminishing returns
 - The profit-investment nexus has weakened
- Need a more ambitious policy mix (everywhere) with a role for industrial policy (everywhere); the real issue with globalisation is not whether it is advancing or contracting but who is managing it

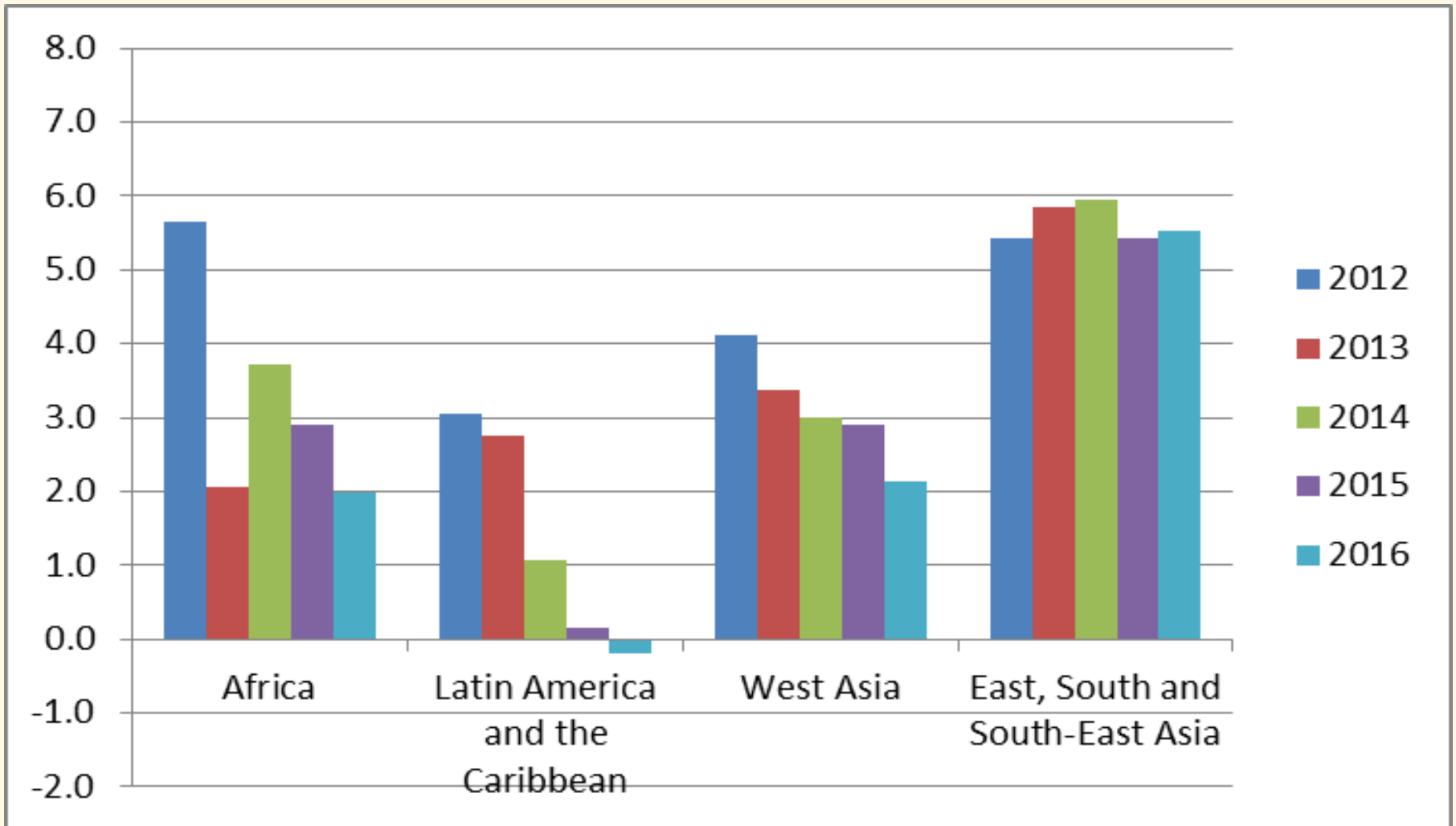
A year of living dangerously

- Global growth is stuck in second gear will likely drop below 2.5% this year; slow growth in advanced economies continues (below 2%), but also slower growth in developing countries (4%, 2.5 percentage points below the pre-crisis figure) but [significant country and regional variation](#)
- Global trade slowed even more dropping to 1.5% last year and possibly lower again this (but its not a rising protectionism story)
- [Commodity cycle](#) is in its second year of a sharp downturn; but many prices have been falling since 2012 (even back to 2005-6 levels)
- [Capital flows](#) have become more volatile again and debt crises are looming ... several countries going back to IMF ... Brexit aftershocks?

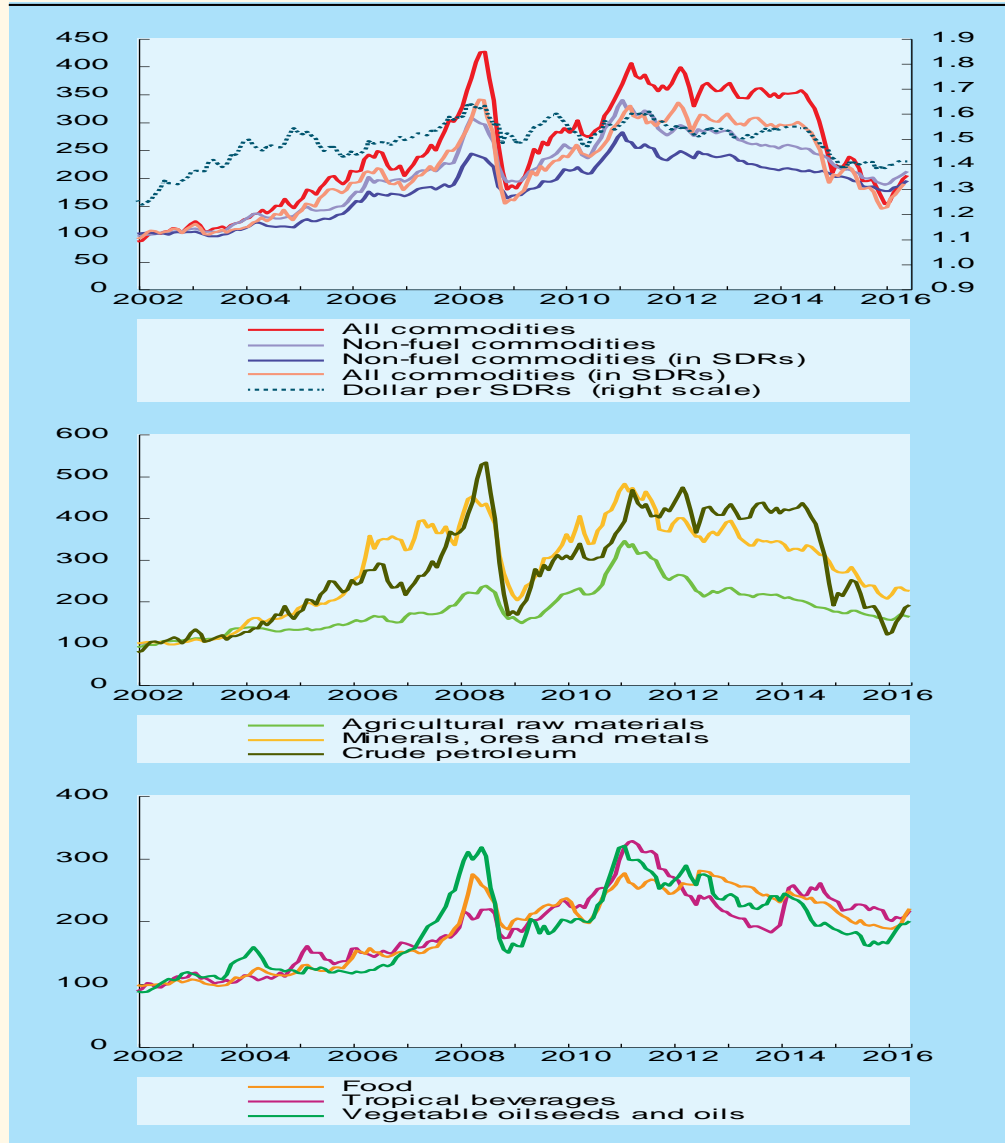
Secular stagnation?



Regional variations

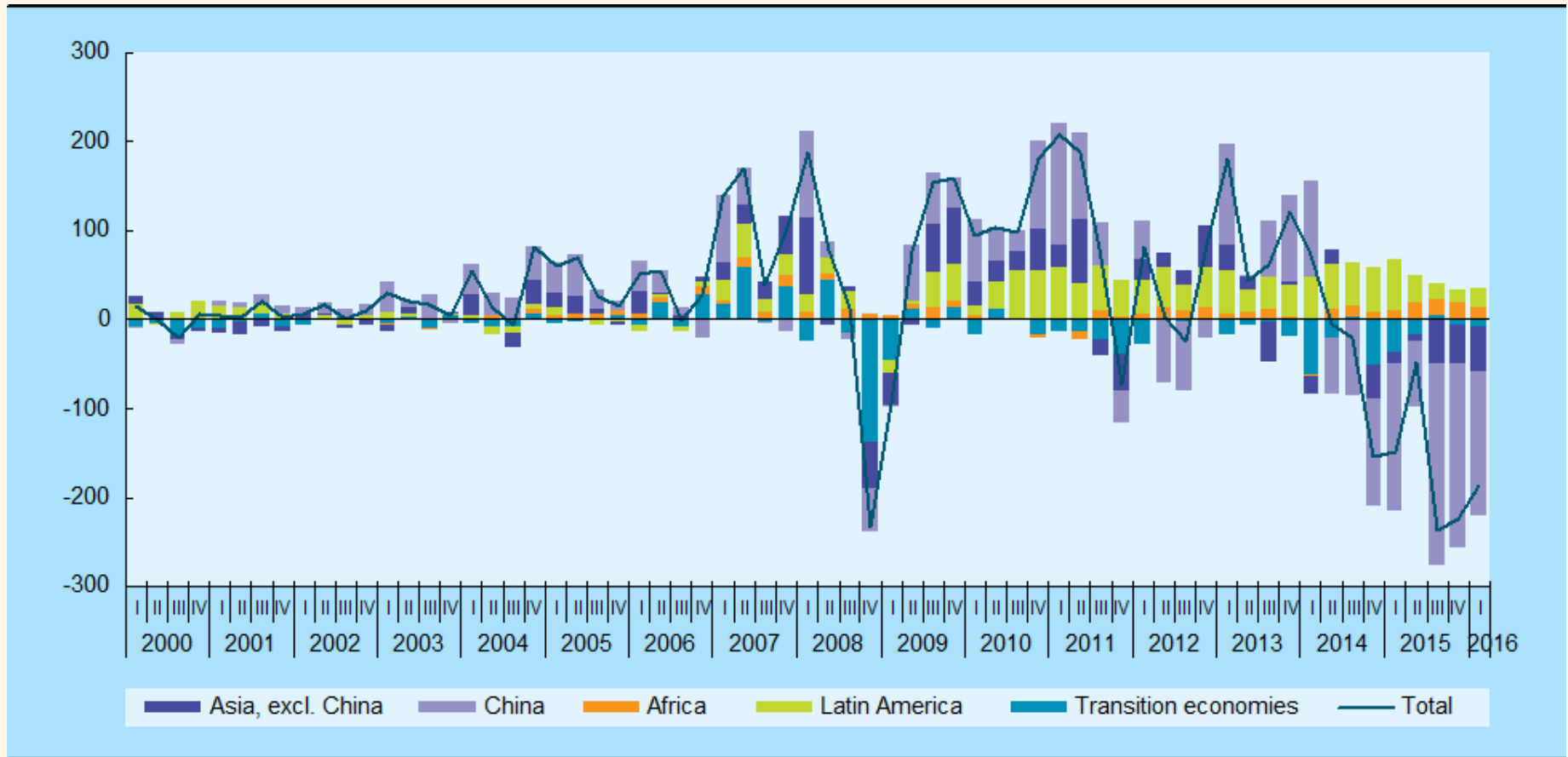


Commodity prices tumble



Volatile global financial markets

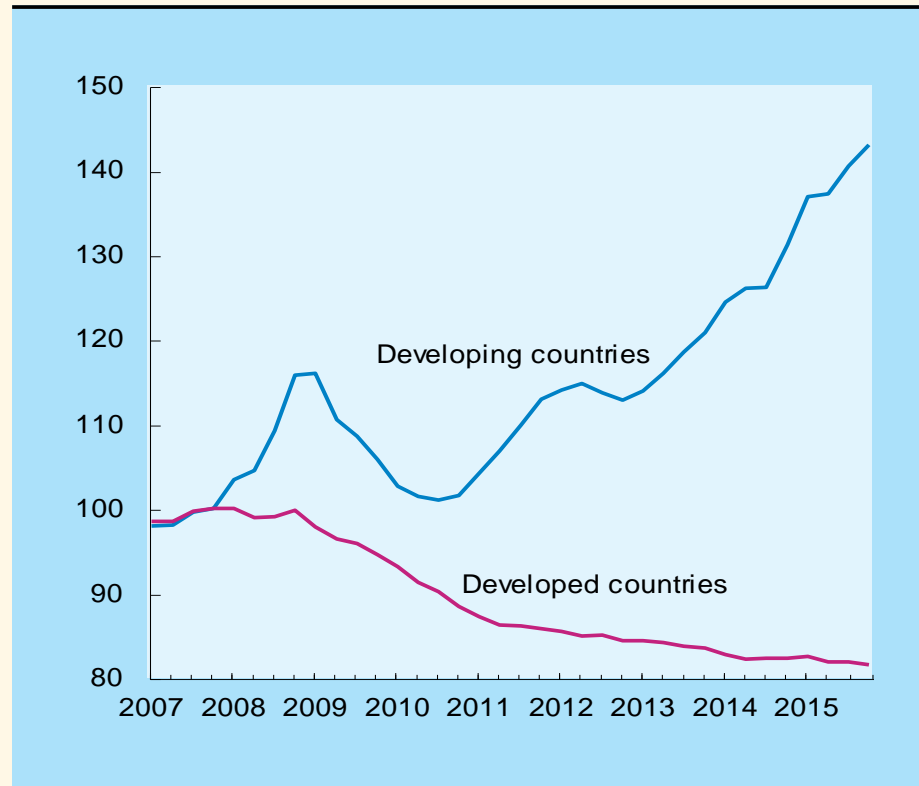
Net capital inflows to selected countries and exchange rates, 2000-16 ([back](#))



Debt burdens

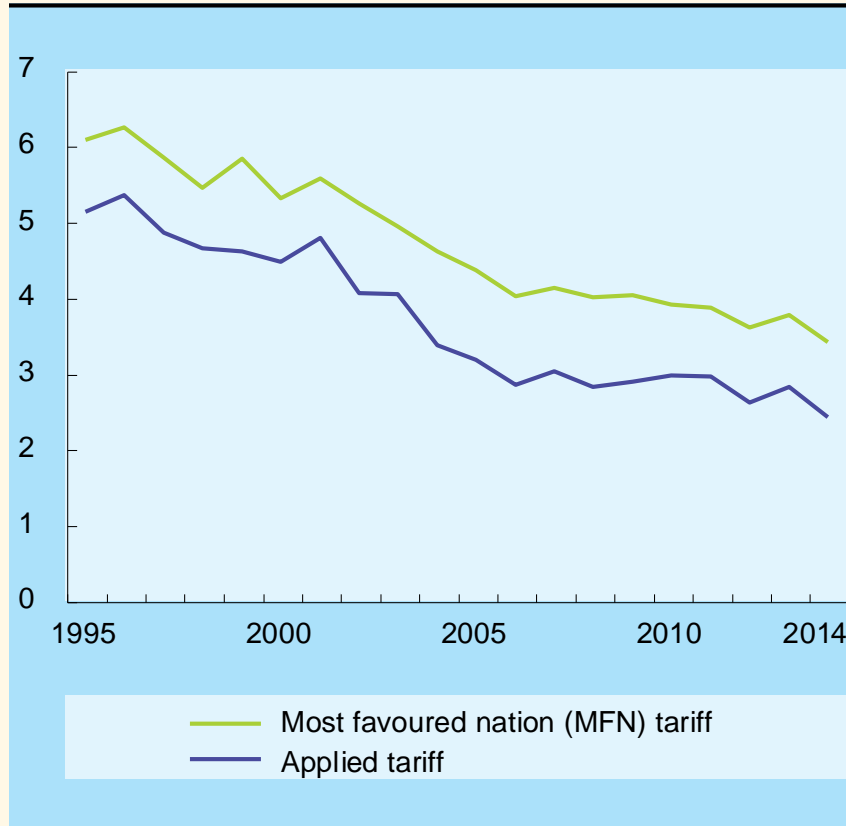
Debt service to income ratio of the private non-financial sector, 2007-2015

(index numbers 2007 Q4=100)

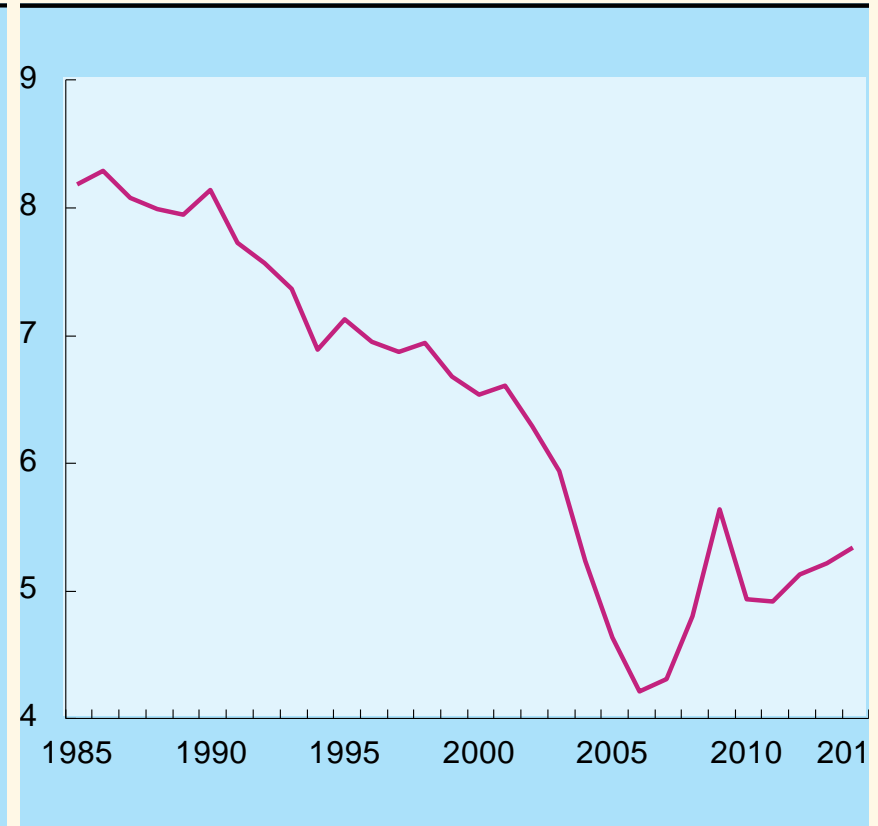


Populism?

Average global tariffs, 1995-2014
(per cent)



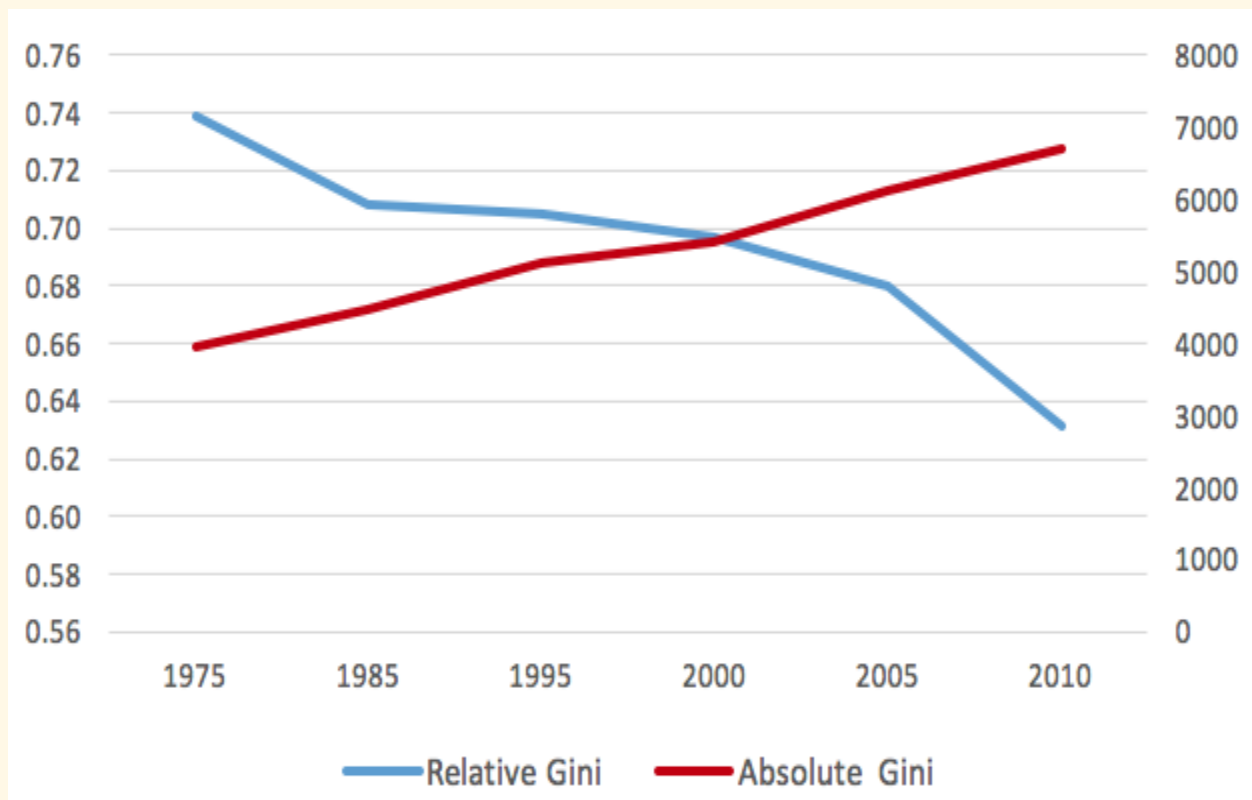
Global wage share, 1995-2014
(per cent of global income)



Globalisation and convergence

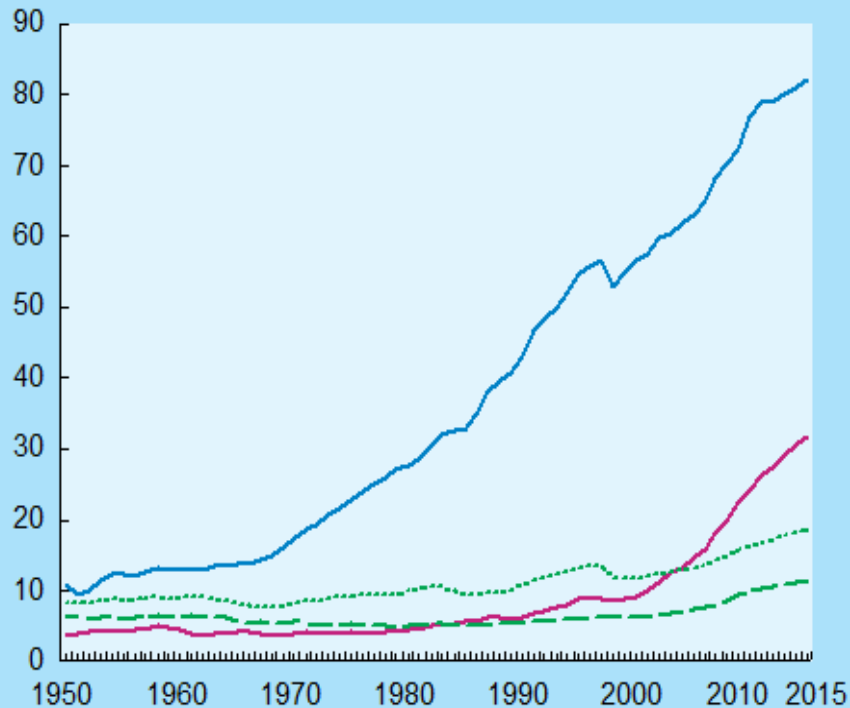
- Slowdown in the North beginning in 80s
- Fast growth in East Asia since the 80s (building on earlier successes)
- Erratic growth elsewhere in South but fast everywhere in 00s (but no decoupling) leading to strong convergence
- Global economy has been slowing since the 1980s
- Capital formation has slowed as capital flows have boomed
- Markets have become more competitive in some areas, more concentrated in others
- Instability persists

Trends in global inequality from a relative and absolute perspective

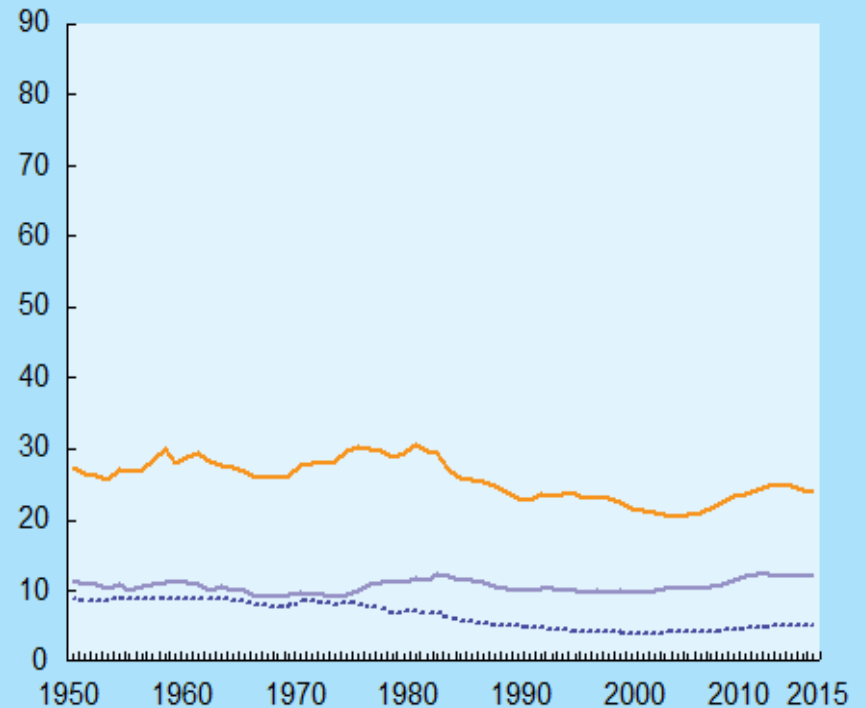


Mind the gaps

Ratio of GDP per capita of selected countries and country groups to GDP per capita of the US, 1950–2015



China
First-tier NIEs
South-East Asia
South Asia



Latin America and the Caribbean
North Africa
Sub-Saharan Africa

Middle income troubles

Probability of catch-up with the United States, by income group

	1950–1980			1981–2010		
<i>Ending position</i>	<i>Low income</i>	<i>Middle income</i>	<i>High income</i>	<i>Low income</i>	<i>Middle income</i>	<i>High income</i>
<i>Starting position</i>						
Low income	0.85	0.15	0.00	0.91	0.07	0.01
Middle income	0.12	0.70	0.18	0.21	0.71	0.08
High income	0.00	0.06	0.94	0.00	0.19	0.81

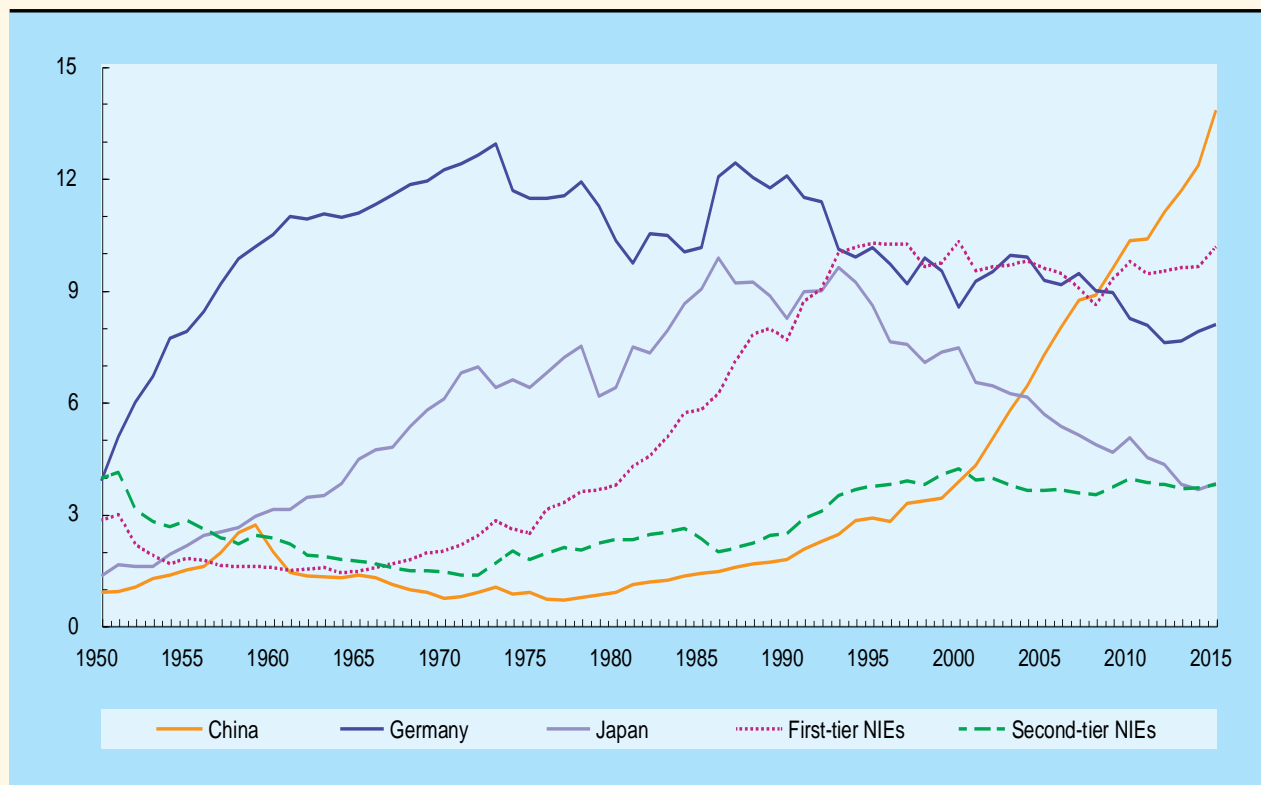
Manufacturing matters

	Share of Man. VA			Share of Man. Emp			Industry Labor Productivity Growth			
	1980	2000	2014	1980	2000	2011	1980-9	1990-9	2000-7	2010-14
Developed	17.0	16.5	14.6	23.9	16.9	12.8	2.8	3.1	2.8	1.1
N Africa	15.7	19.1	17.3	13.8	14.0	11.9	2.0	0.6	-0.1	-0.4
SSA	13.8	11.9	9.4	7.2	8.3	8.4	-0.2	-0.7	0.5	2.7
LAC	18.6	17.4	13.7	15.4	13.2	11.5	-1.7	2.2	1.5	0.0
East Asia	28.3	31.2	29.3	22.5	20.9	21.5	4.9	9.1	6.4	5.1
SE Asia	21.1	26.8	22.5	14.4	16.3	14.0	1.5	1.8	2.5	1.8
India	14.2	18.4	20.3	9.1	11.4	11.6	1.3	0.7	3.3	0.5

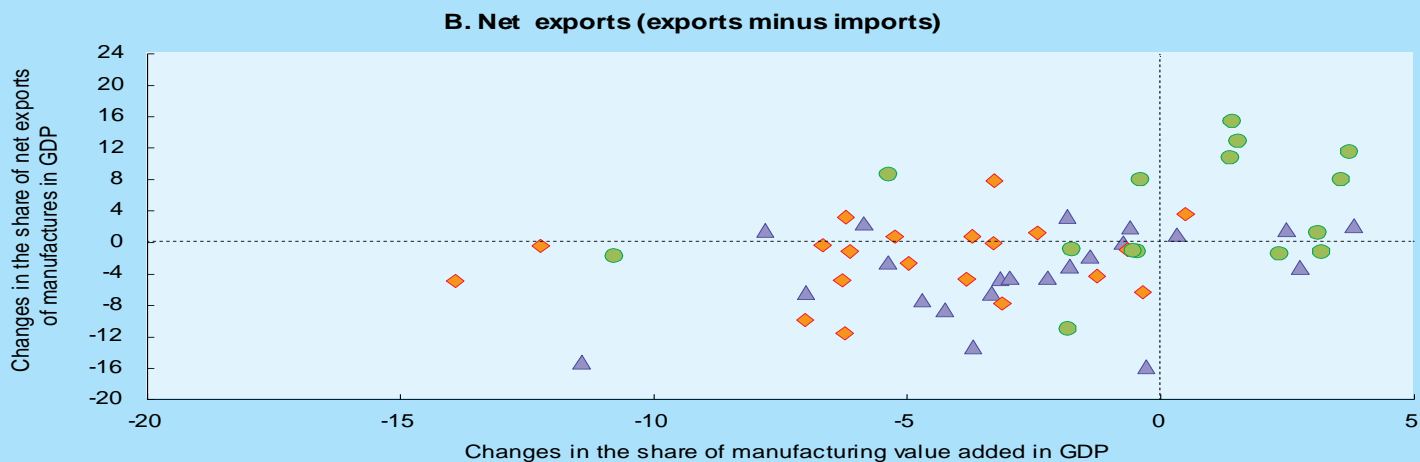
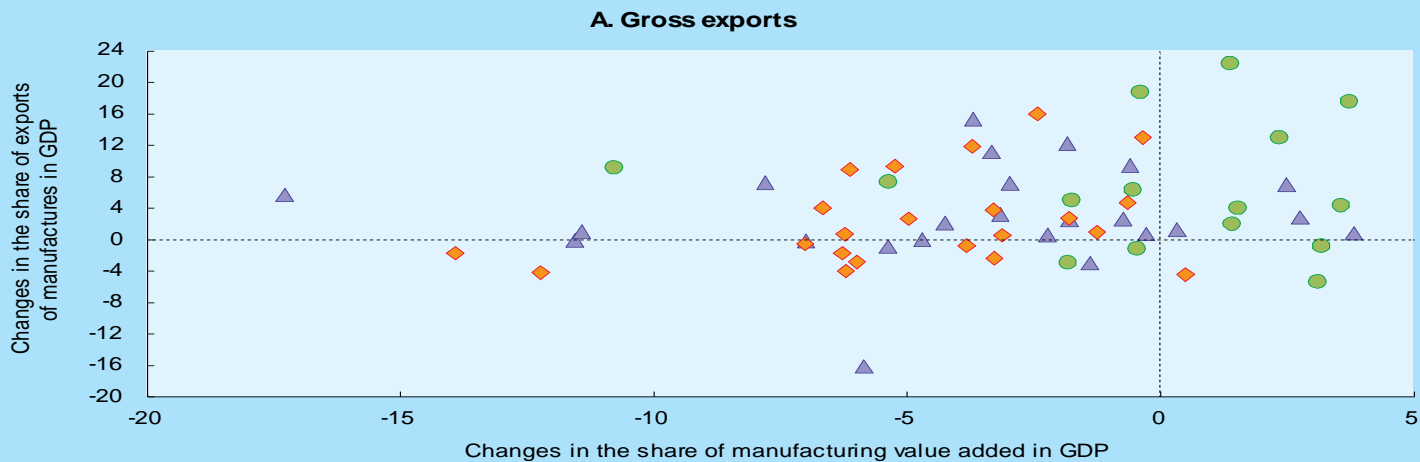
- **Catching up:** strong (East Asia) and weak (SE Asia)
- **Stalled:** (Mexico, India, SSA)
- **Premature deindustrialization:** (Latin America, South Africa, North Africa?))

Export-led growth

Share in global merchandise exports, selected countries, 1950-2015 (per cent)



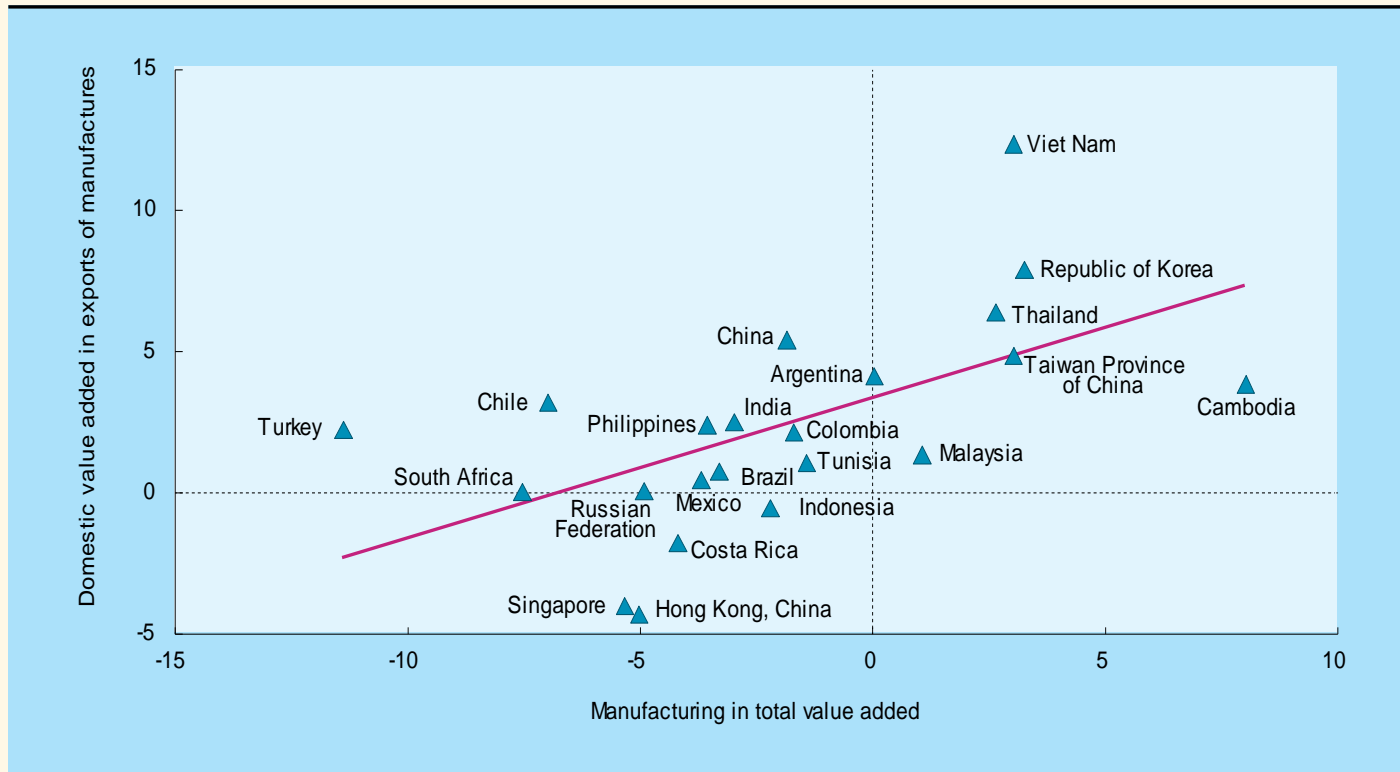
Trade and structural transformation



▲ Africa ● Asia ◆ Latin America

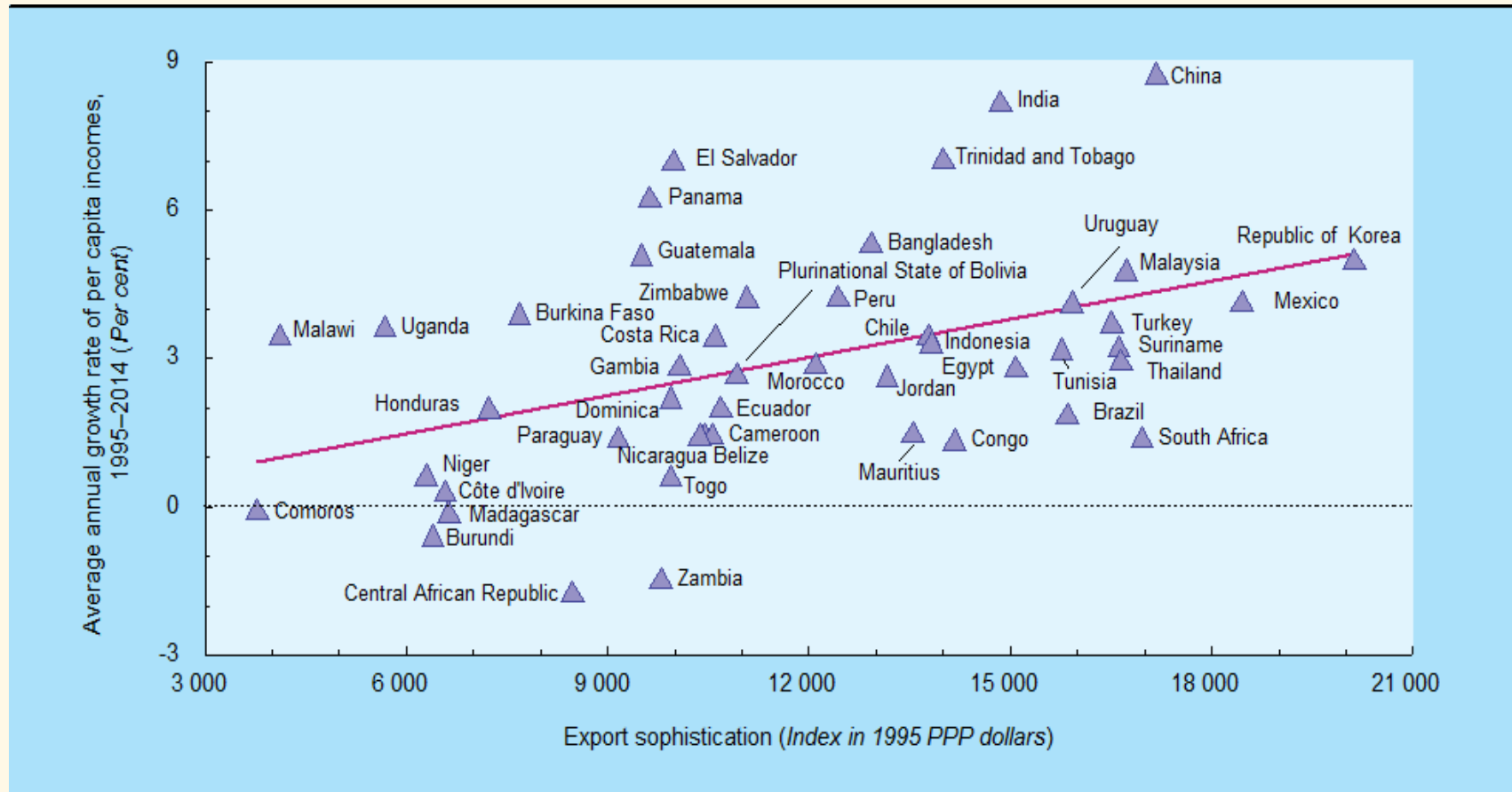
Trade and structural transformation

Changes in domestic VA in exports of manufactures and manufacturing VA as share of GDP, selected countries, 1995-2011 (percentage point changes)



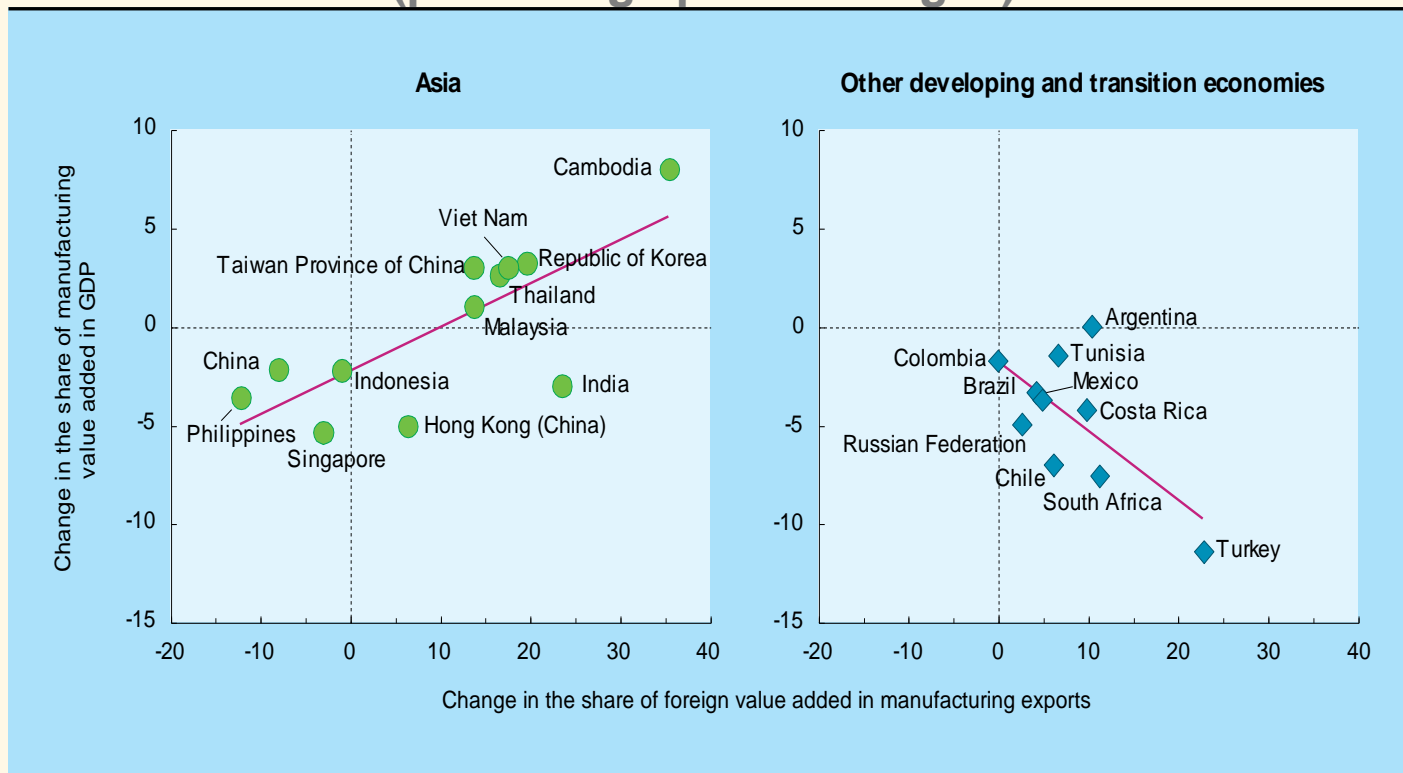
What you export matters

Relationship between export sophistication and per capita income growth, selected developing economies



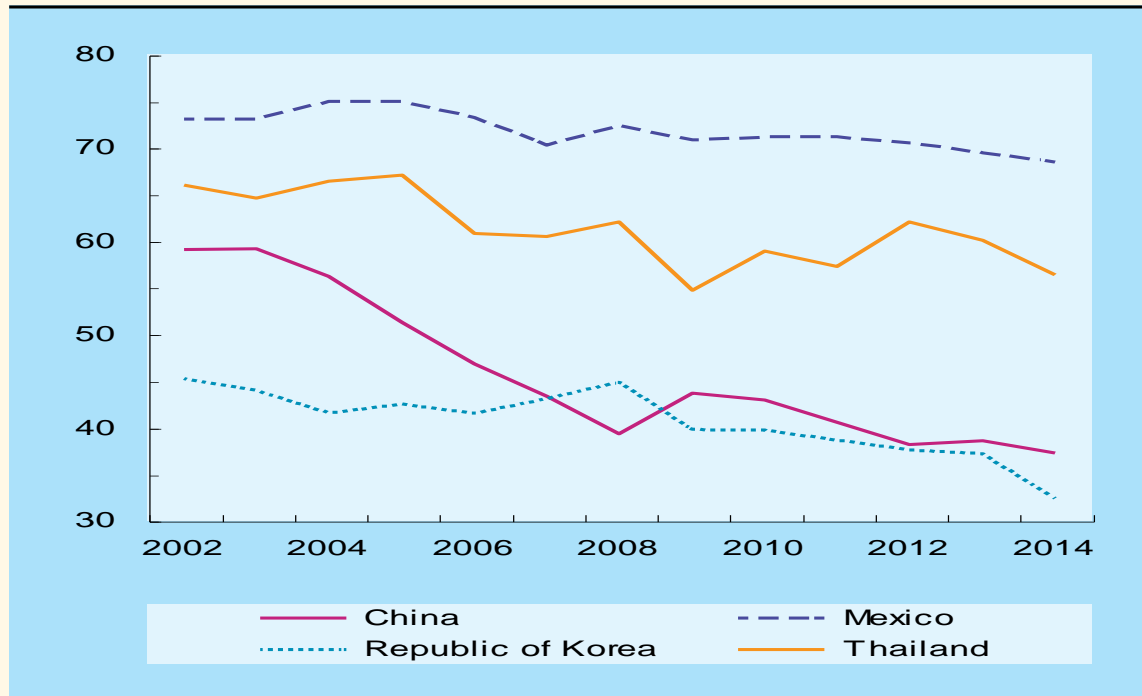
How you export matters: chains or chained?

Changes in the shares of foreign VA in manufacturing exports and of manufacturing VA in GDP, 1995-2011
(percentage point changes)



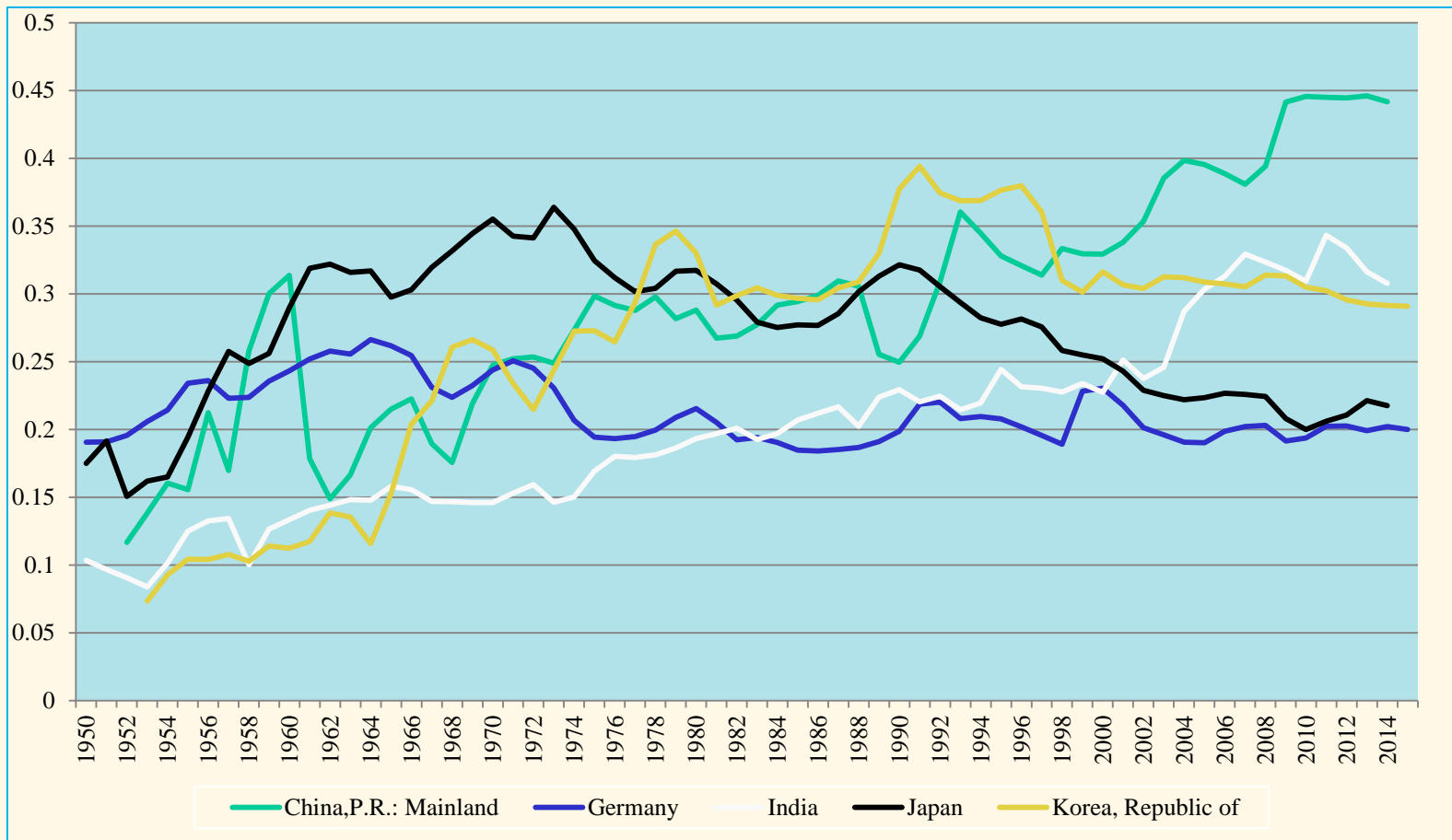
Is Import substitution industrialization dead?

Degree of import dependency of exporting industries in selected countries, 2002-2014 (per cent)



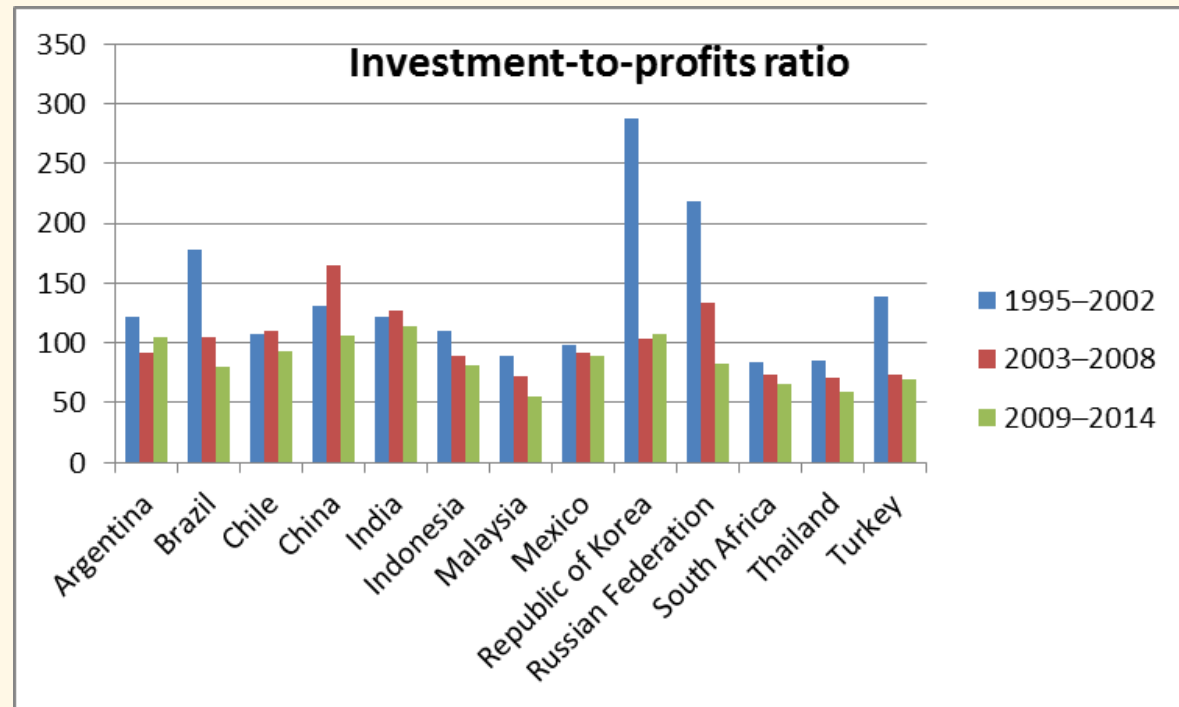
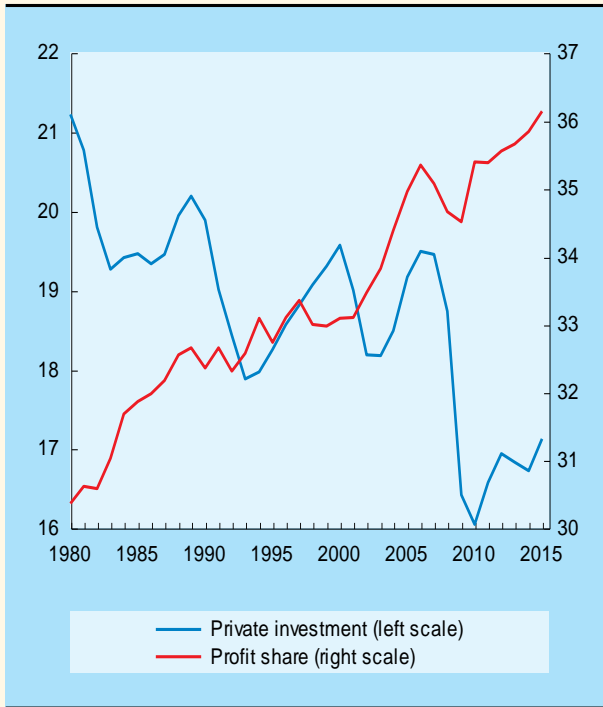
Investment pushes

Fixed investment in selected rapidly growing countries, 1950-2015 (percent GDP)



The profit-investment nexus revisited

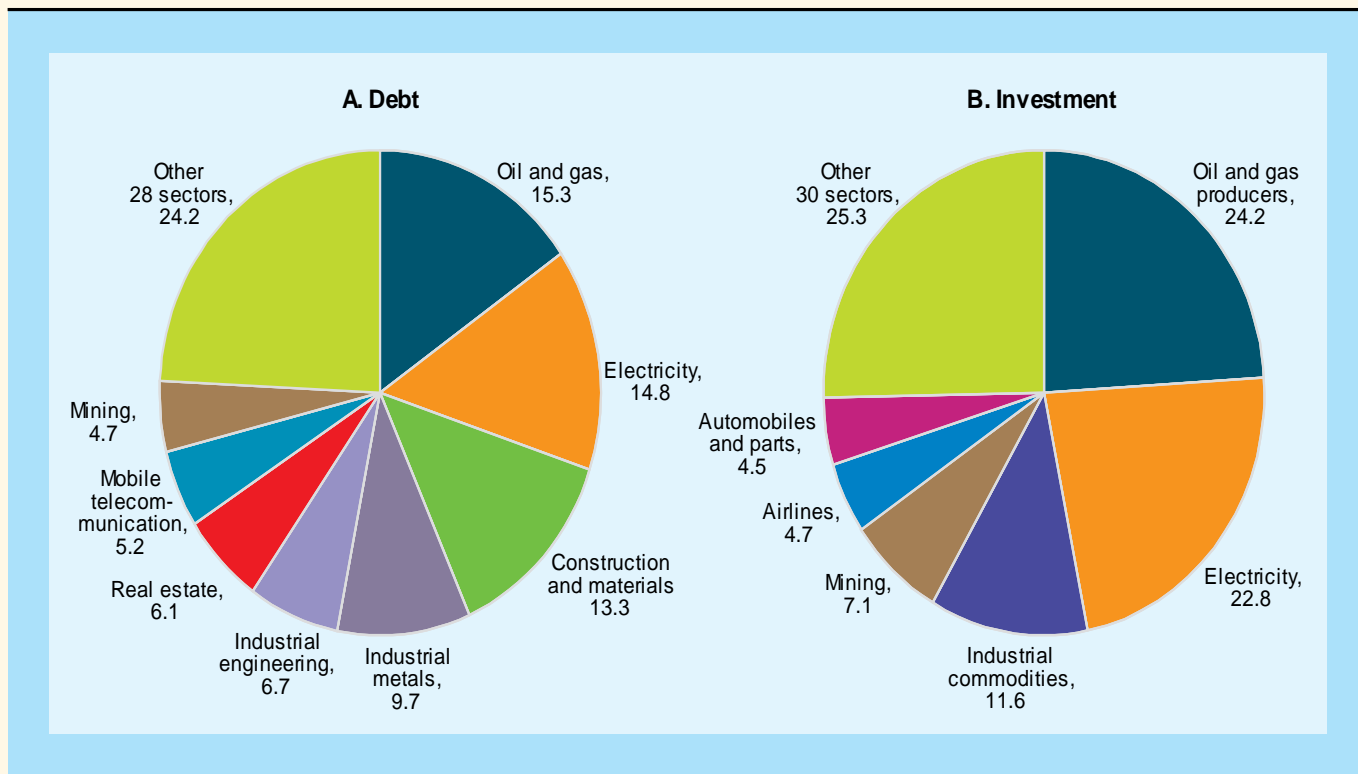
Private investment and profits, developed economies, 1980–2015 (Per cent GDP)



- Investment to profit ratios declining, while dividend to profits going up
- Investment rates in most developing regions not high enough to support rapid structural transformation

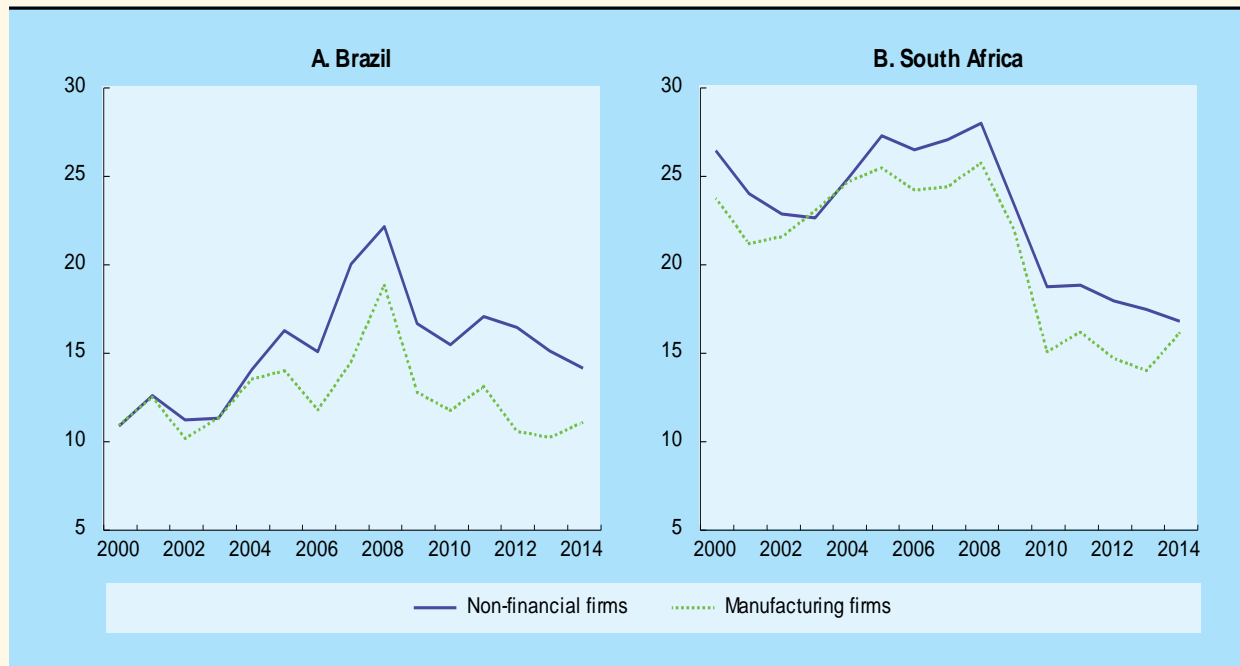
The profit-investment nexus revisited

Sectoral contribution of the increase in the nominal value of total debt and capital stock between 2010 and 2014
(per cent)



The profit-investment nexus revisited

Investment as a proportion of total capital stock of non-financial and manufacturing firms in Brazil and South Africa, 2000-2014 (per cent)



Investment in the manufacturing sector has been particularly affected

Industrial Policy Revived

- Not about “picking winners” but about targeting diversification and upgrading to foster strong productivity growth
- Beyond selecting sectors - building linkages and capabilities
- Policy coherence - bringing together macroeconomic, financial, trade and industrial policies
- Institutions - building a capable and stable bureaucracy, closely connected to, but still independent of, the business community and willing and able to discipline firms
- Global dimension: competition, tax and technology