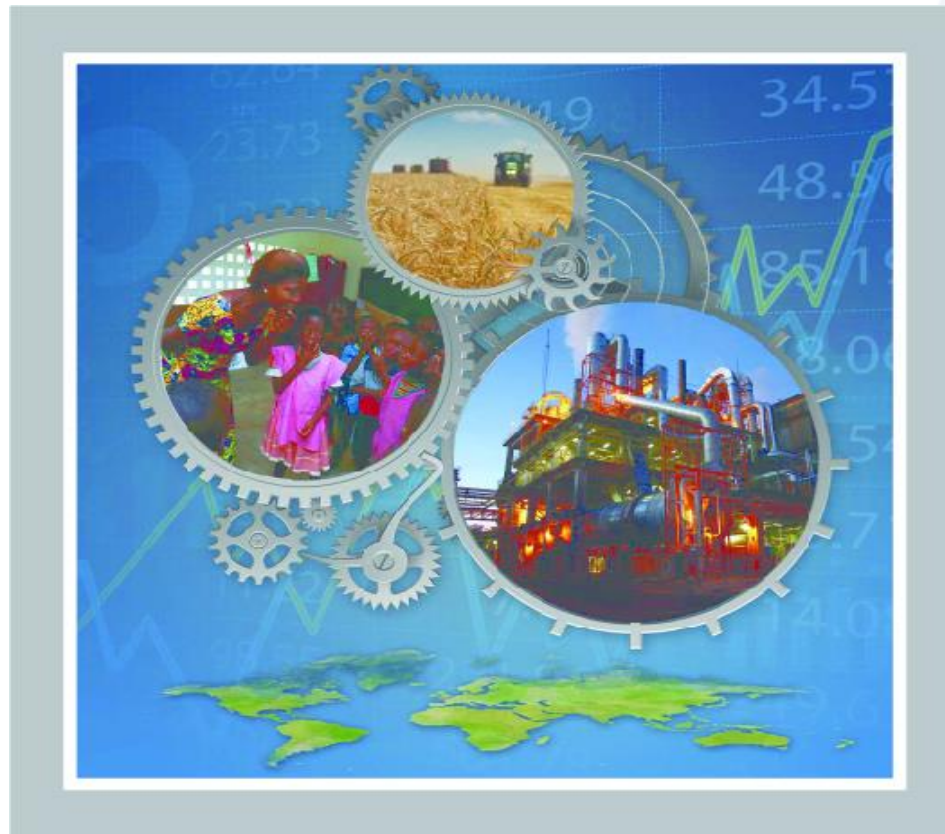


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# TRADE AND DEVELOPMENT REPORT 2016

## Structural transformation for inclusive and sustained growth



# Main messages

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- The global economy is living dangerously; biggest threat comes from weak demand in North but developing countries now feeling downdraft
- Is globalization still working? The convergence story can't hang on China and some other Asian economies ; elements of the global environment are not enabling sustainable and inclusive development
- Catching-up isn't getting 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

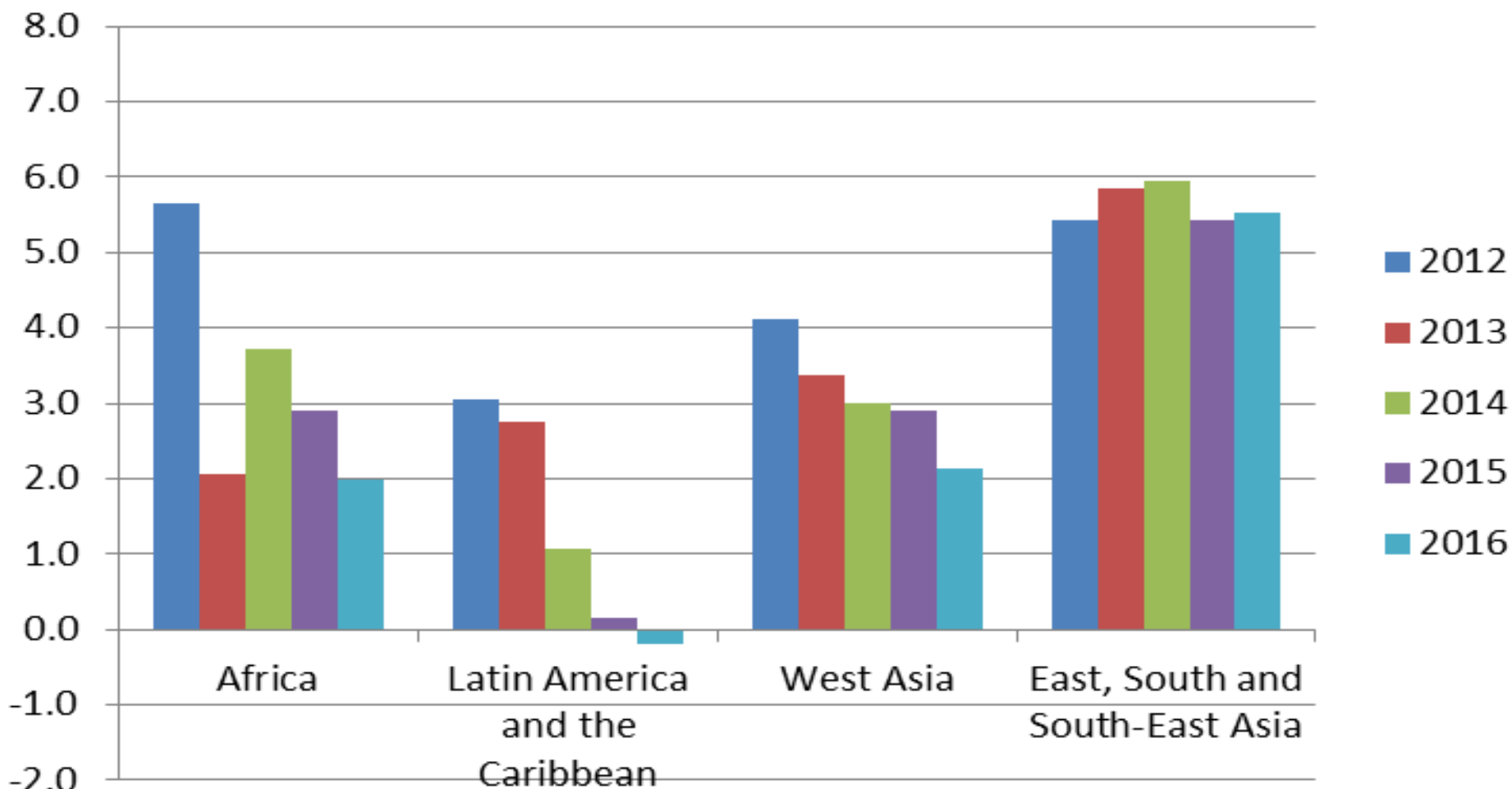
# A year of living dangerously

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- Global growth will likely drop below 2.5%
  - Slow growth in advanced economies (below 2%), but also slower growth in developing countries: At an average of 4%, now 2.5 percentage points below the pre-crisis figure.....but significant country and regional variation.
- Global trade slowed even more, dropping to 1.5%
- Commodity cycle is in its second year of a sharp downturn, but many prices have been falling since 2012
- Capital flows have become more volatile again and debt crises are looming ... several countries going back to IMF...

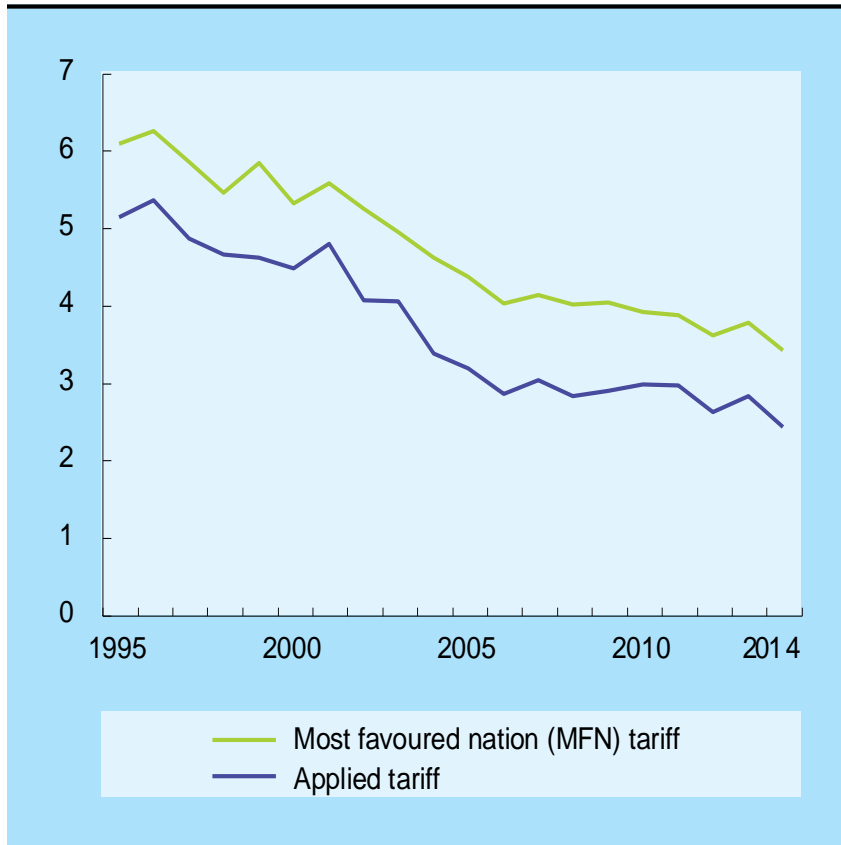
# Regional variations:

Among developing regions, only East, South and South-East Asia maintain growth momentum (GDP at constant 2005 dollars, annual percentage change)

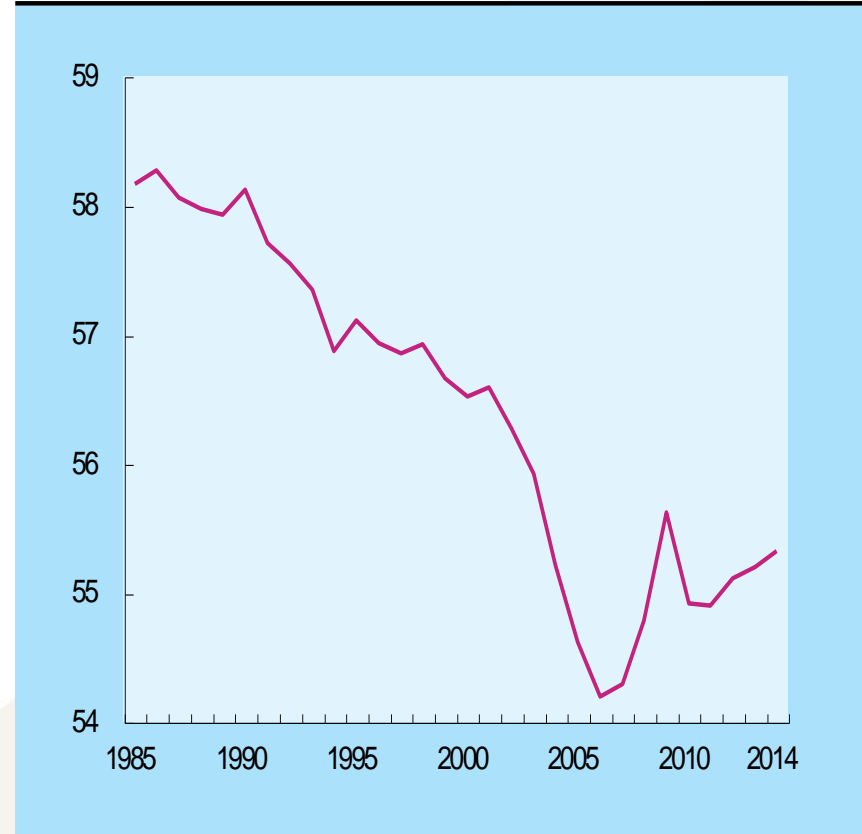


# Free trade populism

Average global tariffs, 1995-2014  
(per cent)

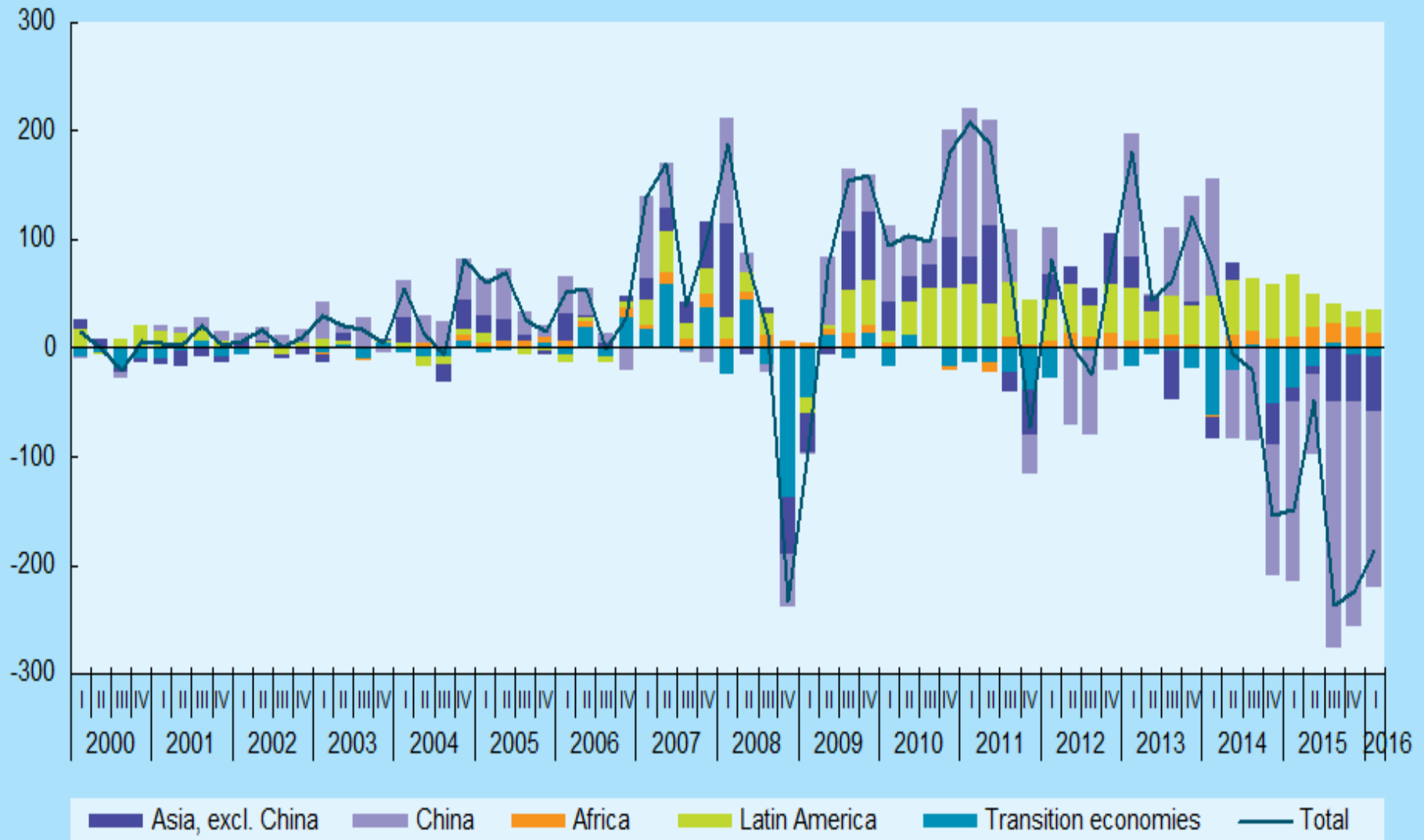


Global wage share, 1995-2014  
(per cent of global income)



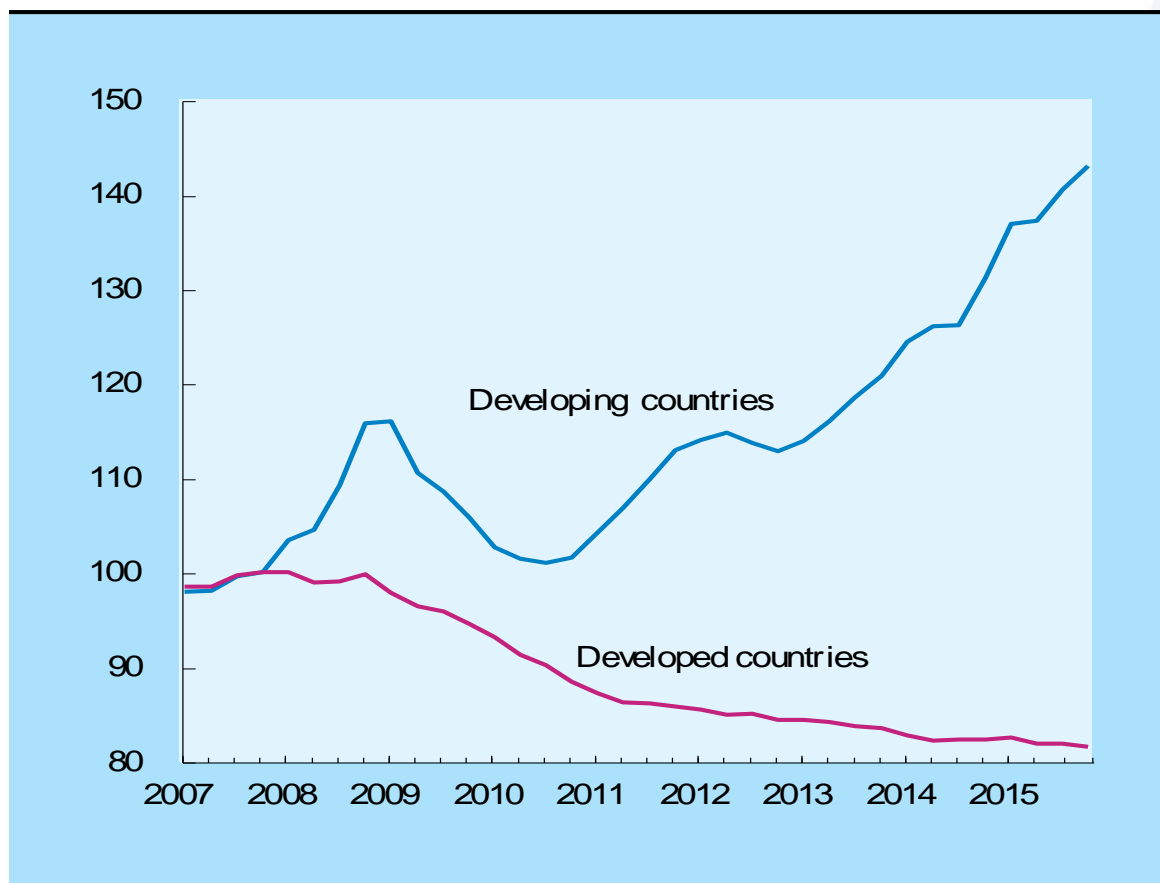
# Volatile global financial markets

Net capital inflows to selected countries and exchange rates, 2000-16



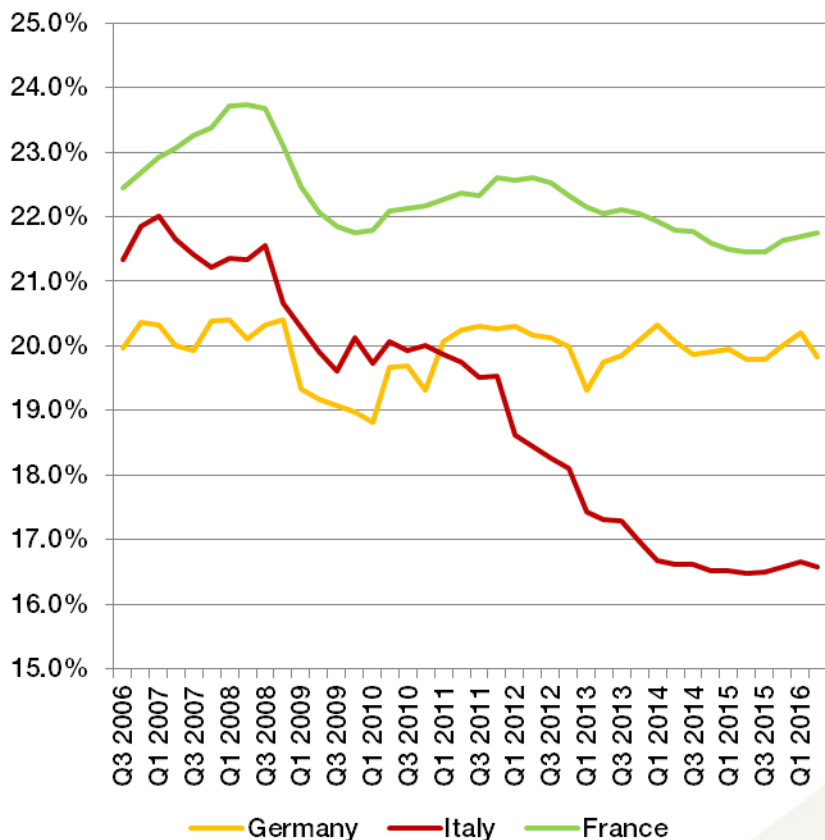
# Debt burdens

Debt service to income ratio of the private non-financial sector, 2007-2015  
(index numbers 2007 Q4=100)

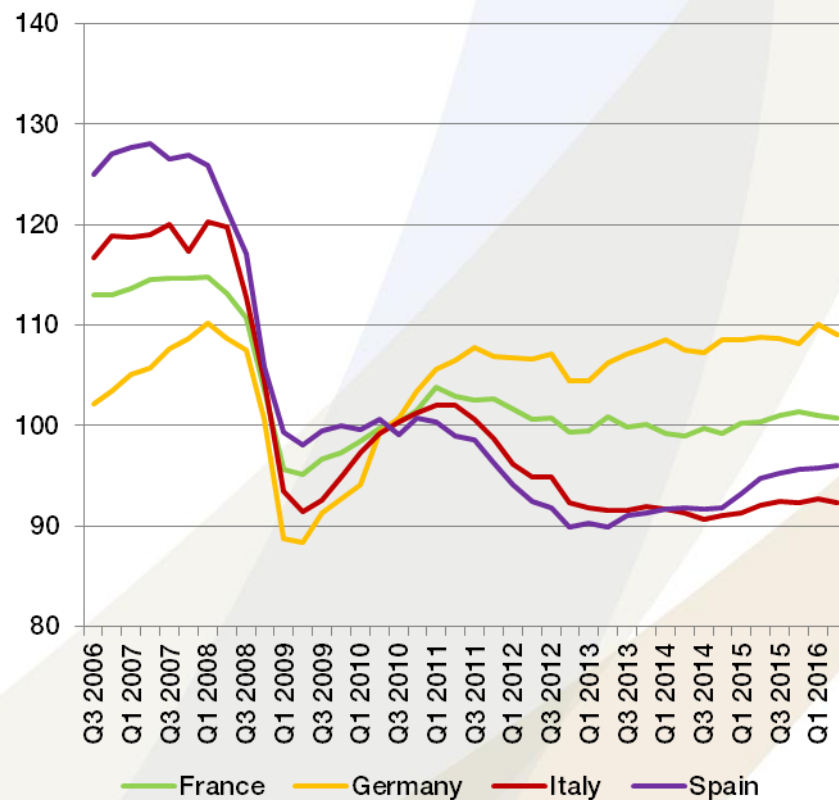


# Some implications for the Italian economy

## Investment share of GDP



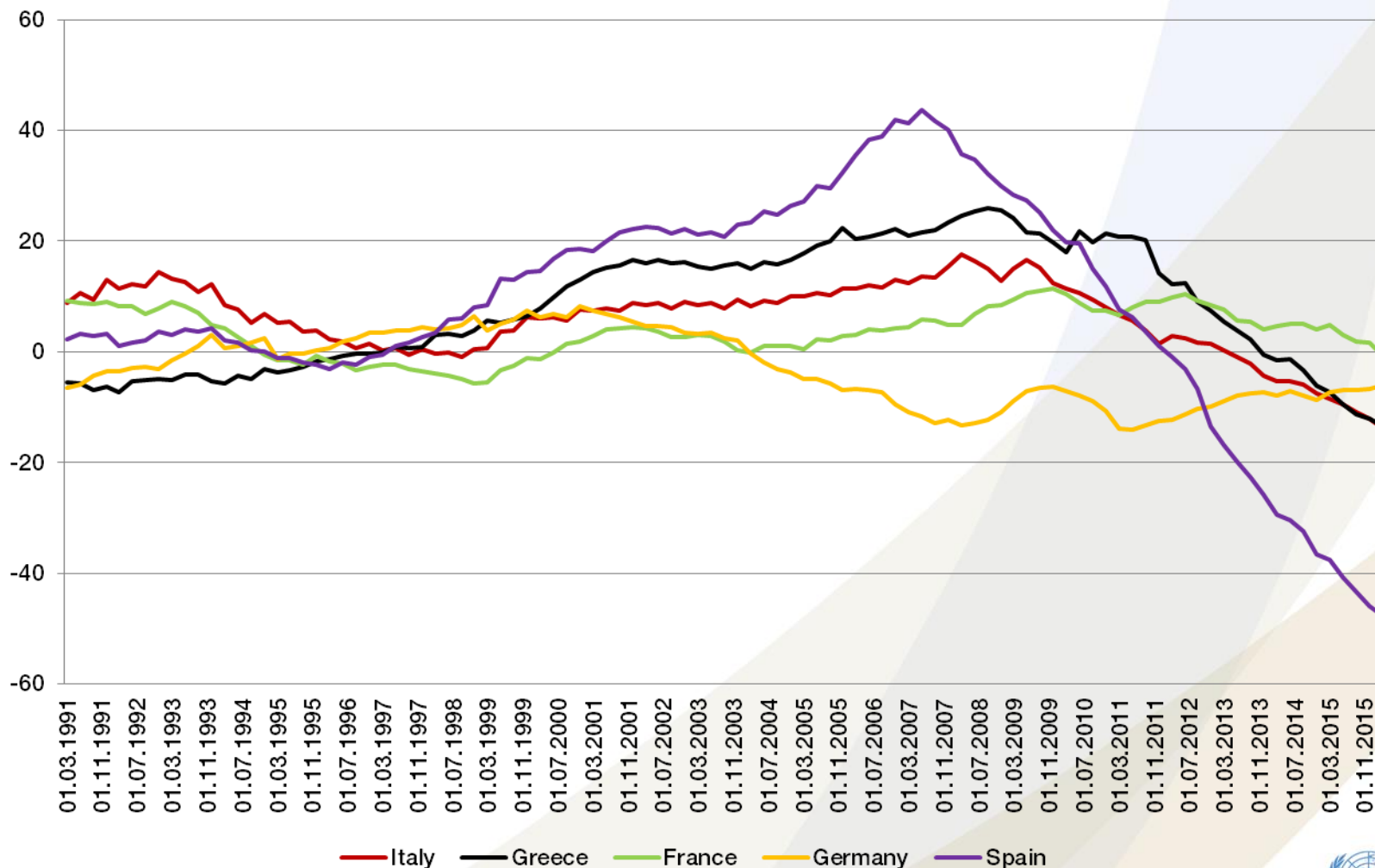
## Industrial Production (2010=100)





# Some implications for the Italian economy

## Private sector non-financial credit-to-GDP gaps



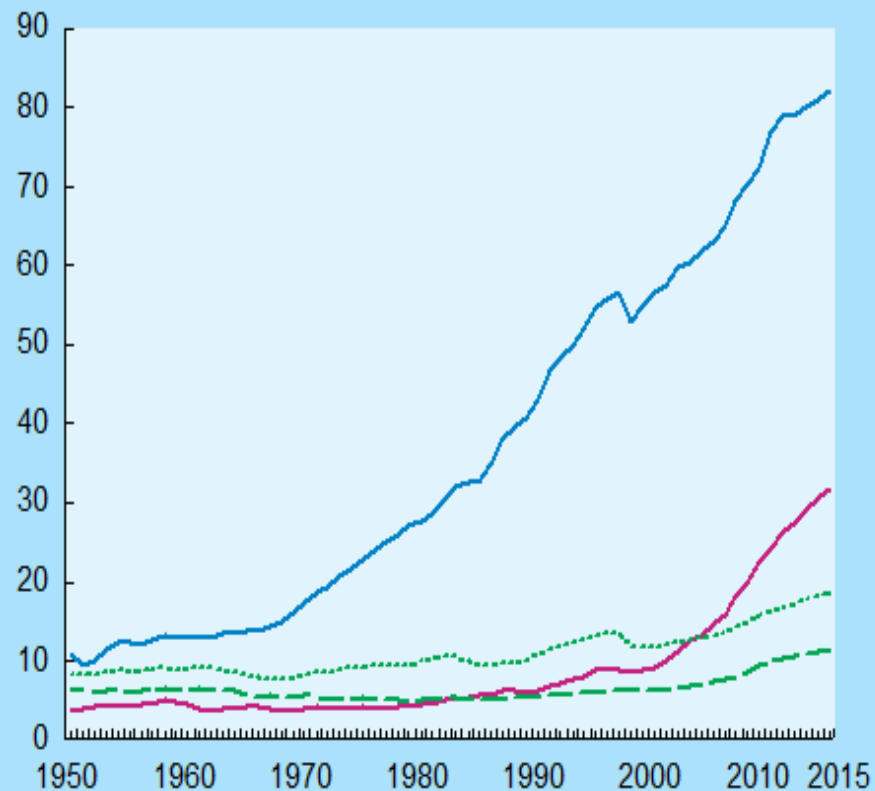
# Globalisation and convergence

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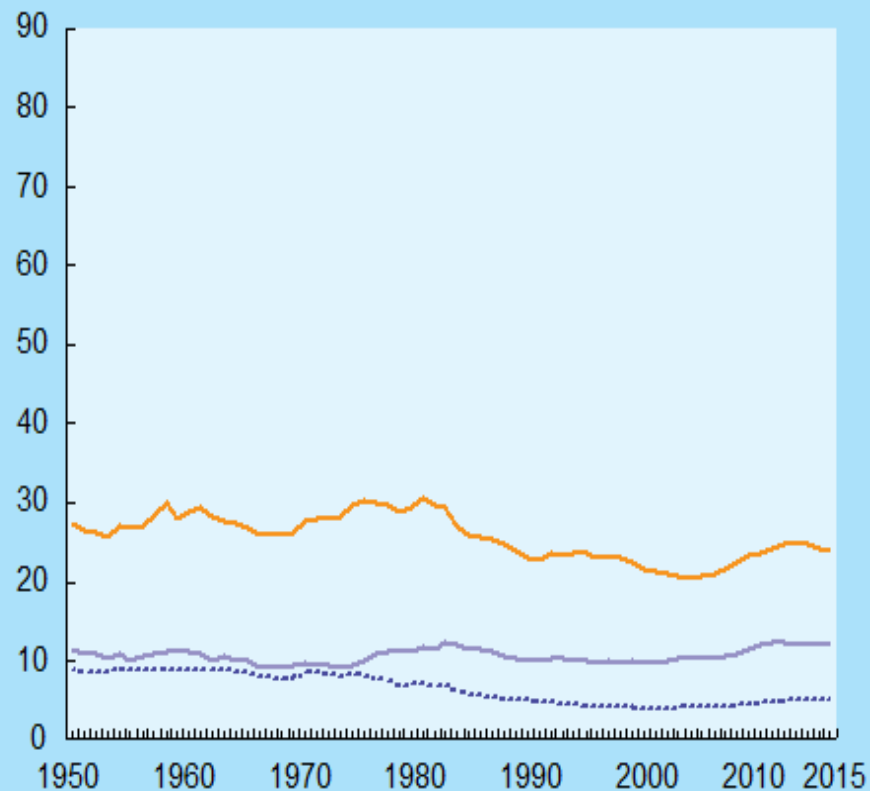
- Slowdown in the North beginning in 80s
- Fast growth in East Asia since the 80s (building on earlier successes)
- Erratic growth elsewhere in South but fast everywhere in 00s (but no decoupling) leading to strong convergence
- Global economy has been slowing since the 1980s
- Capital formation has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

# Returning to developing countries: Mind the gaps

Only the economies of East Asia have made noticeable strides closing the absolute income gap with leading economies



China  
South-East Asia  
First-tier NIEs  
South Asia



Latin America and the Caribbean  
North Africa  
Sub-Saharan Africa

# Manufacturing matters

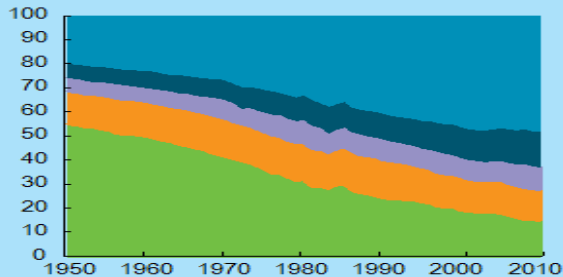
- **Catching up:** strong (East Asia) and weak (SE Asia)
- **Stalled** (North Africa, Mexico, India?)
- **Premature deindustrialisation** (Latin America; South Africa)

	Share of MVA			Share of Man N		
	1980	2000	2014	1980	2000	2014
Developed	17.0	16.5	14.6	23.9	16.9	12.8
N Africa	15.7	19.1	17.3	13.8	14.0	11.9
SSA	13.8	11.9	9.4	7.2	8.3	8.4
LAC	18.6	17.4	13.7	15.4	13.2	11.5
East Asia	28.3	31.2	29.3	22.5	20.9	21.5
SE Asia	21.1	26.8	22.5	14.4	16.3	14.0
India	14.2	18.4	20.3	9.1	11.4	11.6

# Manufacturing matters

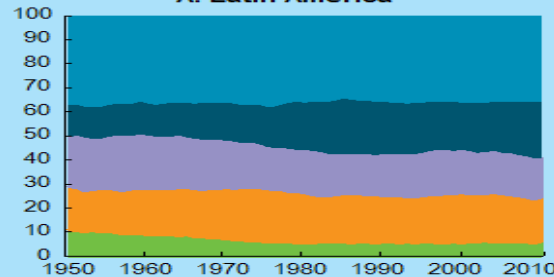
In successful economies productivity expanded rapidly with a dynamic manufacturing sector absorbing labour force from agriculture

**Employment share by sector**  
(Per cent of total employment)

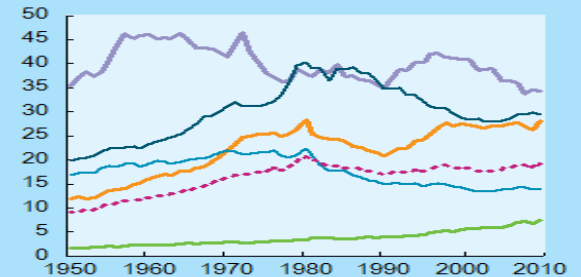


**Value added share by sector**  
(Per cent of total value added)

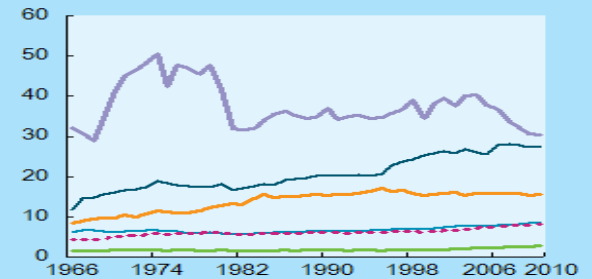
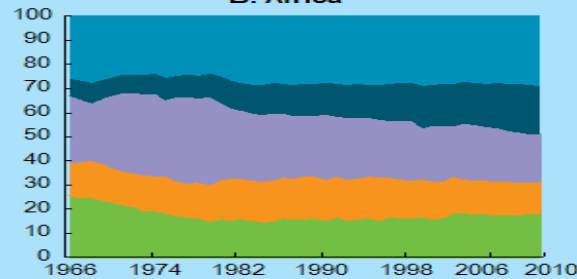
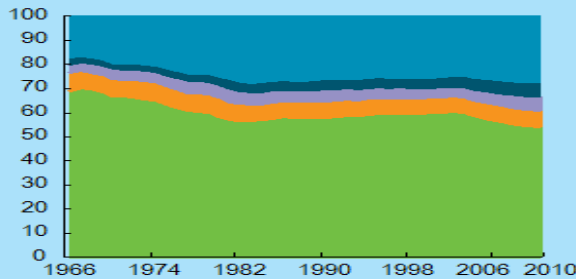
**A. Latin America**



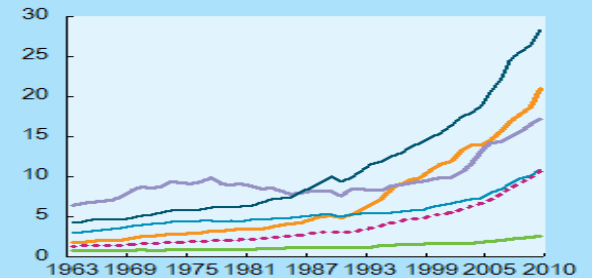
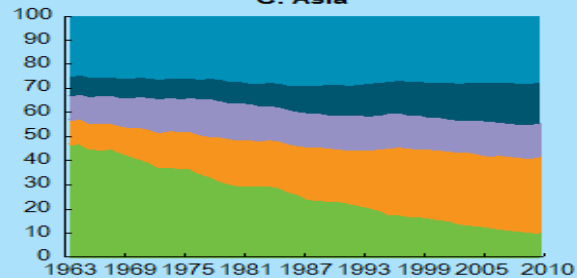
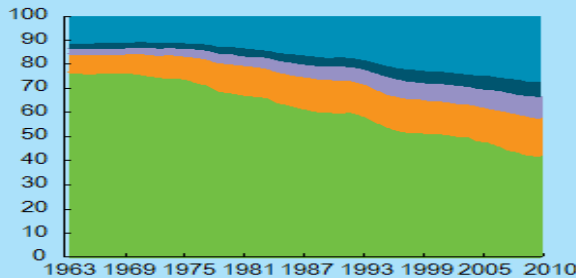
**Productivity by sector**  
(Thousands of 2005 PPP dollars)



**B. Africa**



**C. Asia**



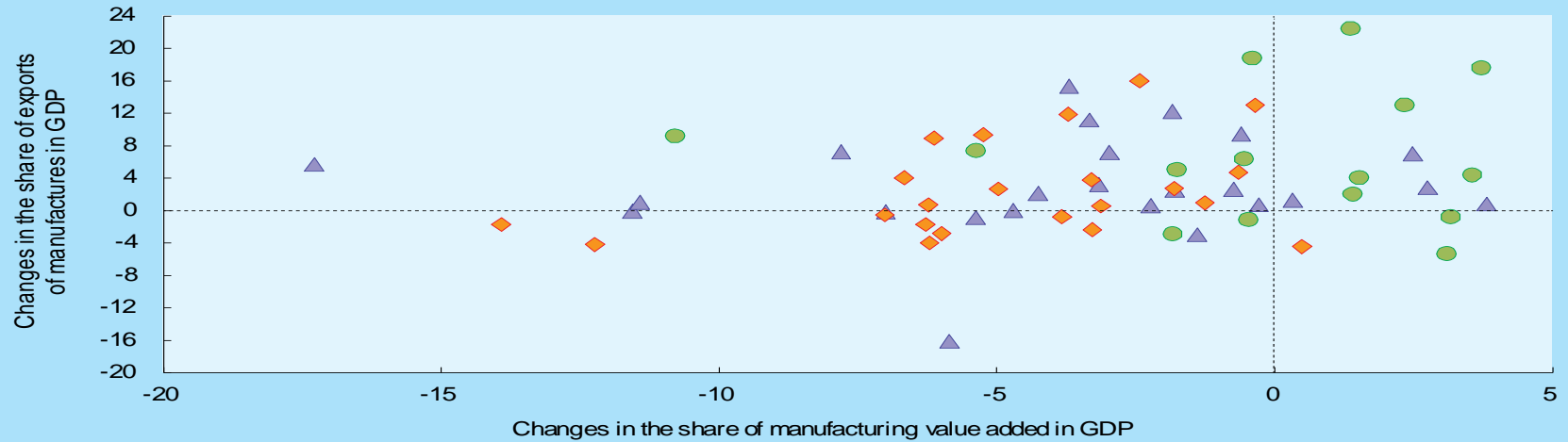
Other services  
FIRE, TSC  
Other industries  
Manufacturing  
Agriculture

Other services  
FIRE, TSC  
Other industries  
Manufacturing  
Agriculture

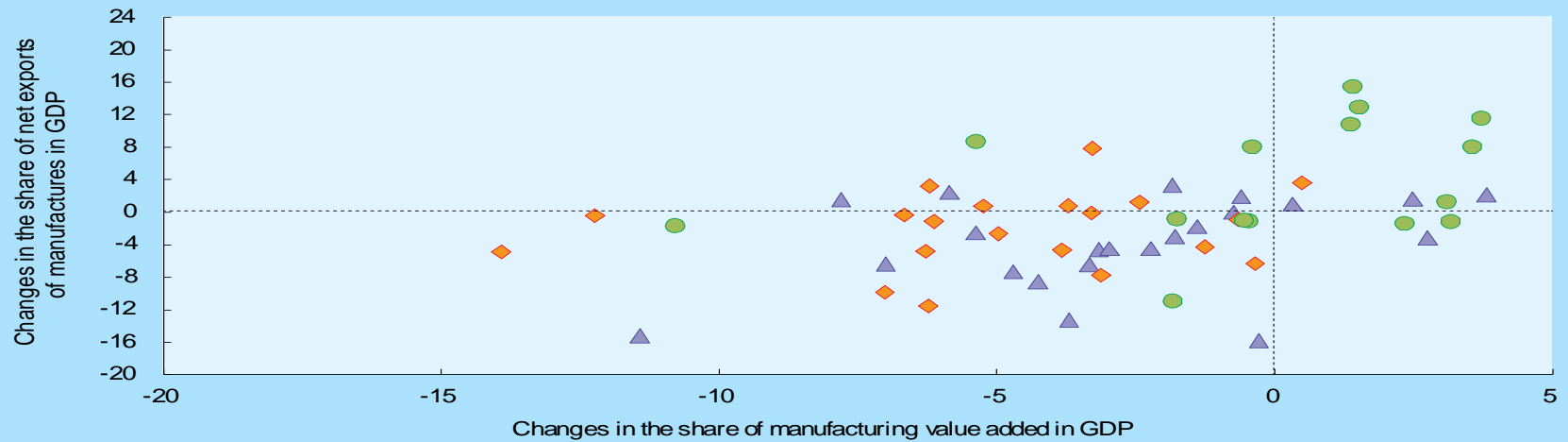
Other services  
FIRE, TSC  
Other industries  
Manufacturing  
Agriculture  
Total

# Trade and structural transformation

A. Gross exports



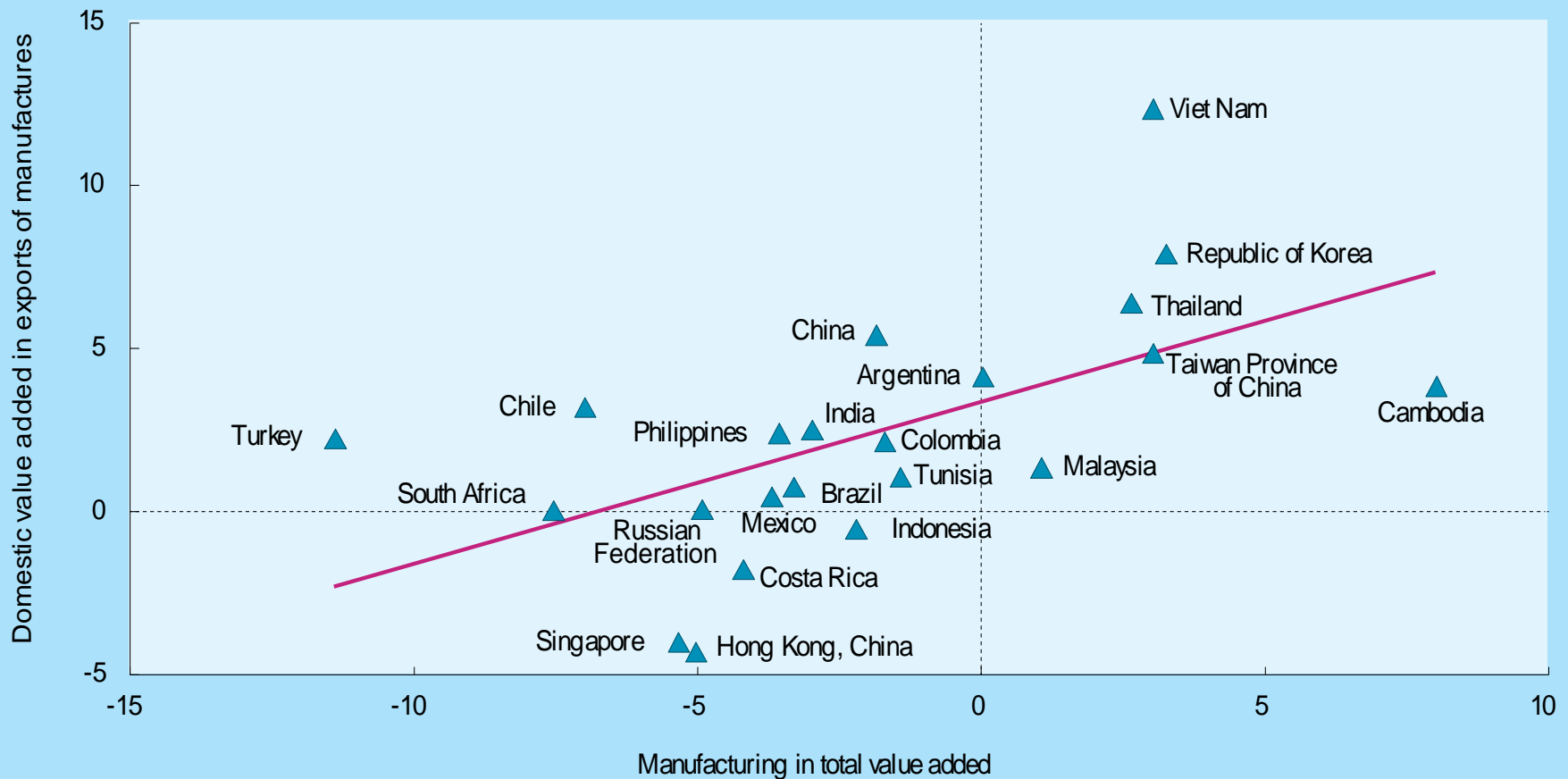
B. Net exports (exports minus imports)



▲ Africa      ● Asia      ◆ Latin America

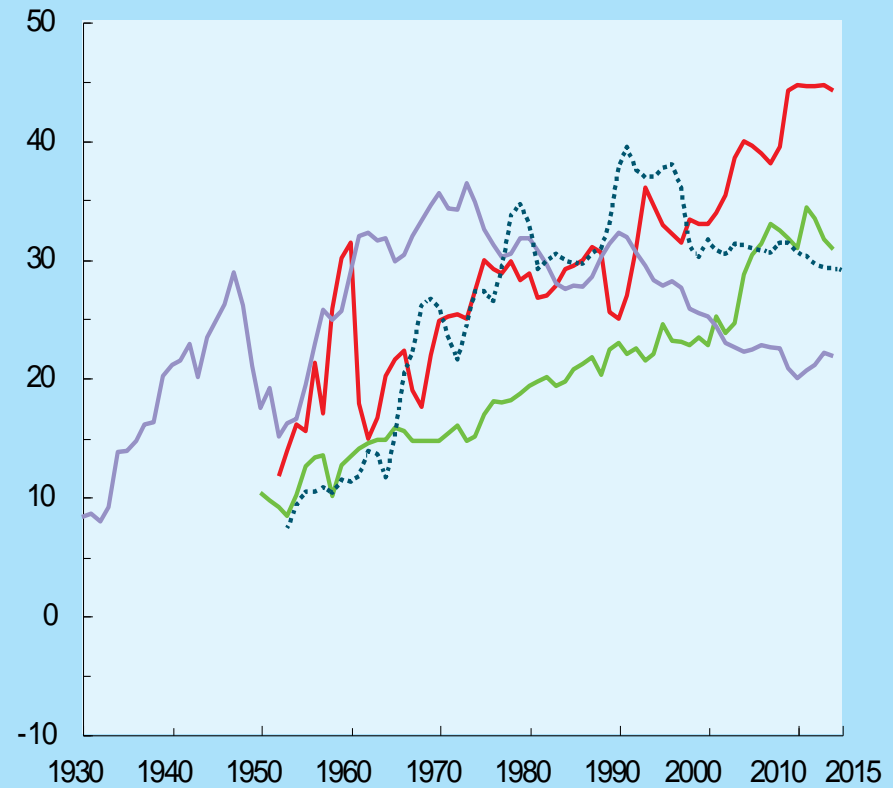
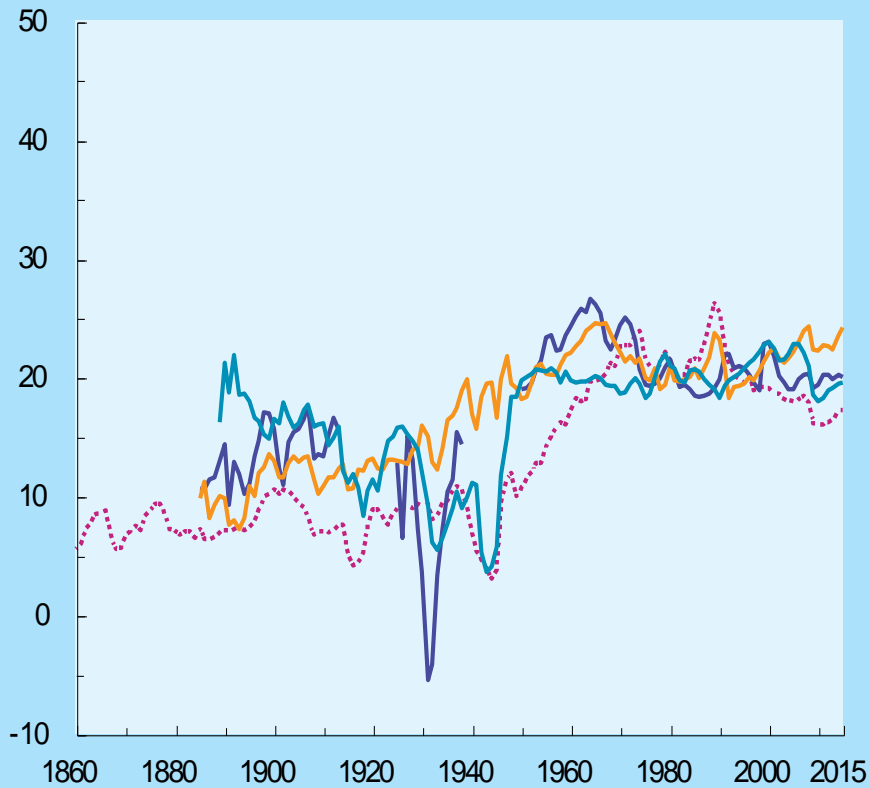
# Trade and structural transformation

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



# Investment pushes

Fixed investment in selected rapidly growing countries, 1860-2015 (percent GDP)



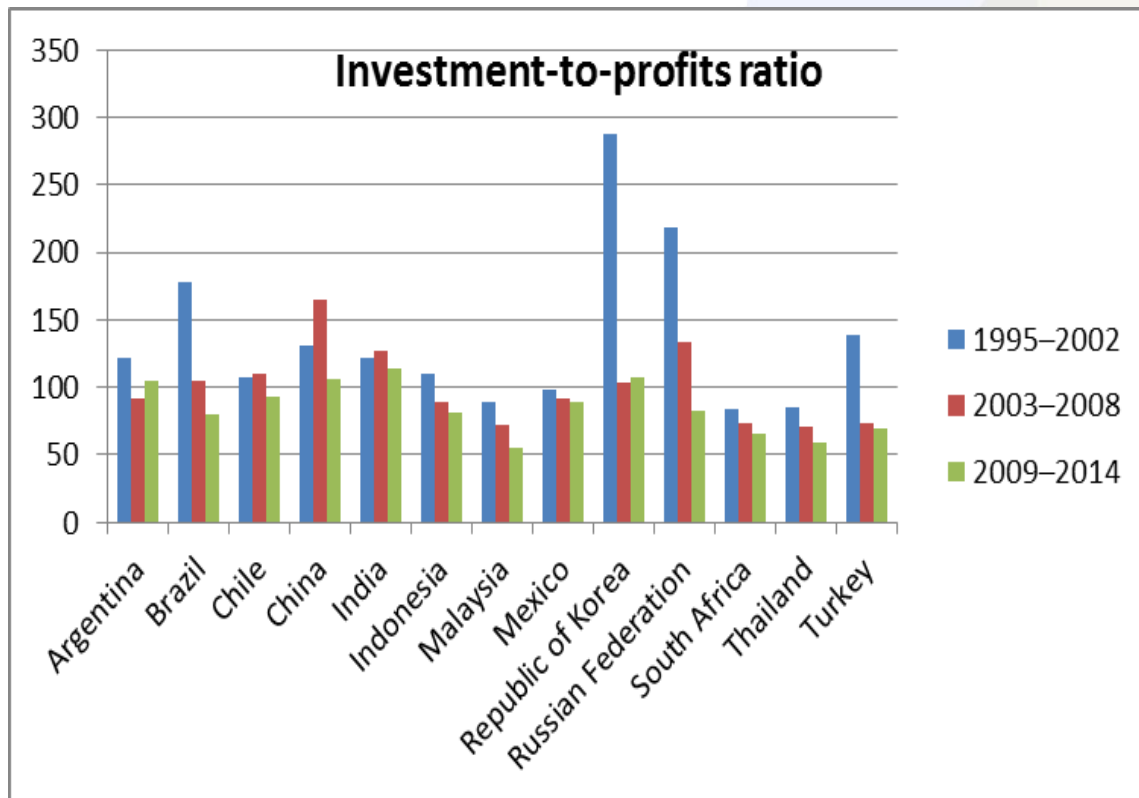
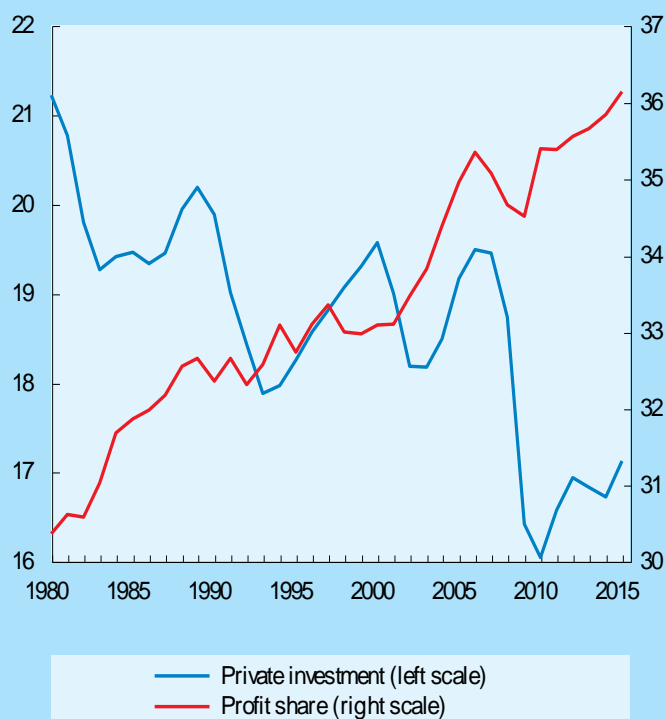
Germany  
United Kingdom  
Sweden  
United States

China  
Japan  
India  
Republic of Korea



# The profit-investment nexus revisited

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

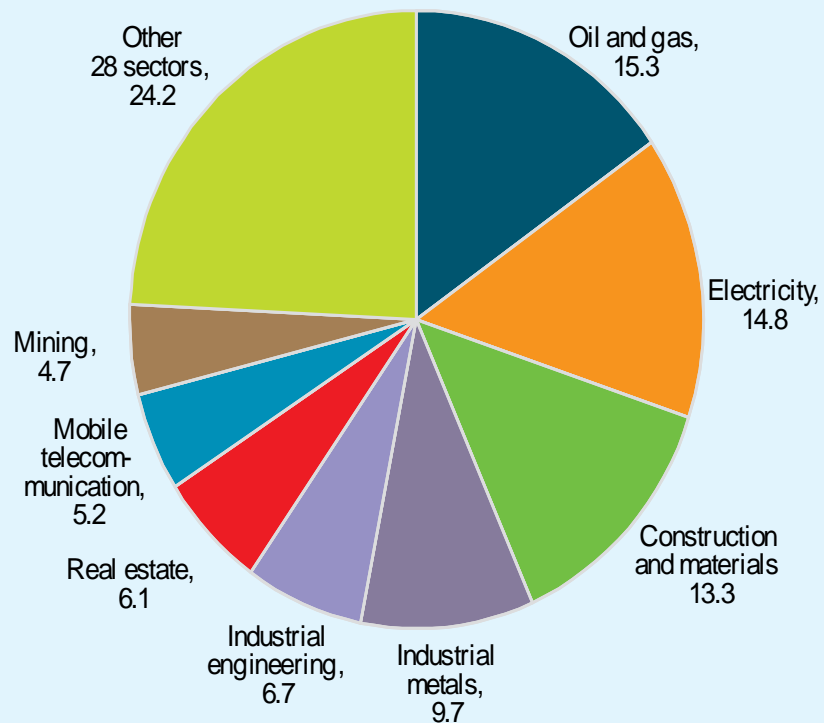


- Investment to profit ratios declining, while dividend to profits going up
- Investment rates in most developing regions not high enough to support structural transformation

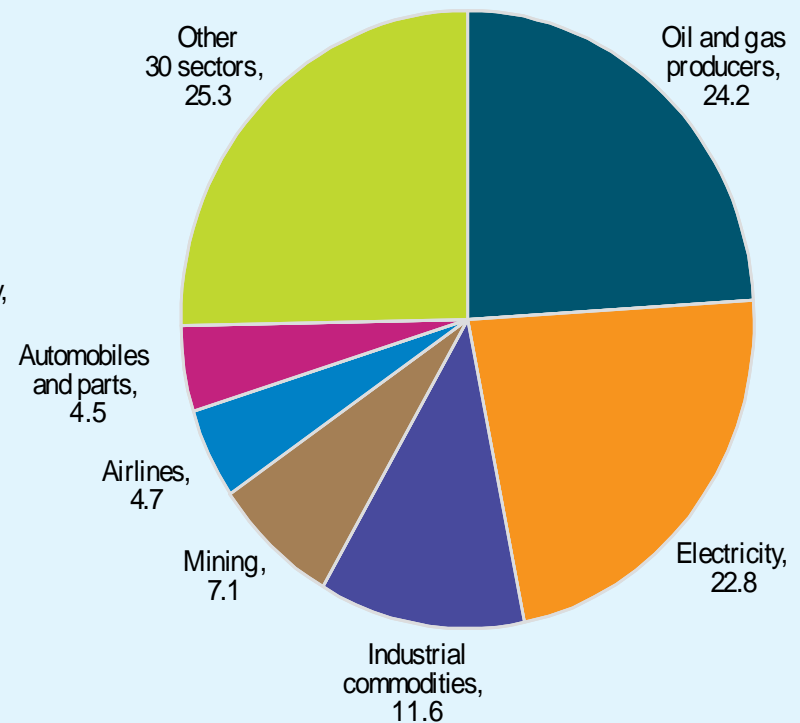
# The profit-investment nexus revisited

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

A. Debt



B. Investment



# Industrial Policy Revived

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- Not about “picking winners” but about targeting diversification and upgrading to foster strong productivity growth
- Beyond selecting sectors - building linkages and capabilities, incentivising learning processes
- 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