Diversification and Structural Transformation in Developing Economies

Chris Papageorgiou

Research Department
IMF

UNWIDER
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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

- Diversification
- Export Diversification
  - Across Products
- Quality Upgrading
  - Across Partners
  - Country, Sector, Product level
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.

![Growth Rate, LICs, 1962-2010](chart1)

![Volatility, LICs, 1962-2010](chart2)

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

Chile

Malaysia

Thailand

Ghana

Madagascar

Mauritania

Herfindahl index


Div. episode (1962-91)

Div. episode (1962-89)

Div. episode (1983-97)

Div. episode (1977-95)

Div. episode (1967-72)

Div. episode (1978-86)

Div. episode (1962-89)

Div. episode (2004-08)

Div. episode (2004-08)

Div. episode (1962-91)

Div. episode (1983-97)

Div. episode (1977-95)

Div. episode (1967-72)

Div. episode (1978-86)
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 across all Exports](image-url)
Given its concentration in agricultural products and crude materials, Tanzania has potential for horizontal diversification but also for quality upgrading in agriculture.
China has some additional potential for quality upgrading, but may also aim to diversify further across products and upgrade the tasks it performs.

What is next for China?
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

![Graph showing financial, labor, product, capital account, and trade categories for different country groups: Advanced Countries, Emerging Countries, and Low Income Countries.](image)
Higher values of the indicator denote higher liberalization.
Capital Account Regulation

Note: Higher values of the indicator denote higher liberalization.
Labor Regulation

Note: Higher values of the indicator denote higher liberalization.
Country case: Malaysia

(TFP Index 1970=100)


Labor Markets → Business Regulations

Trade Liberalization → Capital Market Dev. → Banking System
Country Examples, 1973-2014

Ghana: Financial Reform Index

Kazakhstan: Financial Reform Index

Morocco: Financial Reform Index

Switzerland: Financial Reform Index

- 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.