



Perspectives on Global Development 2014

**BOOSTING PRODUCTIVITY
TO MEET THE MIDDLE-INCOME CHALLENGE**



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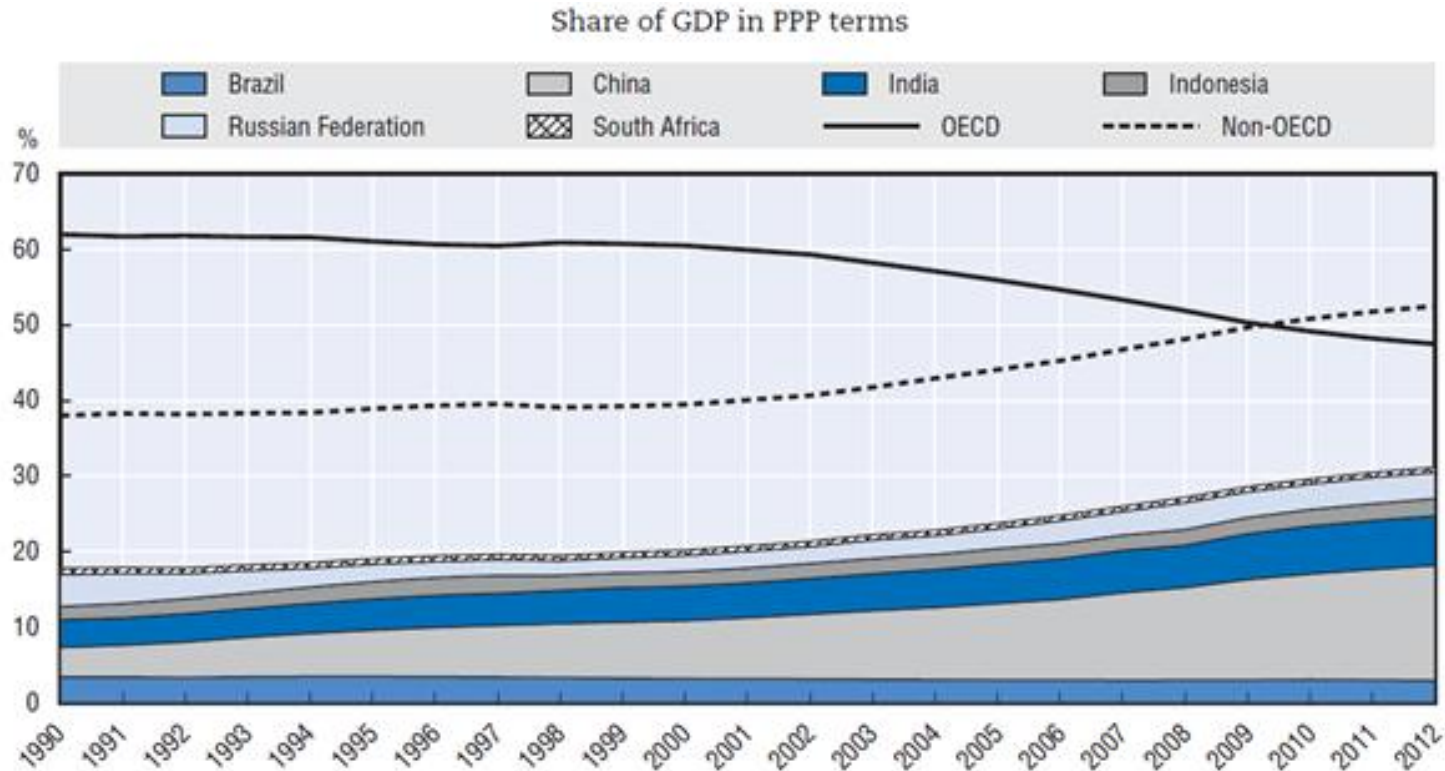


Outline

- A. Shifting global economic landscape
- B. The challenge of productivity for convergence
- C. Boosting productivity for development



Shifting weight of global economic activity continues...



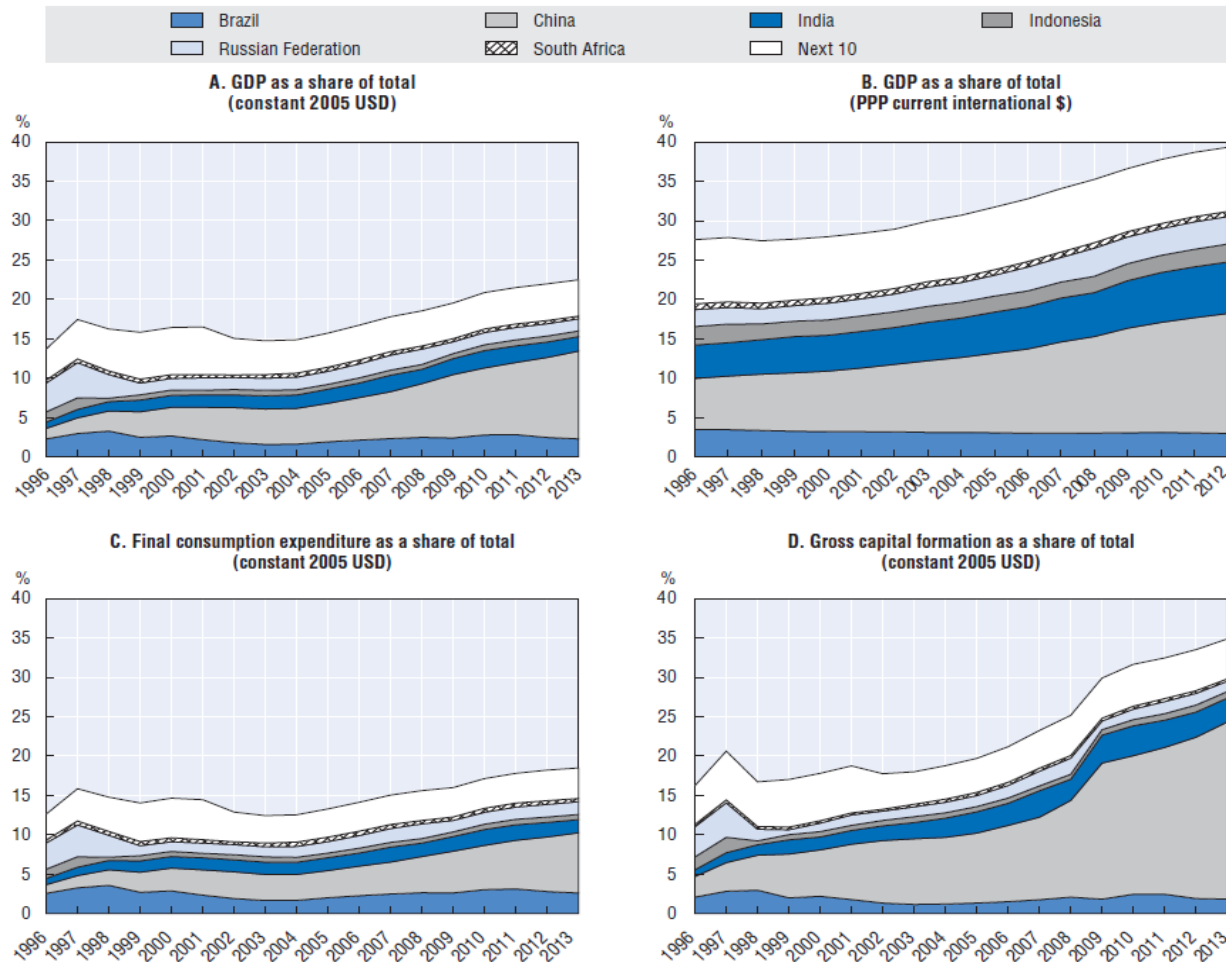
Source: Authors' calculations based on World Bank (2014), World Development Indicators (database), <http://data.worldbank.org/data-catalog/world-development-indicators>.

A. Shifting global economic landscape



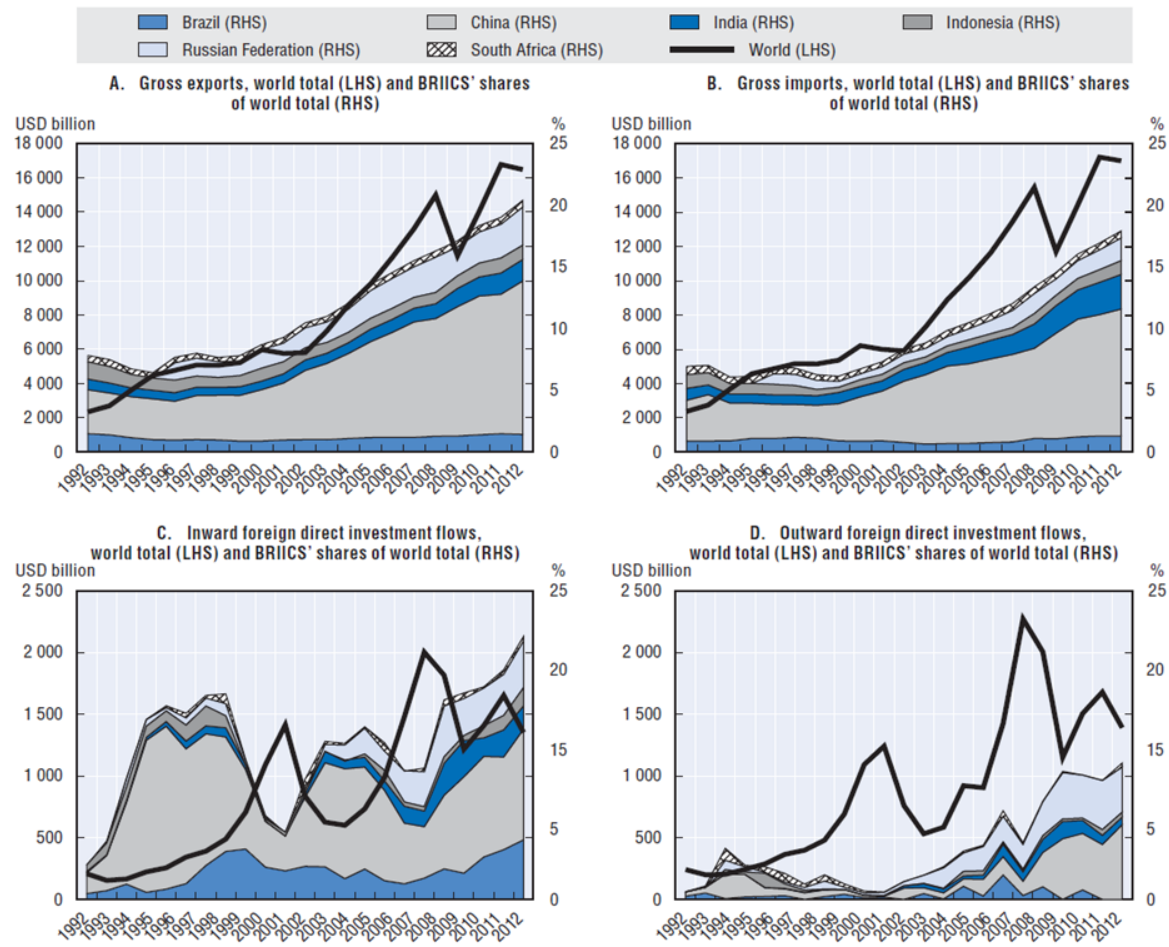
...in terms of output, consumption and investment

Shares of output, consumption and investment in the world total of the BRICS and the next ten non-OECD economies





...and in terms of international trade and foreign direct investment

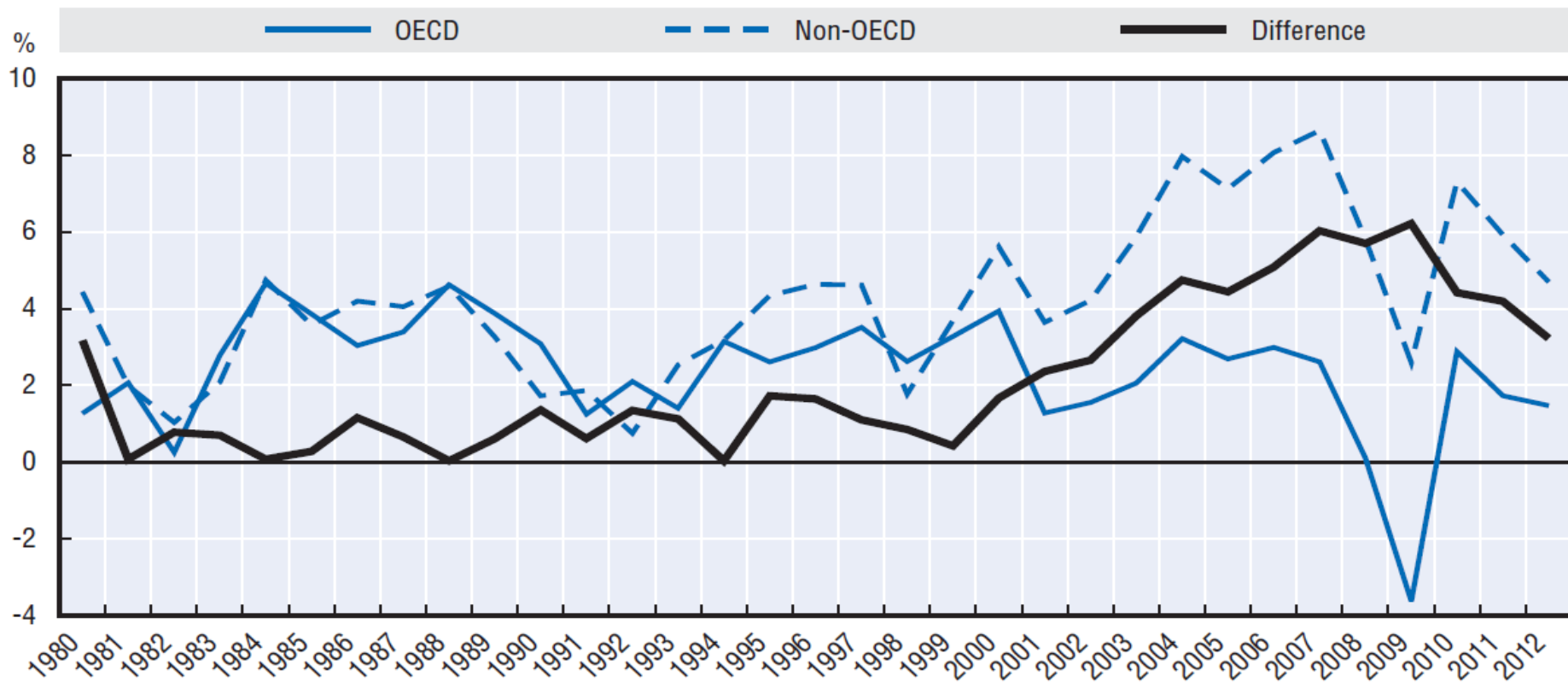


Source: Authors' calculations based on UN Comtrade (2014), United Nations Commodity Trade Statistics (database), <http://comtrade.un.org/db/default.aspx> for Panels A and B; UNCTAD (2013), UnctadStat (database), <http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx> for



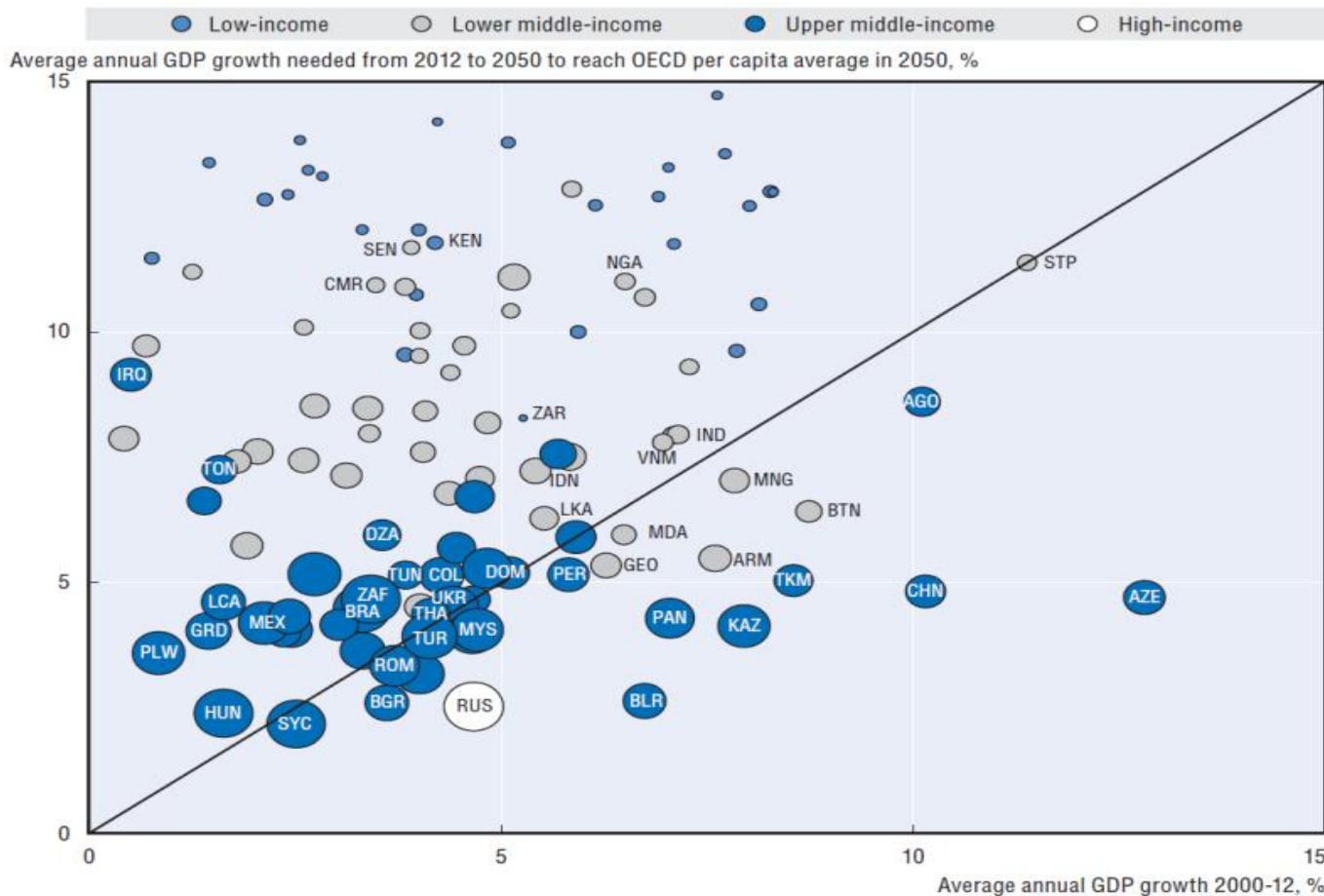
But the difference in growth rates has been narrowing since 2009

Real GDP growth (annual % change) and difference in growth rates



Source: Authors' calculations based on World Bank (2013), World Development Indicators (database), <http://data.worldbank.org/data-catalog/world-development-indicators>.

...but many middle-income countries are not on course to converge by 2050



A. Shifting global economic landscape



Low economic growth can be associated with low productivity growth

- Poor prospects of convergence raise question of “middle-income trap”
- Common (theoretical) framework to identify the trap does not exist
- But: Evidence shows that many middle-income countries face sustained periods of lower economic growth
- And: Growth slowdowns are often associated with significant slowdowns in total factor productivity (TFP): on average 85% of GDP slowdowns are explained by TFP slowdowns (Eichengreen et al. 2011*)
- Productivity slowdowns can be associated with difficulties to move up the value chain, away from a factor accumulation-driven and low labour cost-driven to a an innovation-driven growth path
- Focus on benchmarking middle-income countries’ productivity growth (and levels) against each other and against more advanced countries



Report exploits detailed data to assess productivity and competitiveness

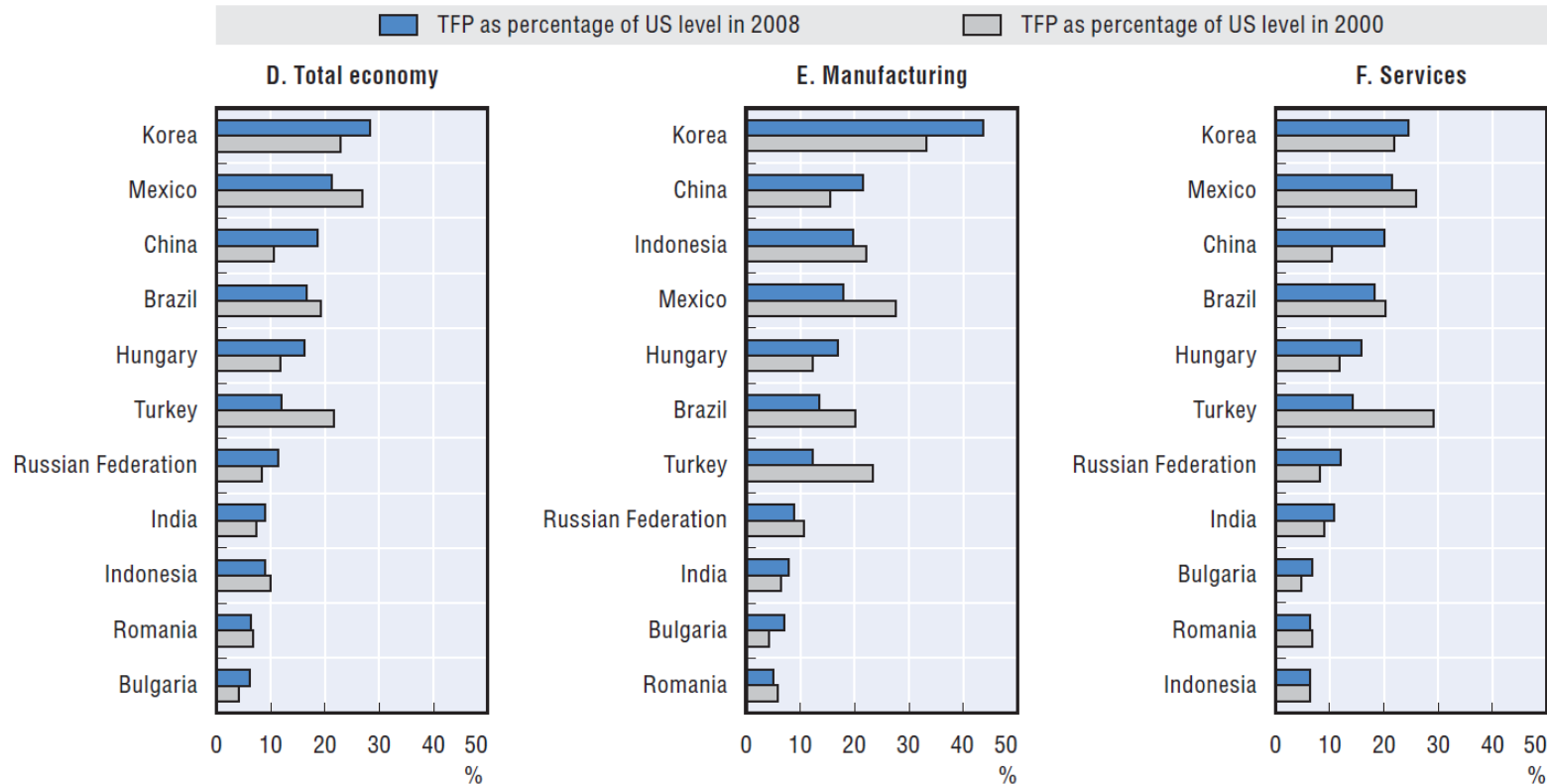
- Productivity is examined at the macro level to identify its contribution to overall economic growth (both from the expenditure and the factor accumulation perspective),
- ...and also at a more detailed level for up to 18 manufacturing and 16 services sectors in 40 countries.
- A special feature of the report is that it also studies productivity, technical efficiency and mark-ups at the firm level for nine countries – the BRIICS (Brazil, the Russian Federation, India, Indonesia, China and South Africa) plus Columbia, Cameroon and Senegal
- ...and investigates these competitiveness indicators across regions within countries.
- Moreover, international integration is studied using detailed trade and investment data.

B. The challenge of productivity for convergence



Total factor productivity gap with advanced countries is significant

Total factor productivity as a percentage of the United States level, 2000 and 2008 (%)



B. The challenge of productivity for convergence



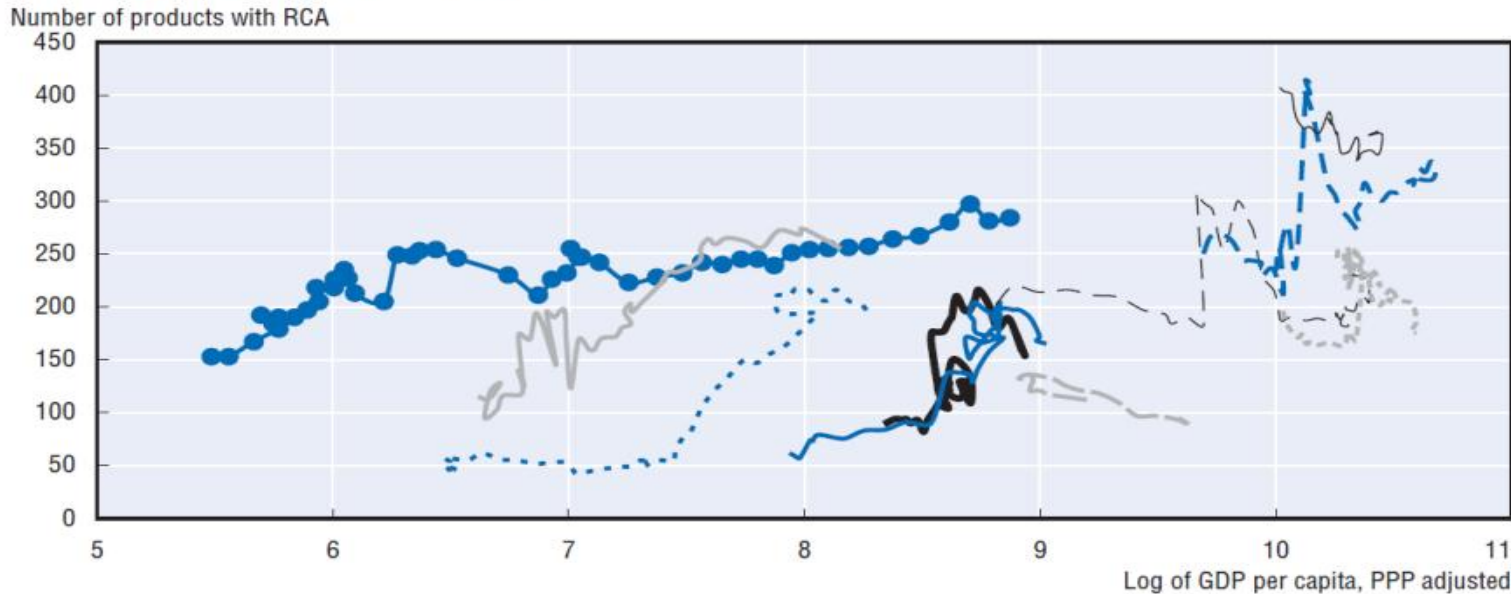
Middle-income economies can boost productivity by:

1. Diversifying continuously into higher value-added sectors in agriculture, industry and services
2. Innovating by using global knowledge and developing domestic capabilities
3. Reforming product, labour and financial markets, and developing skills
4. Fostering competitive service sectors



Some resource-rich economies specialised rather than diversified

Number of products with revealed comparative advantages (RCA) in selected countries versus log GDP per capita (PPP adjusted)



Note: Calculations based on SITC 4-digit product data.

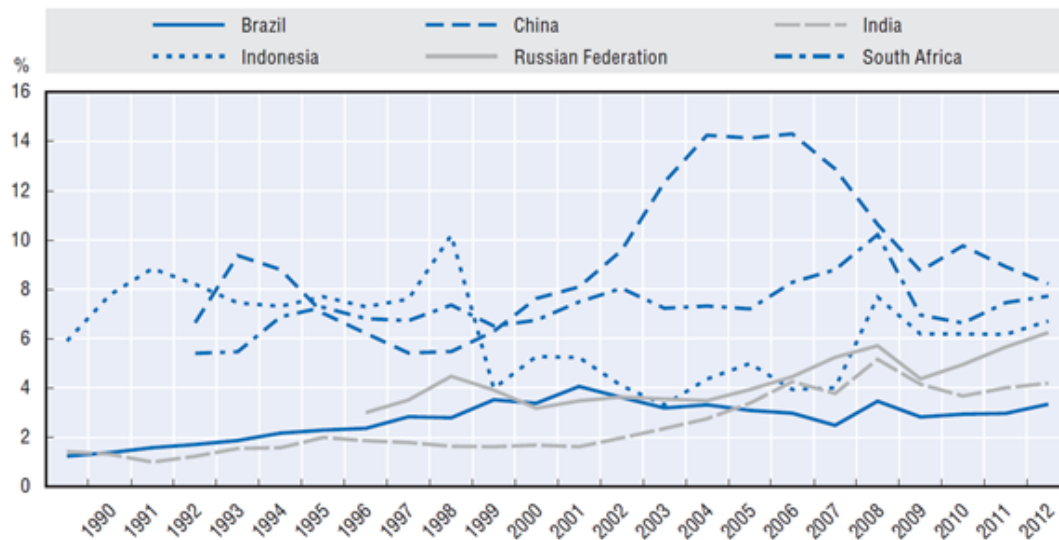
Source: Authors' calculations based on UN Comtrade (2013), *United Nations Commodity Trade Statistics* (database), <http://comtrade.un.org/db/default.aspx> and Penn World Tables (2013), *Penn World Tables* (database), <https://pwt.sas.upenn.edu/>.

C. Boosting productivity for development

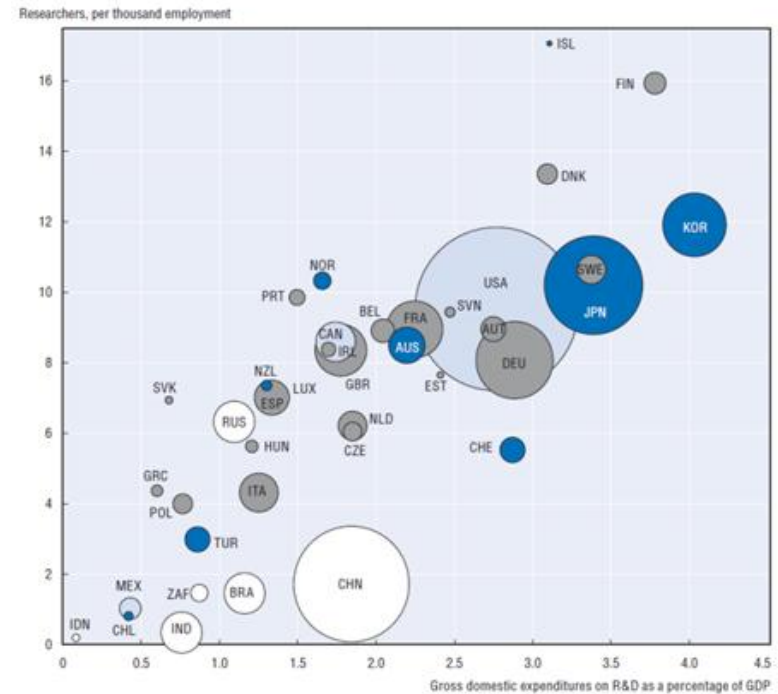


BRIICS are tapping global knowledge and investing in R&D

Imports of capital goods as share of GDP in the BRIICS, 1990-2012



R&D as percentage of GDP versus researchers in R&D per 1 000 employees, in OECD and selected non-OECD countries, 2011

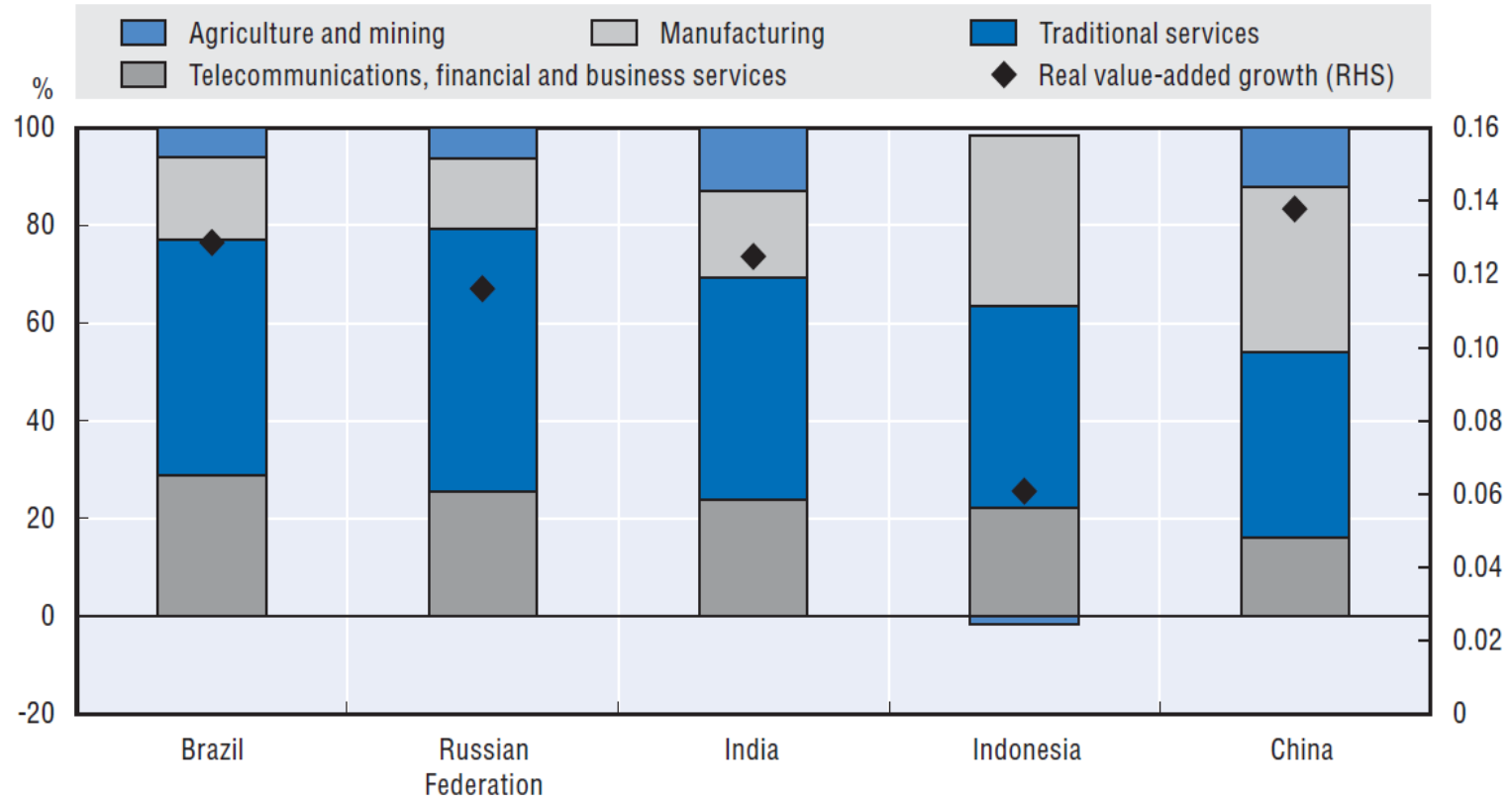


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Services are important drivers of growth

Average sectoral contributions to real value-added growth between 2003 and 2007



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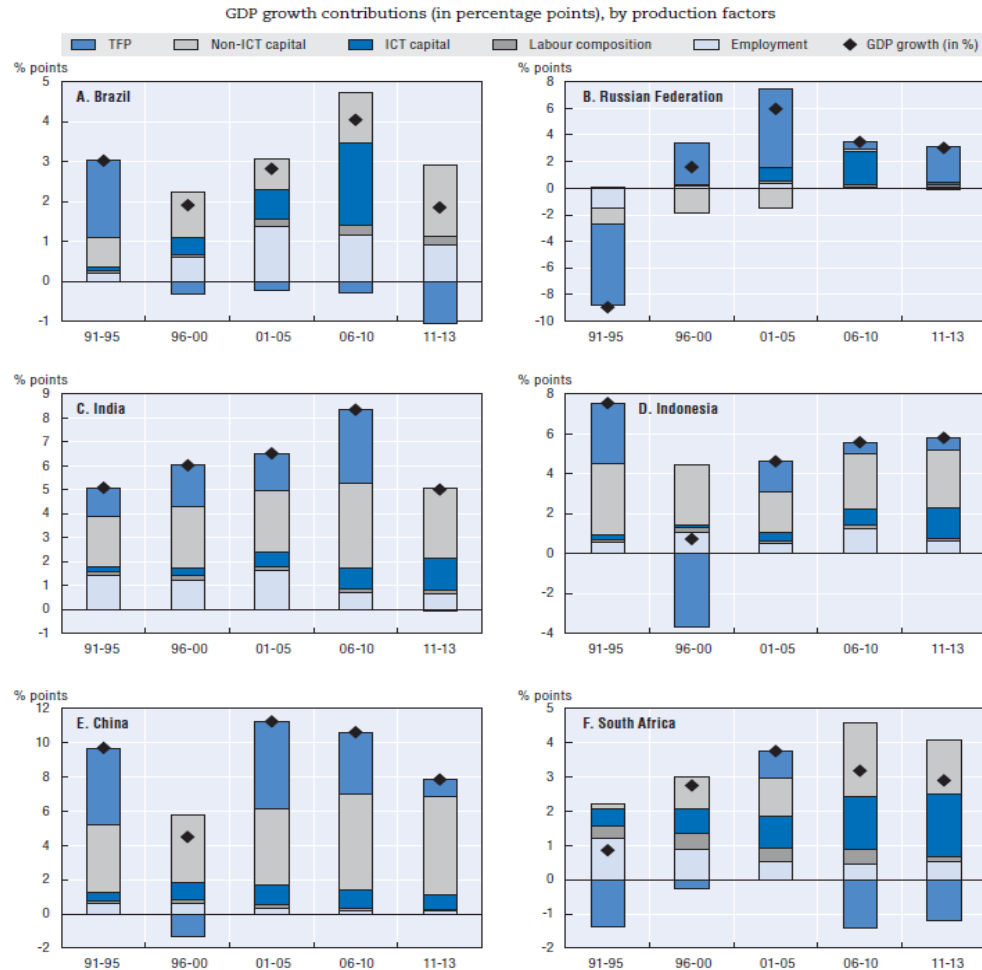
They can also continue to exploit 'old' drivers of growth

5. Shifting labour from lower to higher productivity sectors
6. Fully reaping factor accumulation-led growth

C. Boosting productivity for development



Capital accumulation has been the most important driver of growth in all BRIICS



C. Boosting productivity for development



Disgruntled middle class jeopardises convergence

- Full participation of the middle classes is crucial to sustainable economic development: they provide the educated labour supply and the entrepreneurs required for modernisation; and are the backbone of domestic consumption
- Emerging countries' middle classes are fragile – low standards of education, poor healthcare, and urban congestion are among the biggest risks to the lower strata of middle classes
- Middle classes have rising expectations as to current and future standards of living, access to opportunity, and voice in the decision-making process
- Stability is often at risk during deep, fast economic transformations due to increased inequalities, social exclusion, unmet expectations and tensions
- Efficient public services and equal opportunities can help stabilise middle classes and ensure the sustainability of competitiveness
- Public finance and efficiency needs to be sustainable

C. Boosting productivity for development



They can work to ensure social and environmental sustainability

7. Ensuring equal opportunities

8. Developing effective regional policies to support more equitable growth and reduce regional disparities

9. Increasing energy efficiency and environmental sustainability

C. Boosting productivity for development



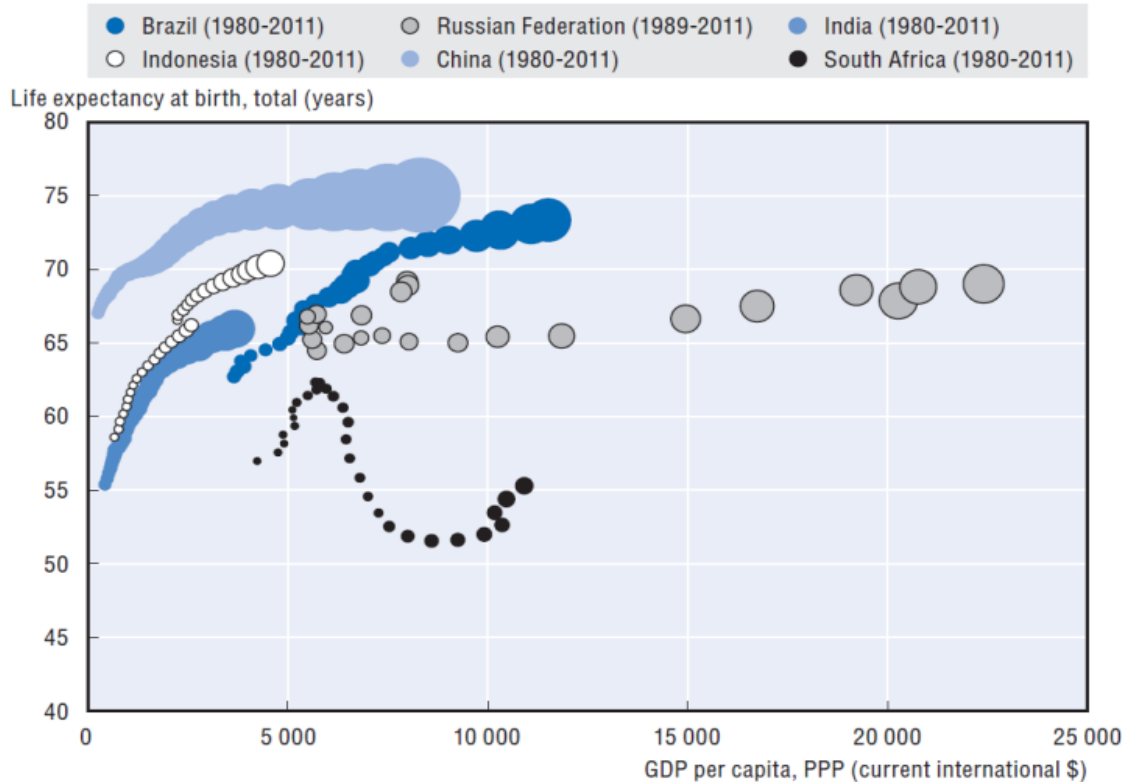
Government vision and capability to implement reforms are key

- China's rapid rise had been in large part due to its determined, target-oriented government with a vision to address changing economic challenges. It made bold reforms which were possible through effective organisations and procedures to implement the necessary steps.
- Other BRIICS countries with more democratically-organised governments need to obtain support for necessary reforms through consultation processes where key stakeholders - including private businesses, local communities and civil society – can voice their opinion and help formulate and implement strategies.



Performances of BRIICS economies have been diverse

Evolution of GDP per capita (x-axis), life expectancy at birth (y-axis) and the size of the economy in GDP (bubble)



Note: The GDP per capita (in PPP terms) series are based on the old benchmark year, 2005. Using the new PPP data released in May 2014 would scale up the GDP per capita figures for the BRIICS slightly.

Source: Authors' calculations based on World Bank (2013a), World Development Indicators (database), databank.worldbank.org/data-catalog/world-development-indicators.

C. Boosting productivity for development



Thank you

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