



Diversification and Structural Transformation in Developing Economies

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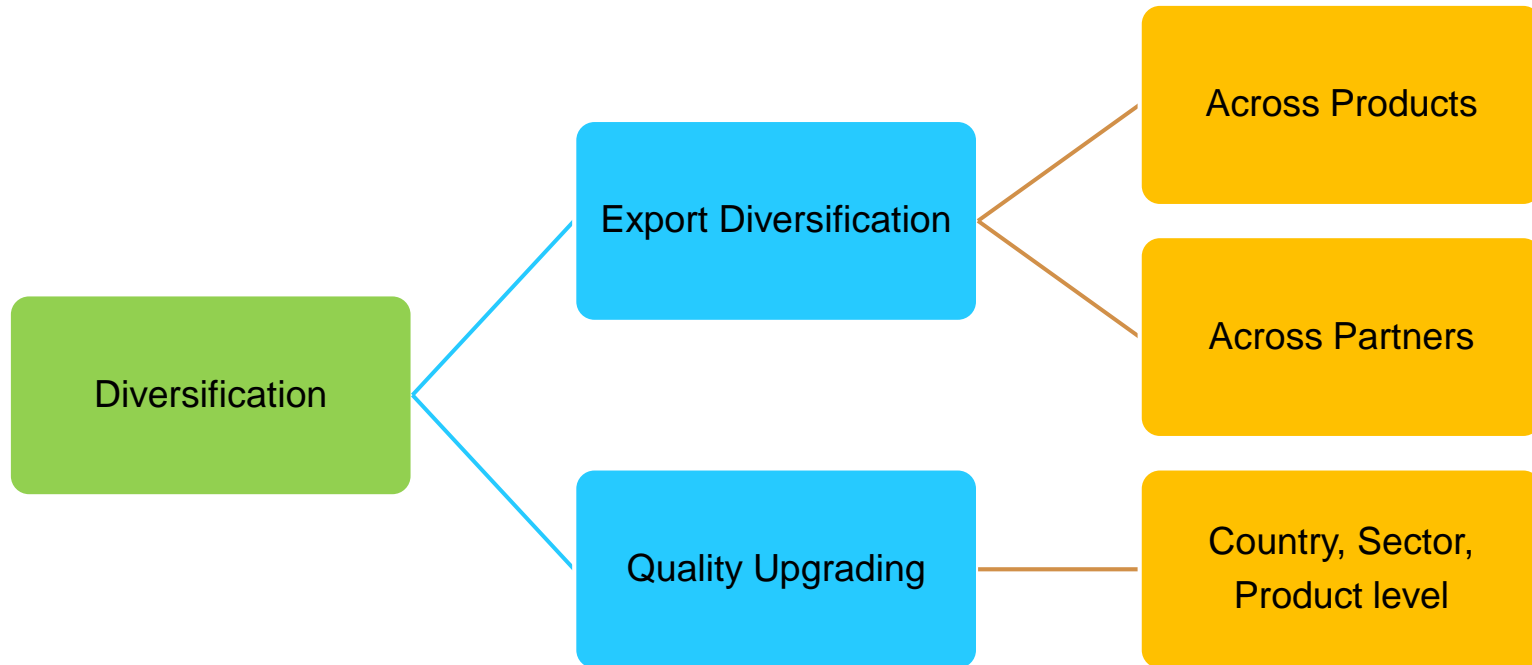
*UNWIDER
September 13, 2018*

Background

- IMF is stepping up analysis of macrostructural issues
- *Diversification* and *structural reforms* are now at the center of both policy research and operations

Diversification

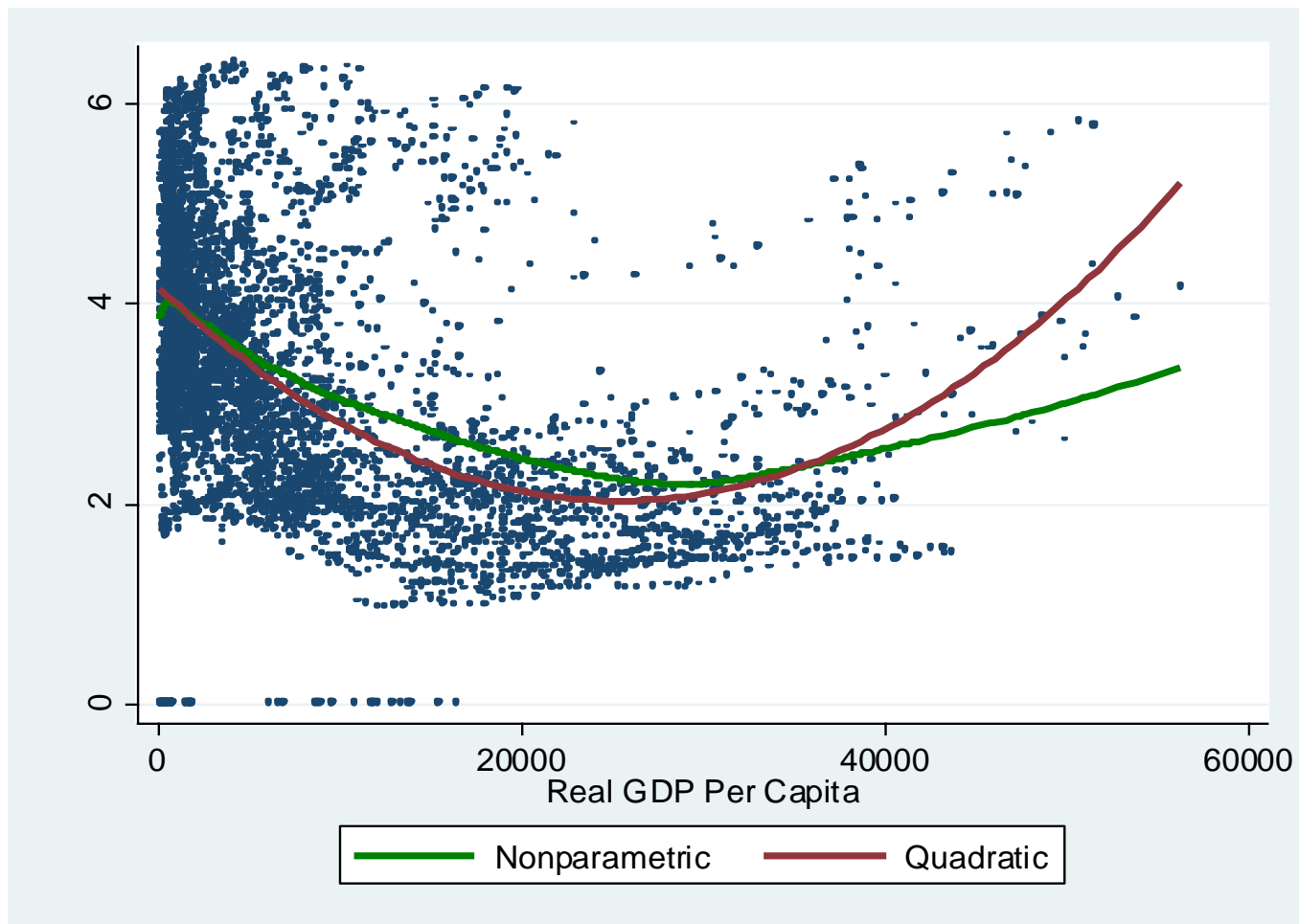
Dimensions of Diversification



IMF Export Diversification Toolkit

- This toolkit contains two main databases:
 - ❑ **Export Diversification Database**
 - ❑ **Export Quality Database**
- Coverage of the databases
 - ❑ Cover 187 countries
 - ❑ Time coverage: 1962-2015, annual data
- This is an output of Growth through Diversification Project (the IMF-DFID Collaboration)

Export Diversification: Cross-Country



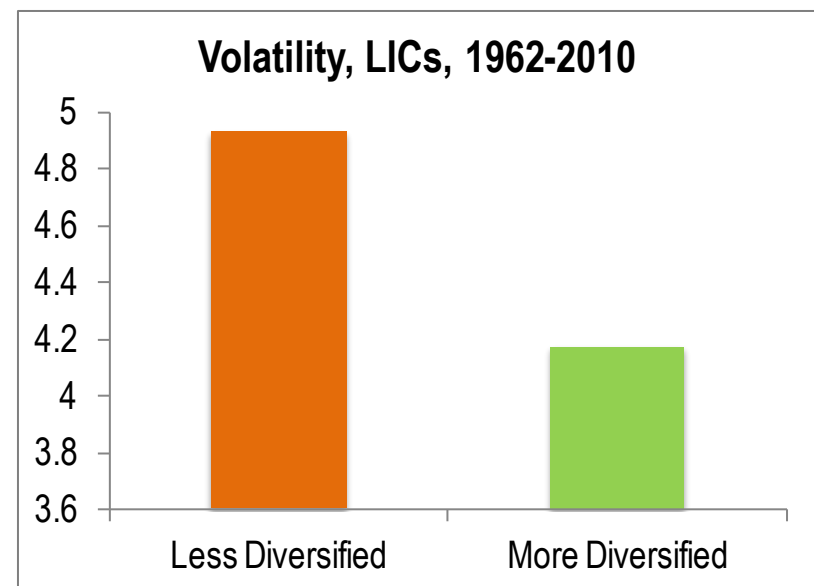
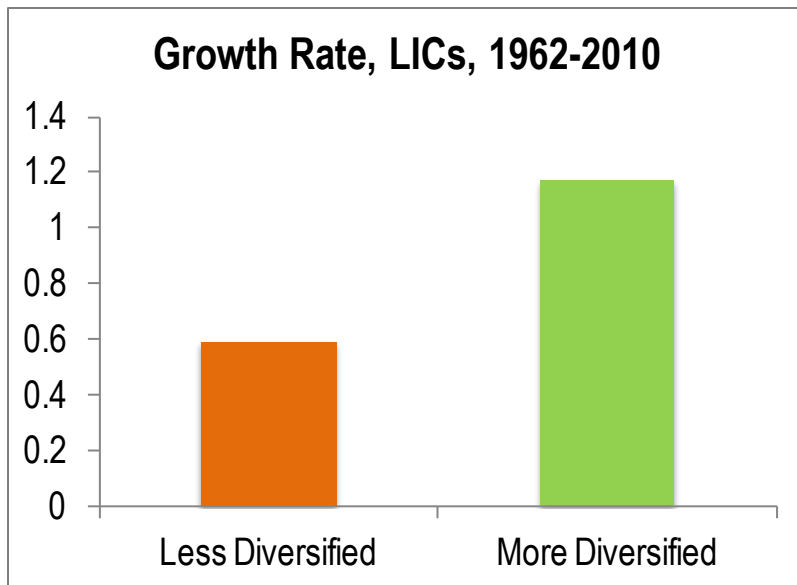
Export Diversification and Quality Upgrading for Growth and Stability

Growth

- Robust relationship between diversification and growth in LICs.
- Quality upgrading and sectoral reallocation are linked to higher growth.

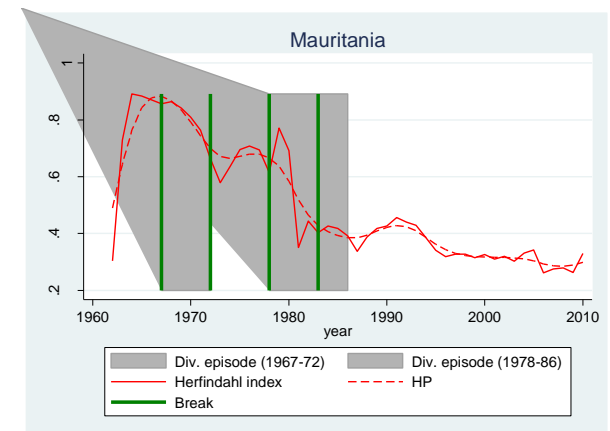
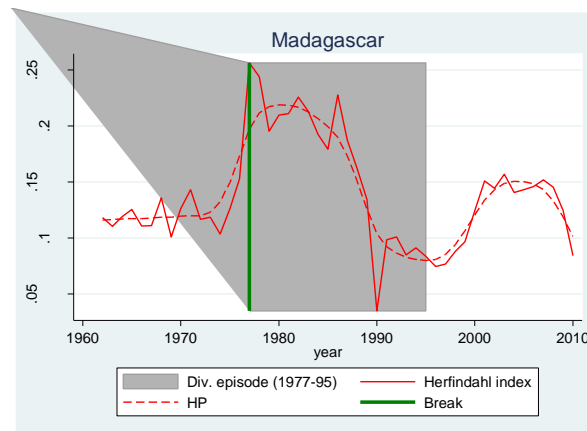
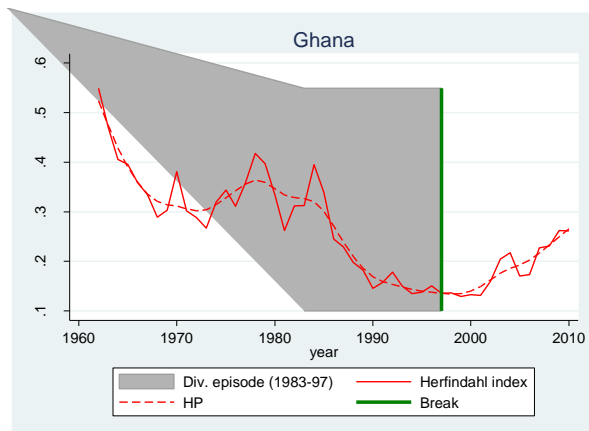
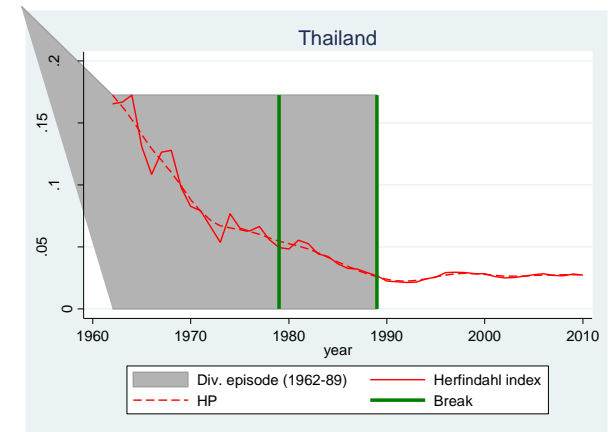
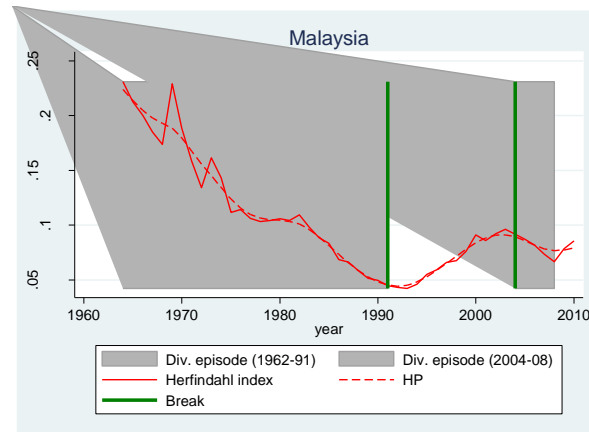
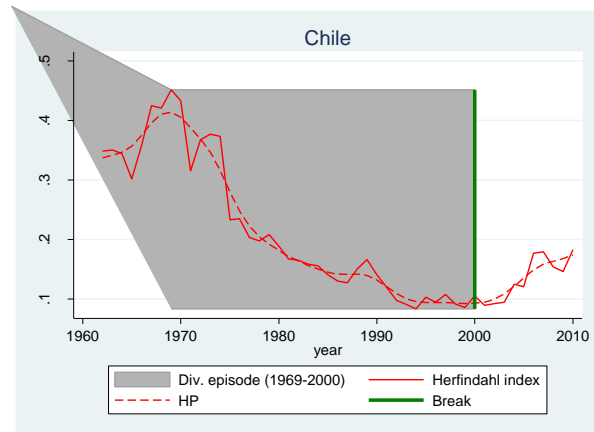
Volatility

- Significant positive relationship between export diversification and reduction in output volatility.



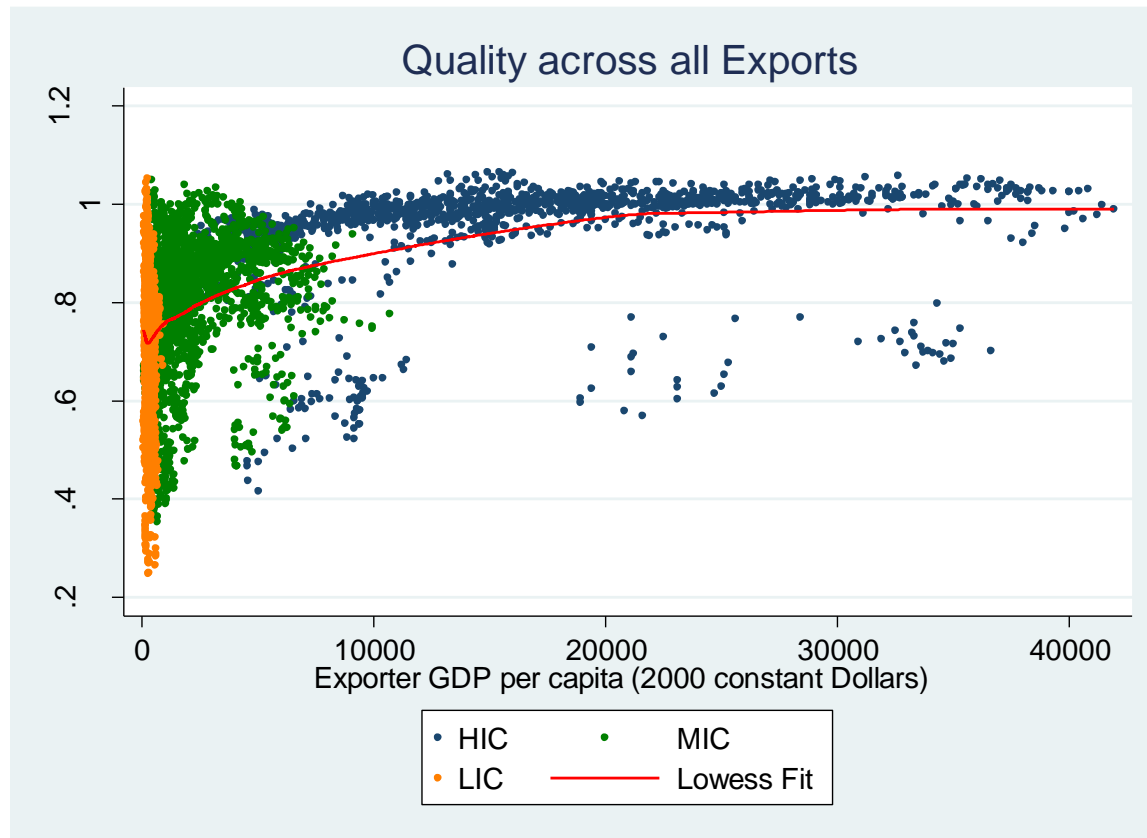
Note: "Less Diversified" here means the countries with diversification level below 30 percentile of all LICs; "More Diversified" here means the countries with diversification level above 70 percentile of all LICs.

Export Product Diversification Episodes



Export Quality and Development

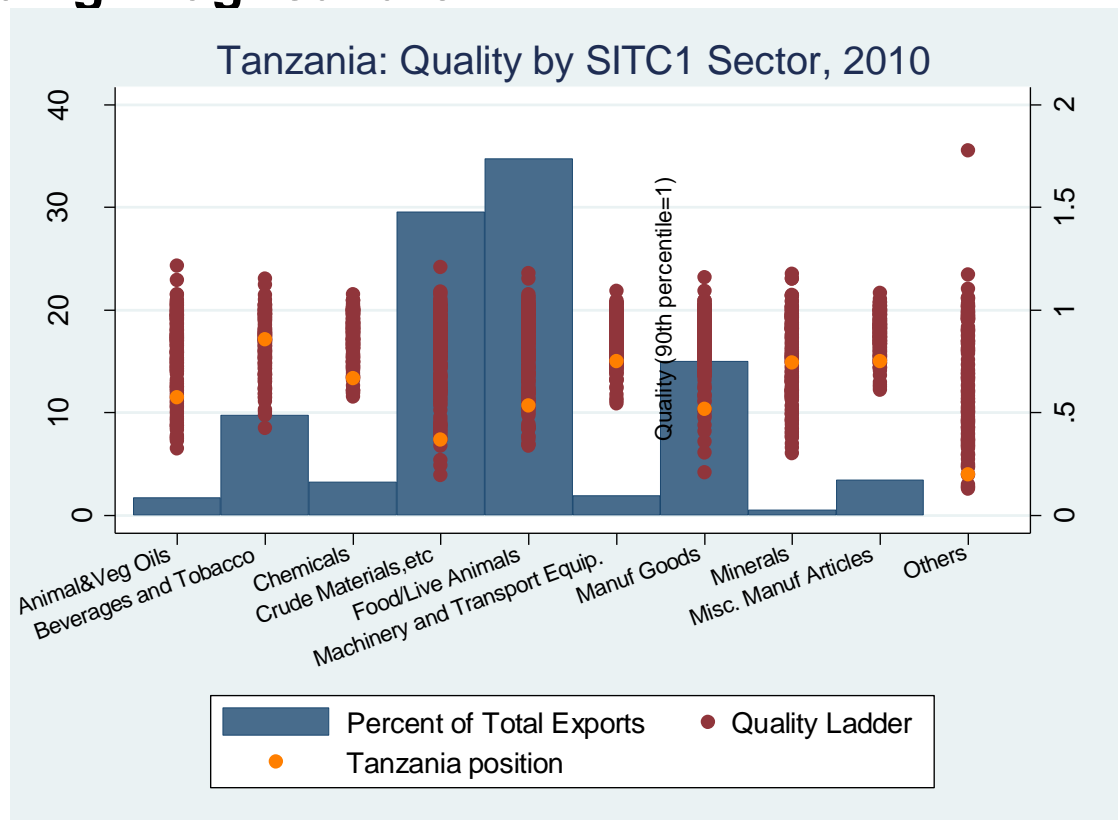
- ❑ Quality upgrading is a crucial component of development, particularly when trying to move to upper middle-income status
- ❑ Some countries need diversification, others need quality upgrading.
- ❑ Opportunities in manufacturing, but also agriculture



Quality Ladders

Tanzania

- Given its concentration in agricultural products and crude materials, Tanzania has potential for horizontal diversification but also for quality upgrading in agriculture.



Quality Ladders

What is next for China?

- China has some additional potential for quality upgrading, but may also aim to diversify further across products and upgrade the tasks it performs.



Quality Ladders

China: zooming into subsectors

- Within its two strongest SITC1 sectors, China's exports seem tilted towards less sophisticated products, e.g. transport equipment is lagging behind other machinery.



Quality Ladders

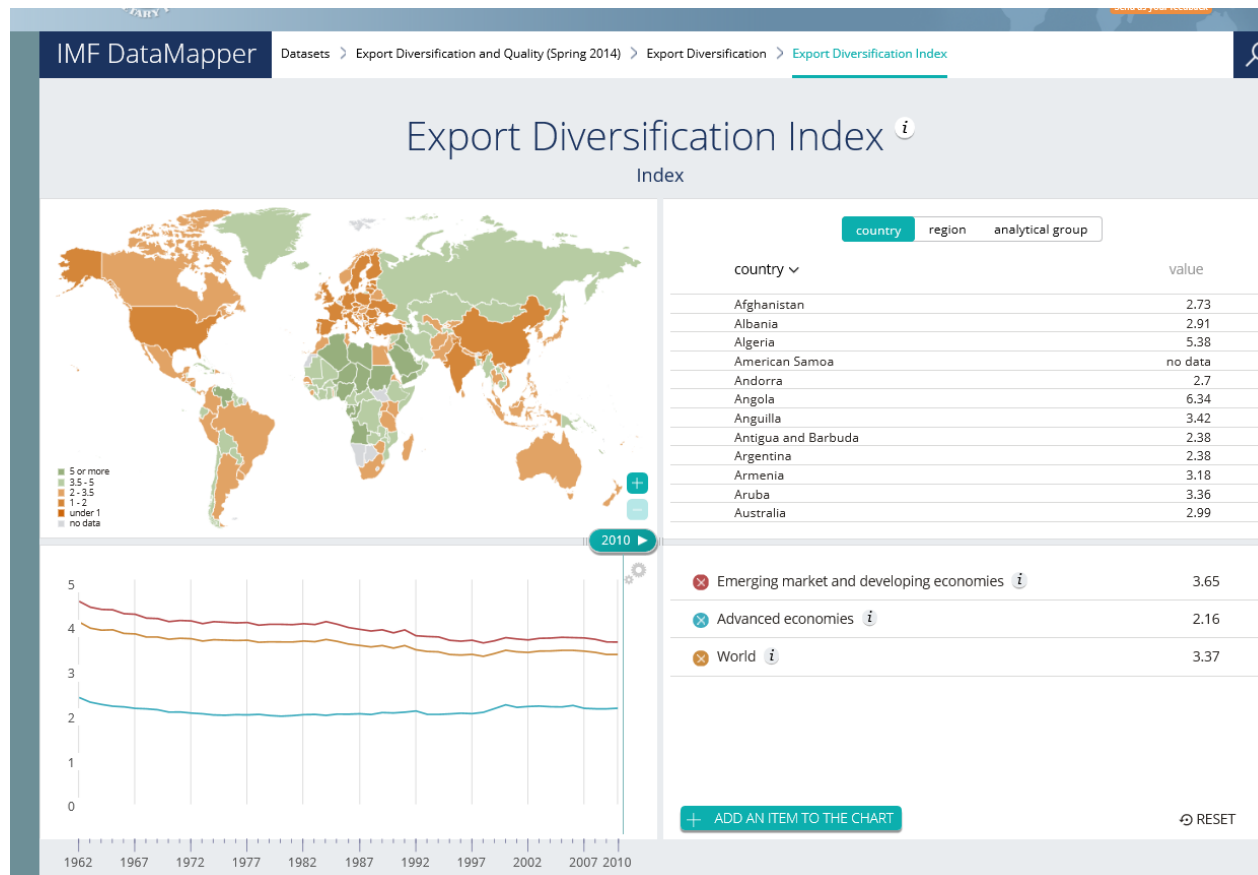
China: zooming into subsectors

- Likewise clothing still dominates within Miscellaneous Manufactures.



Diversification Toolkit

<http://www.imf.org/external/datamapper/datasets/SPRLU>

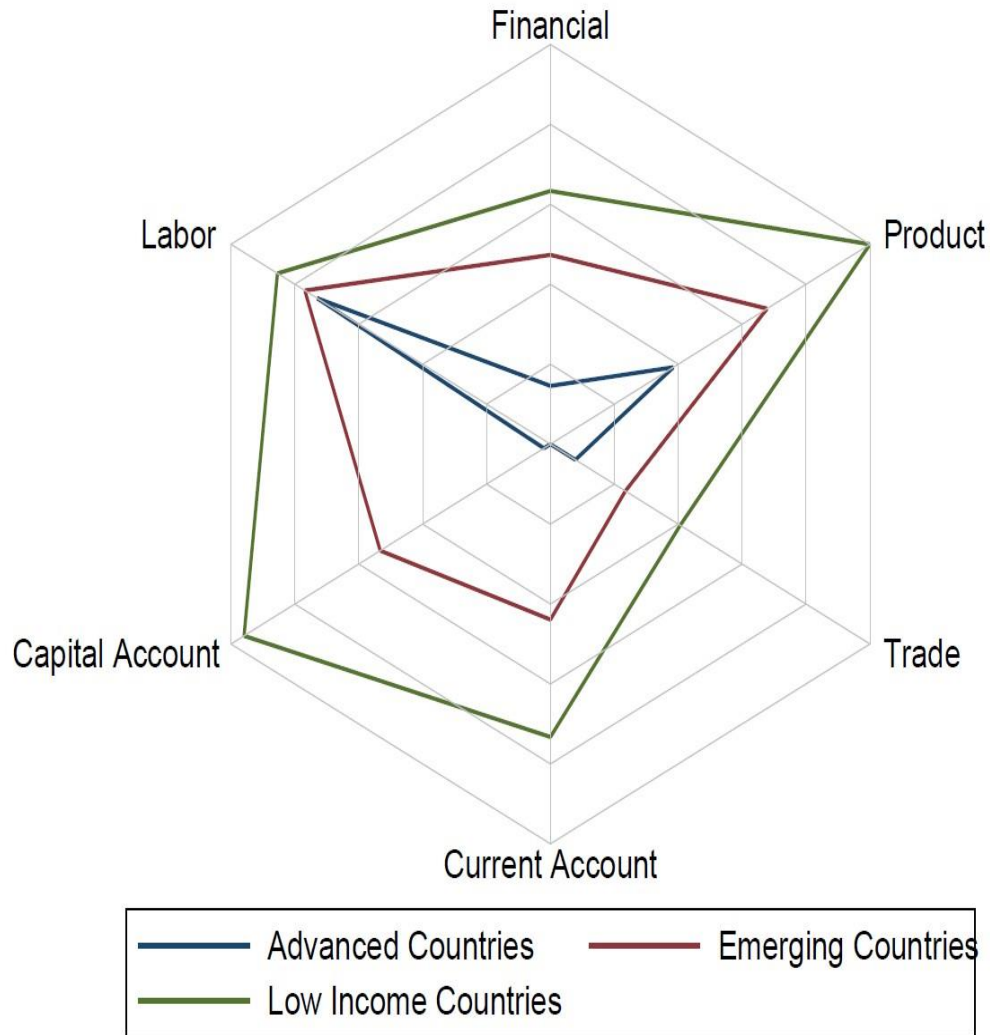


Structural Reforms

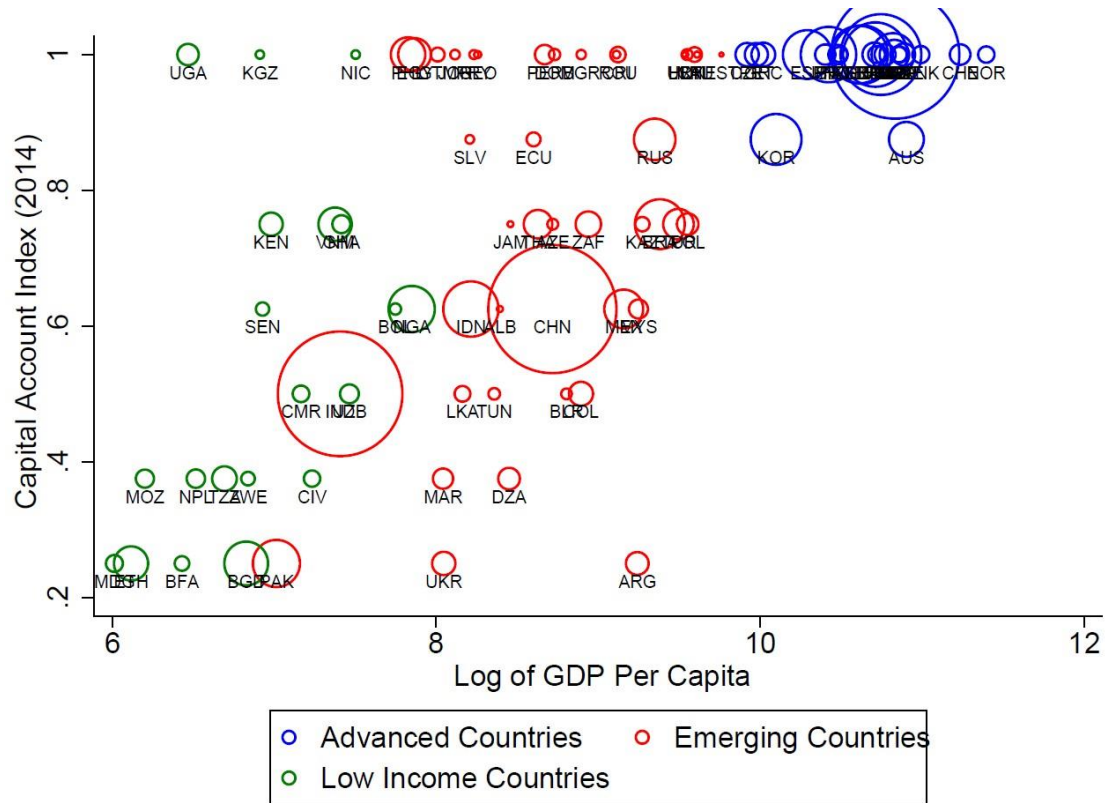
IMF Database

- Reform indicators for 90 countries covering LICs, EMs, and AEs from 1973-2014.
 - Constructed from multiple sources: previous cross-country databases, country legislation, IMF staff reports, FSAPs, among others.
- Unique in terms of country-time coverage and breadth of sectoral areas:
 - **Financial:** credit controls, interest rate controls, bank entry barriers, banking supervision, privatization, and security market development.
 - **Capital and current account:** restrictions on exchange payments and receipts (imports, invisibles, capital).
 - **Trade:** product-level tariffs.
 - **Product markets:** ownership, regulation and barriers to entry in telecommunications and electricity markets.
 - **Labor markets:** employment protection legislation including procedural requirements, firing costs and requirements, and redress measures.

Structural Reforms Database – Preliminary Results

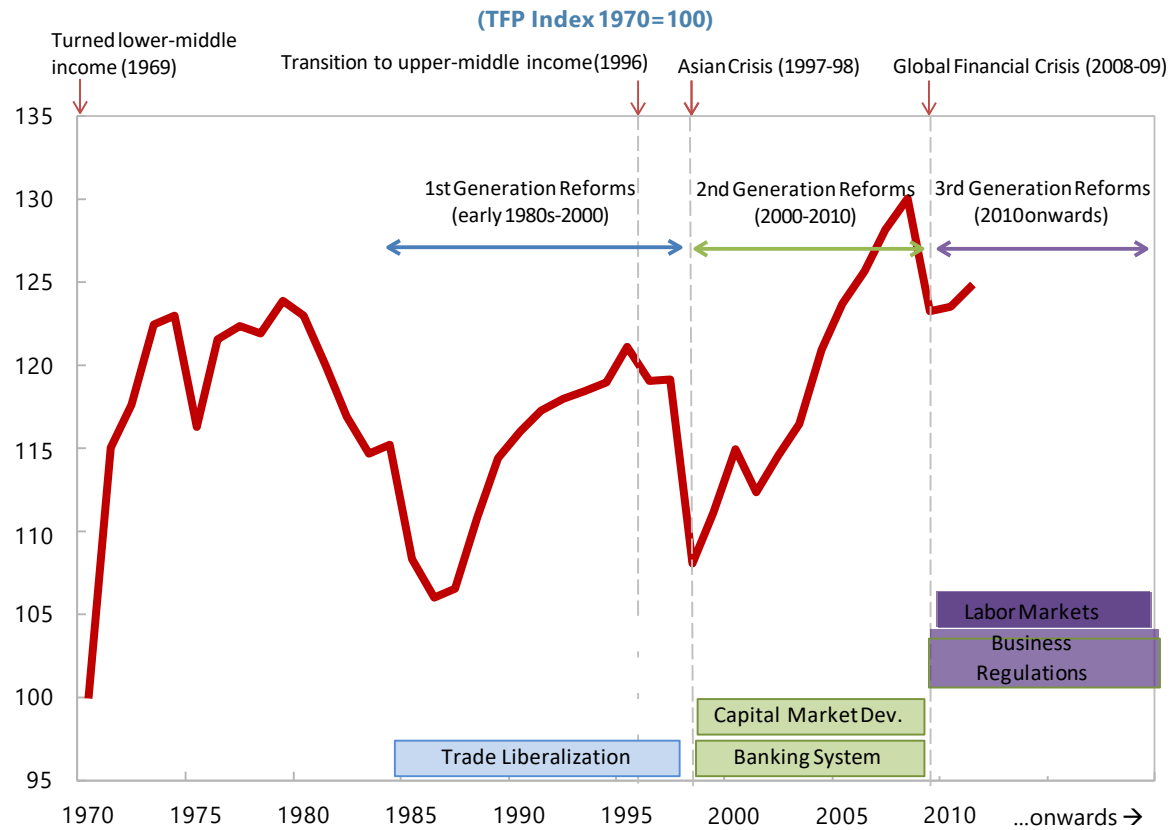


Capital Account Regulation

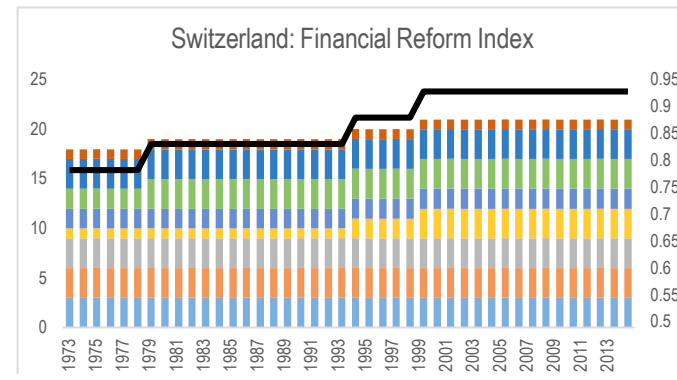
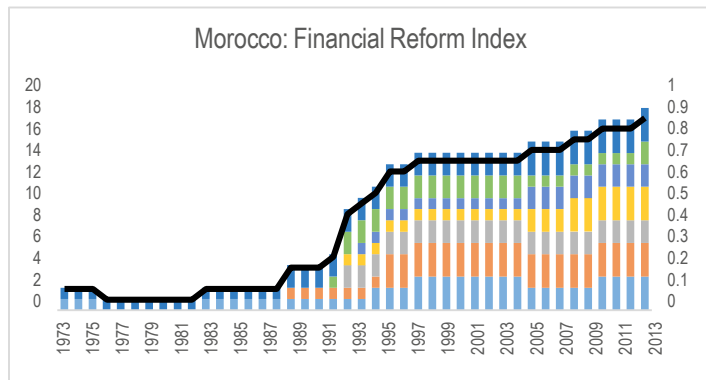
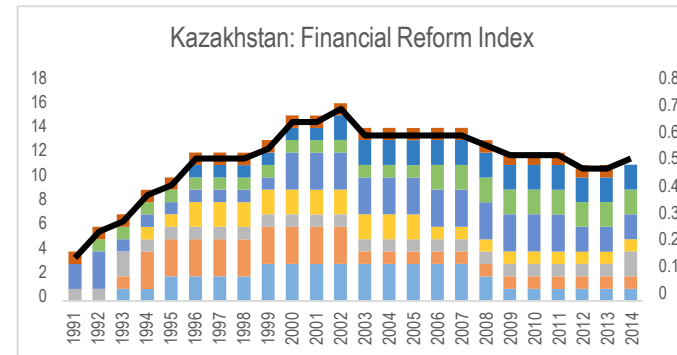
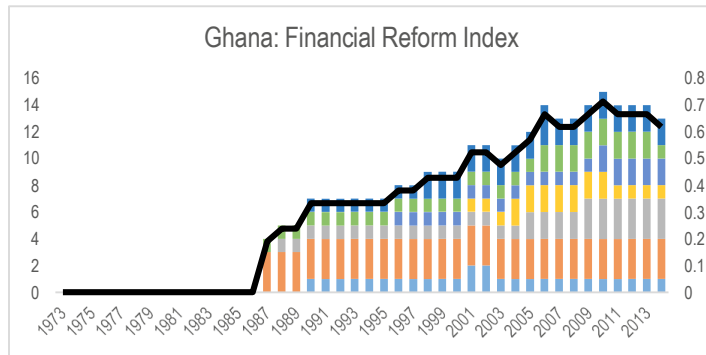


Note: Higher values of the indicator denote higher liberalization

Country case: Malaysia

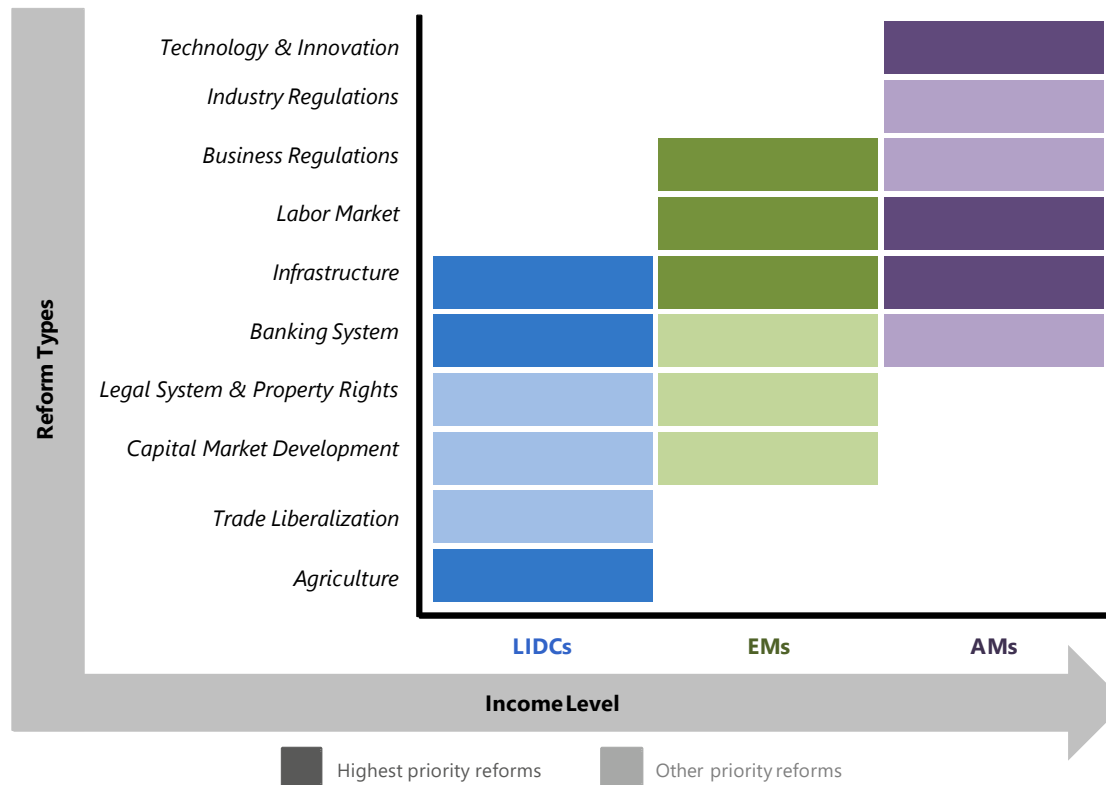


Country Examples, 1973-2014

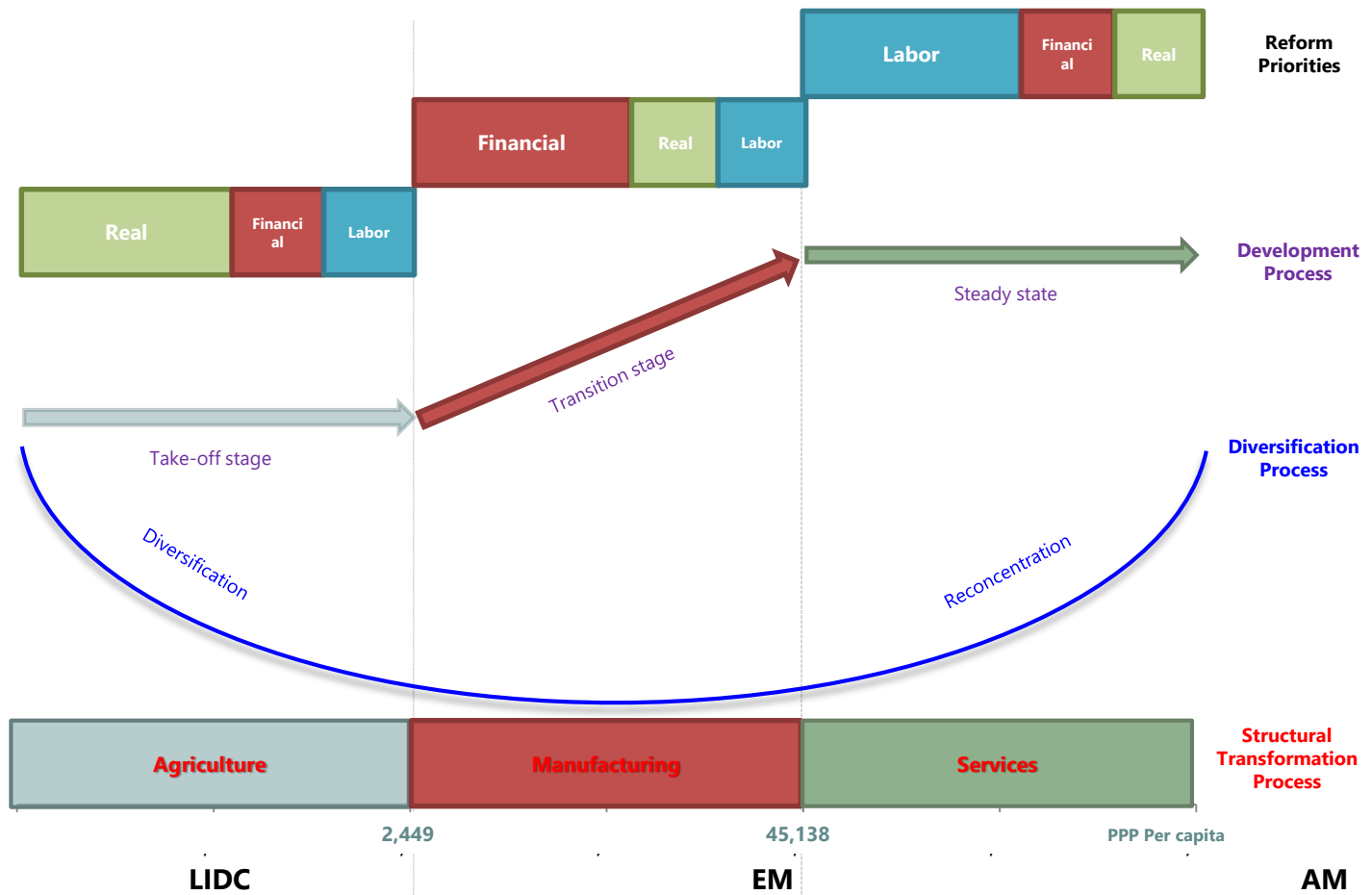


- Directed credit/reserve requirements
 - Entry barriers/pro-competition measures
 - Privatization
 - Security Markets
 - Total Index
- Interest rate controls
 - Banking Supervision
 - International capital flows
 - Aggregate Credit Ceilings

Conceptual framework on prioritization



Note: Comparisons **across** reforms **within** each country group. Darker shades imply larger gains from reforms.



Thank You!