Can developing countries carry the global economy?

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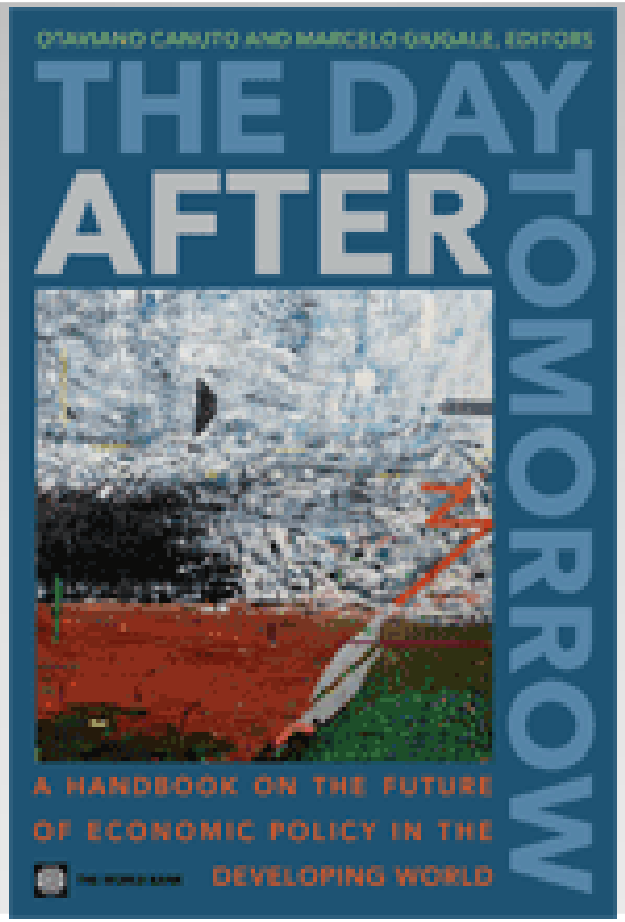
1st International Conference:
Trust and accountability in public financial management

CIPFA, London, March 15-17 March, 2011



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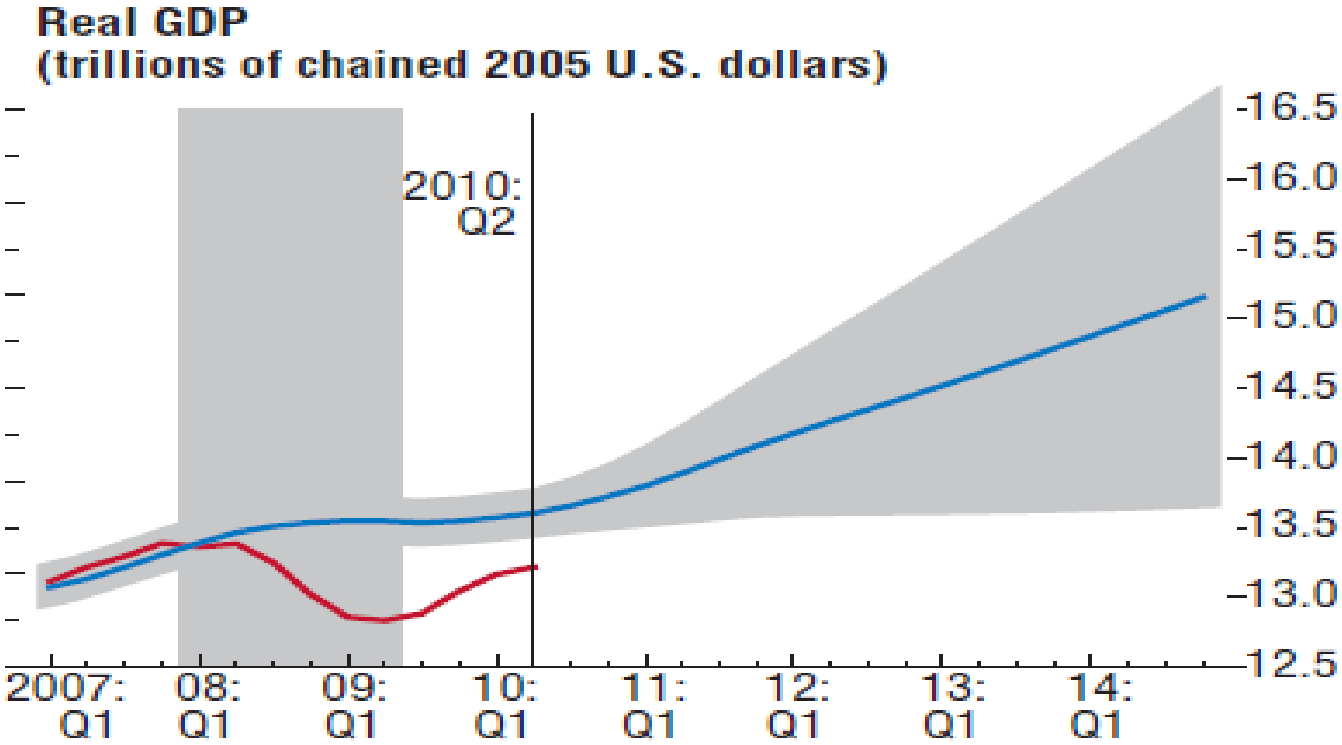
Two take-away messages

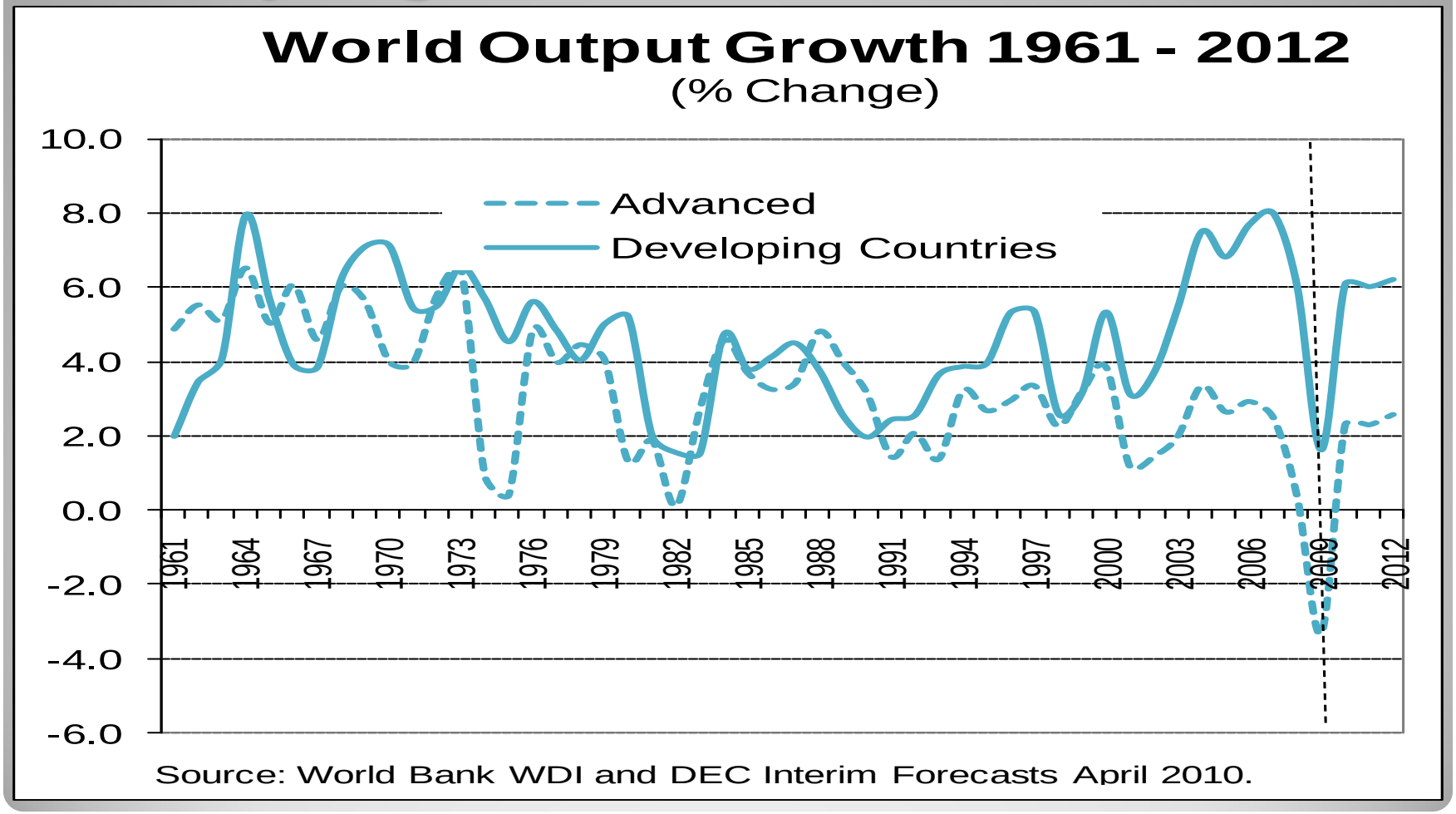
- **While advanced economies are still recovering from the Great Recession, developing countries are emerging as the new engine of global growth.**
- **Building trust in government, ensuring fiscal quality & "spring cleaning" of public expenditures in developing countries will be at the core of the agenda**

Legacy of the crisis on growth trends of advanced economies – the US case

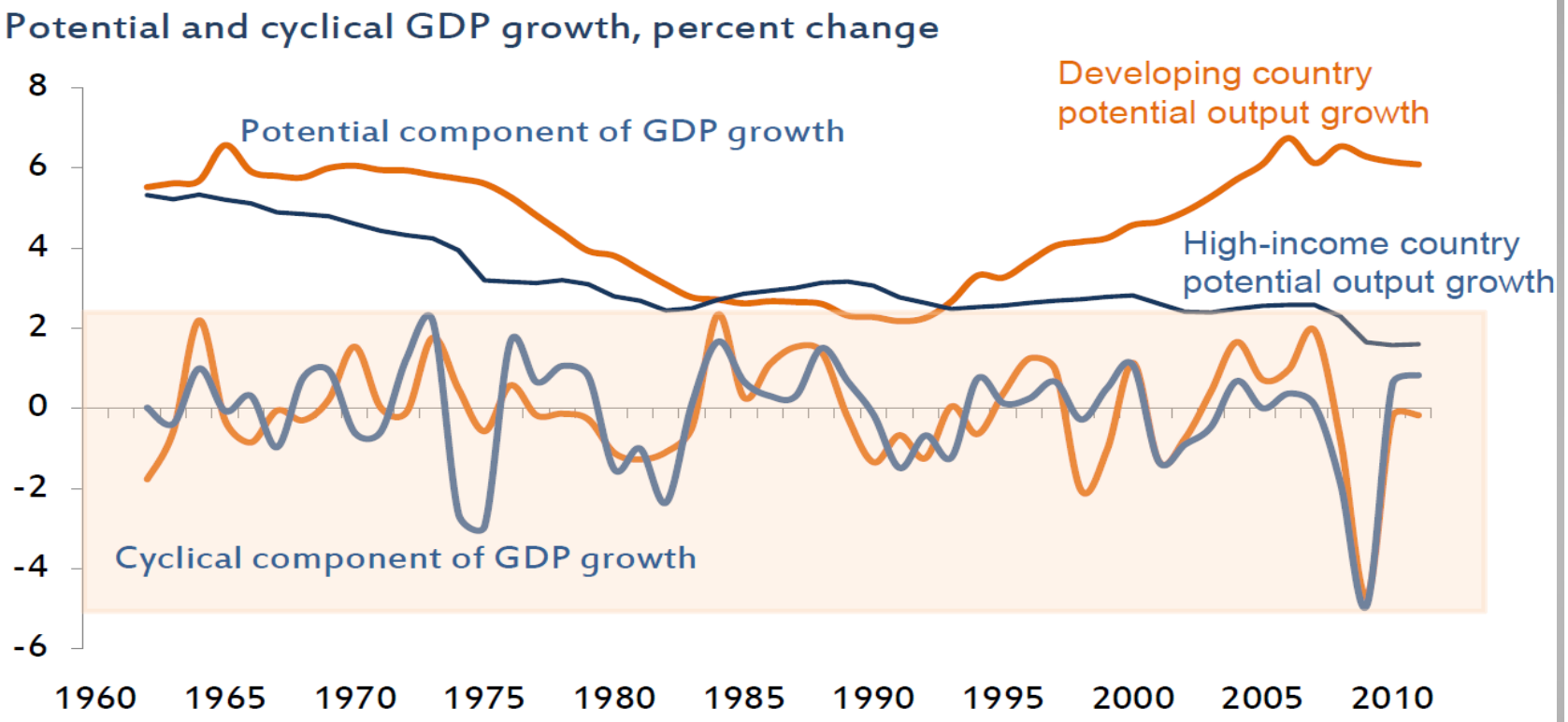


Source: IMF staff calculations.
[1]GPM = Global Projection Model.

Cyclical Coupling and Trend Decoupling

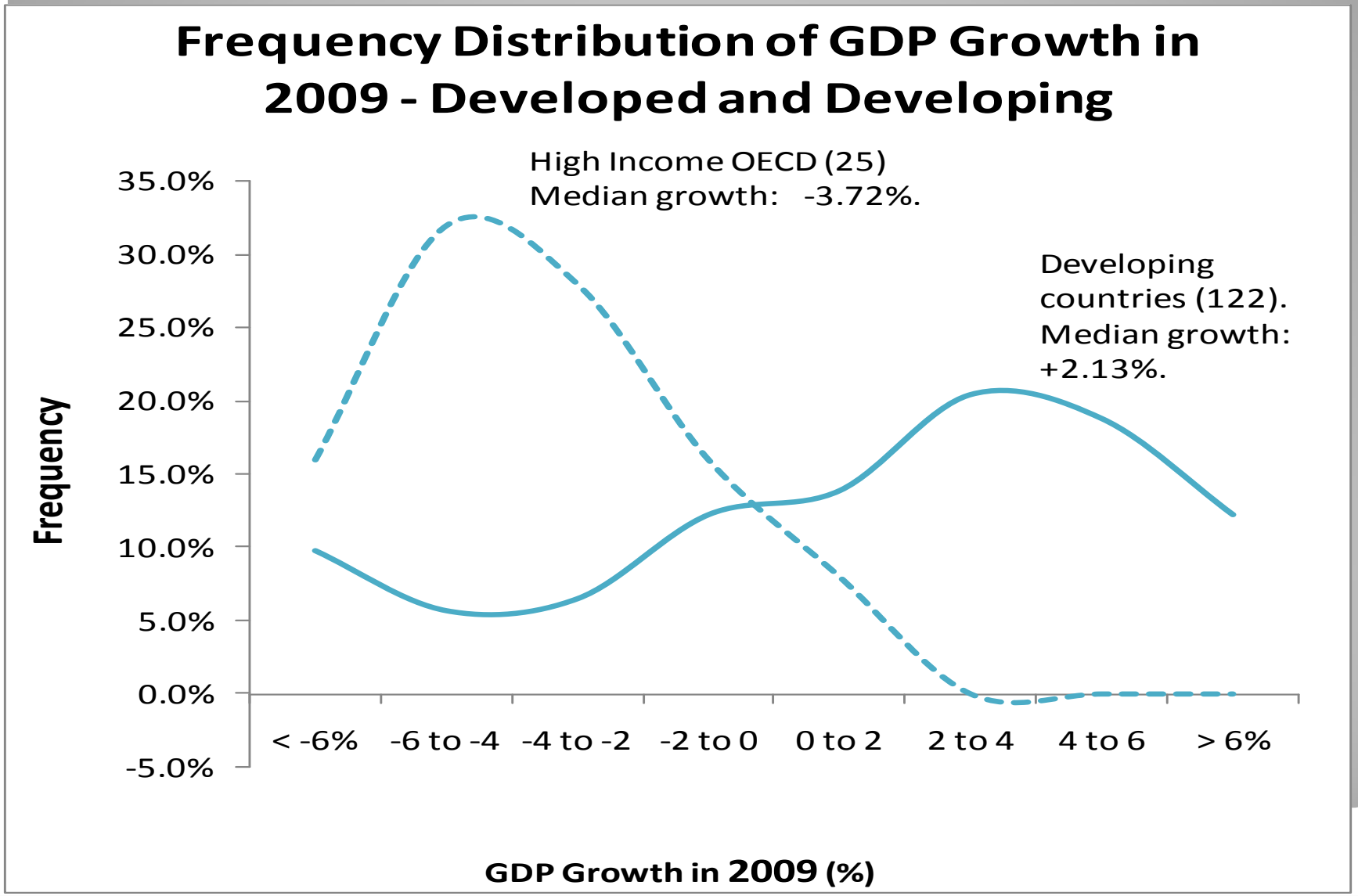


Developing countries have been resilient in part because trend output remains de-coupled

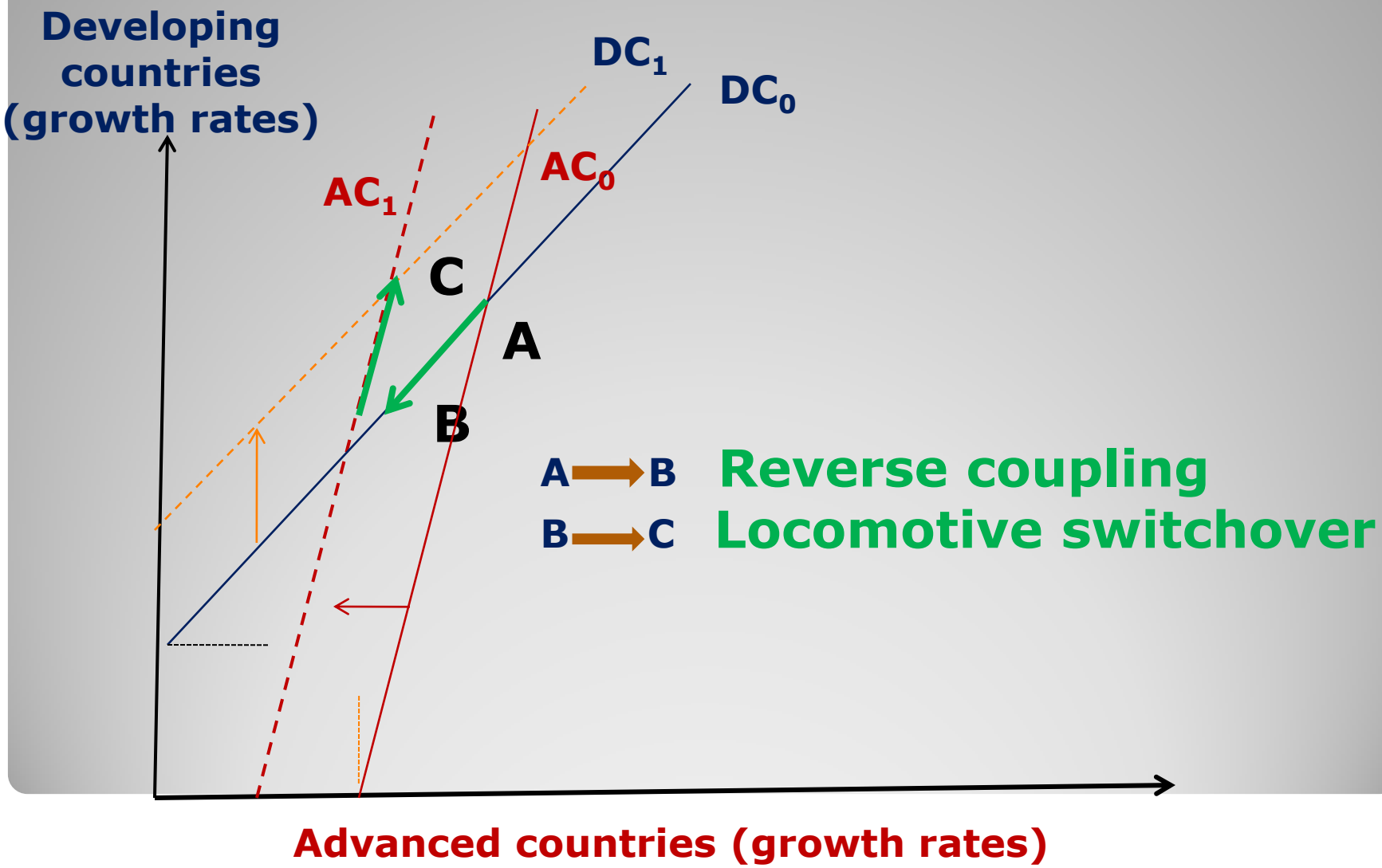


Source: World Bank, DEC Prospects Group.

Beyond China and India…

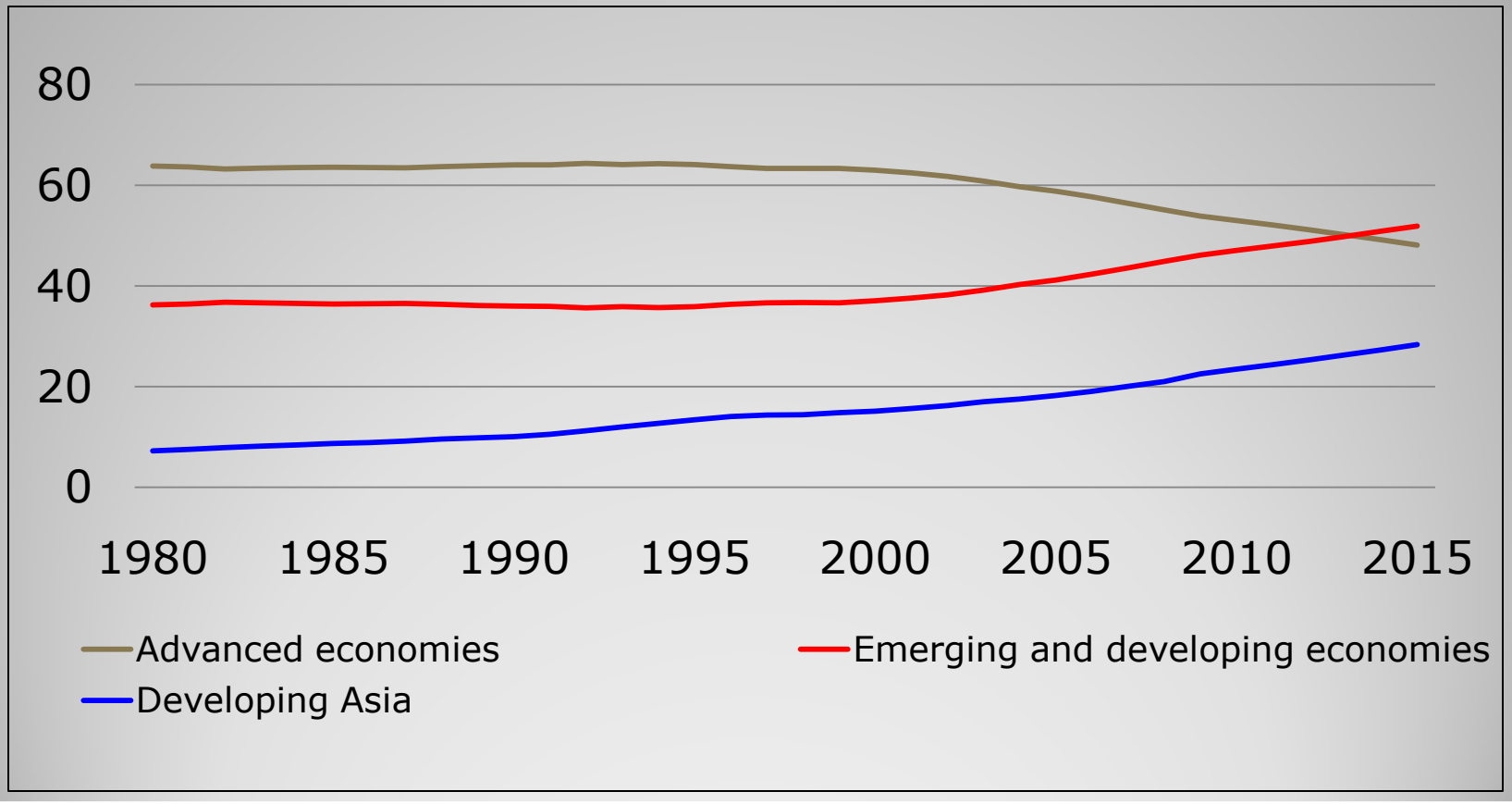


Growth interdependence



Toward a locomotive switchover?

Share of global GDP - PPP (%)



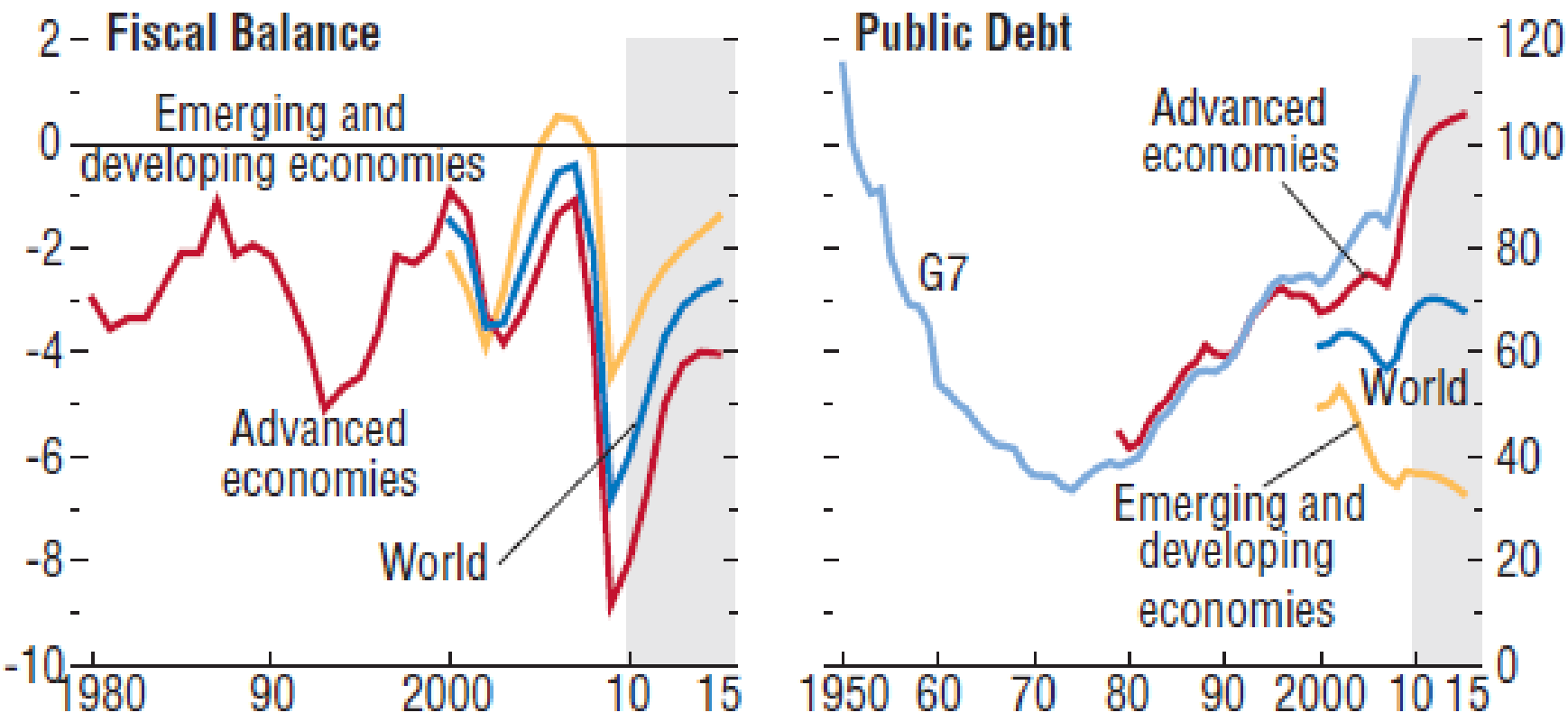
Source: IMF (WEO, April 2010)

Scope for autonomous growth

versus

Gravity forces toward a low-growth path

1. (Overall) Low degree of private leverage & Public balance sheets in good shape



Source: IMF – WEO October 2010

2. Technology gap as a latecomer's advantage

- **Unexploited opportunities for technology transfer and adaptation**
- **Four global trends unlocking that potential:**

✓ **Vertical decomposition of production across frontiers**

✓ **"South-South" trade and FDI → availability of tested and adapted technologies**

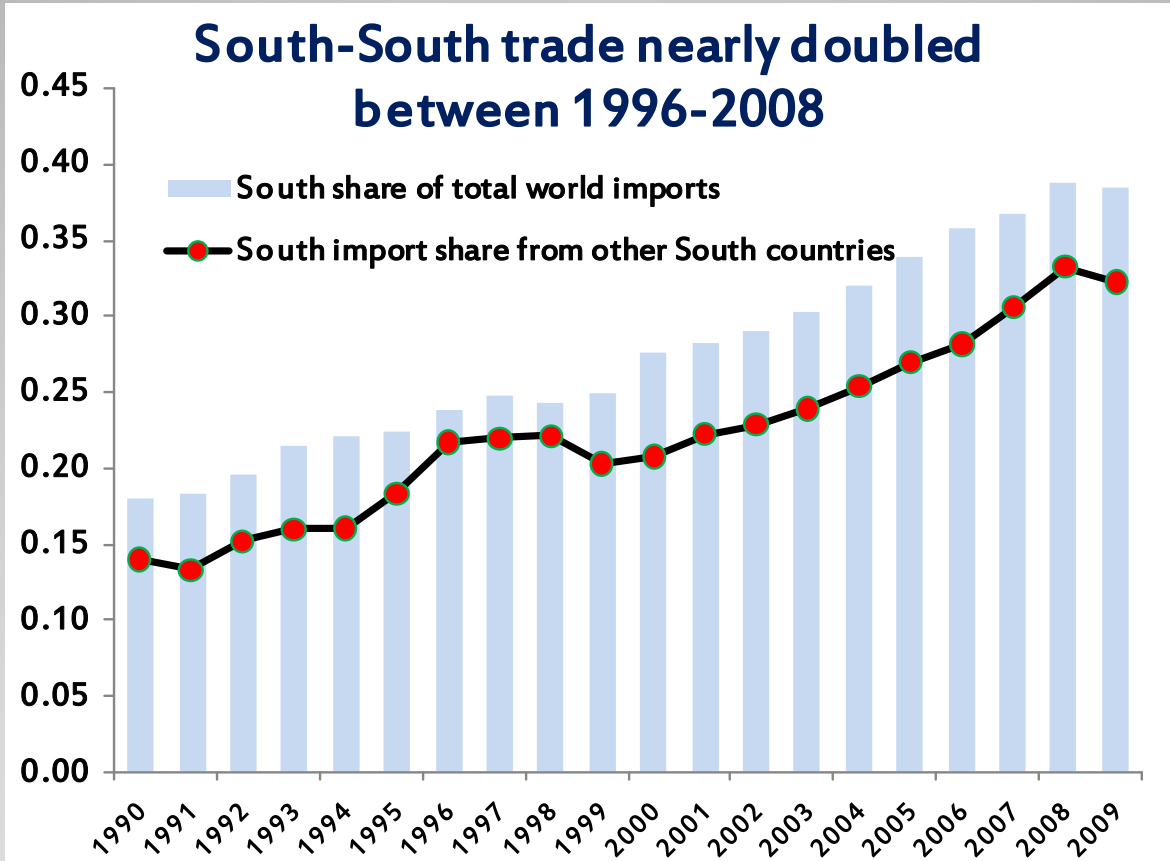
✓ **Cheaper and widely embraced ICTs**

✓ **Growing middle classes**

↓↓↓

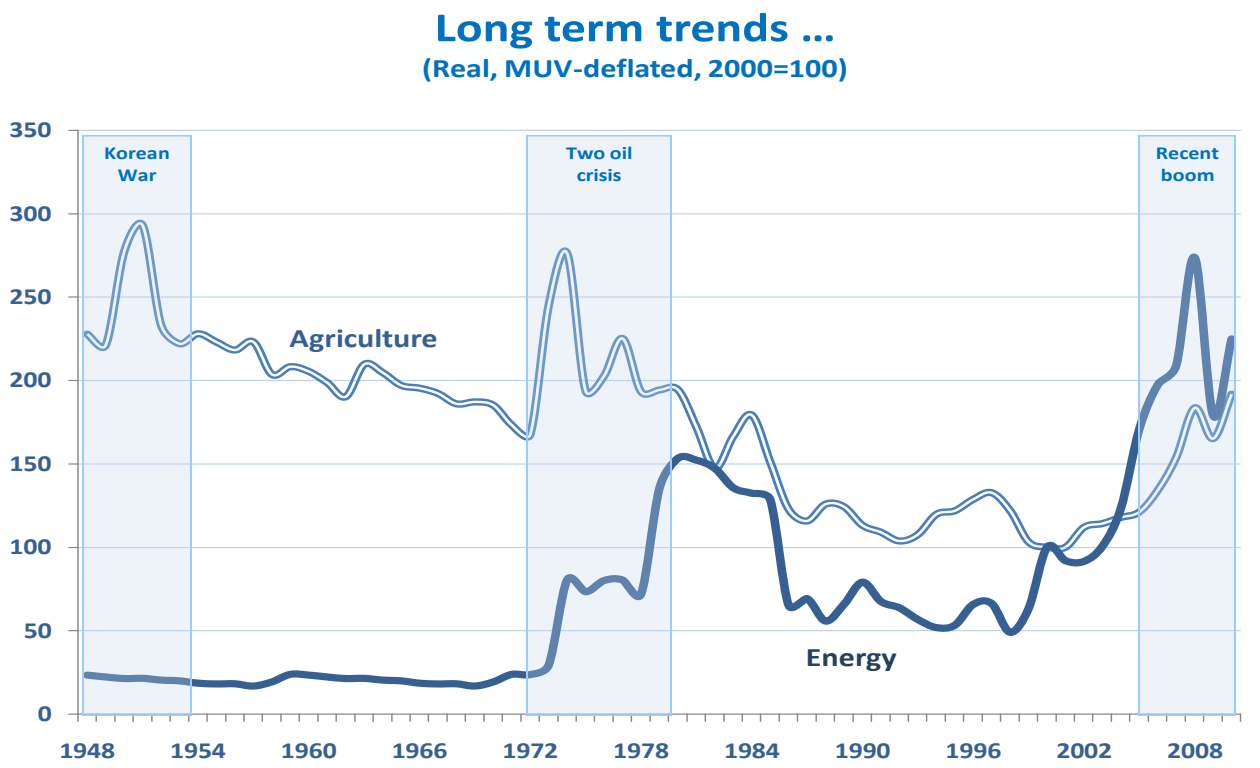
"Piggyfrogging"

3. Trade, structural change and global rebalancing of demand and supply



Source: Comtrade data via WITS

4. Natural resources may be a blessing rather than a curse



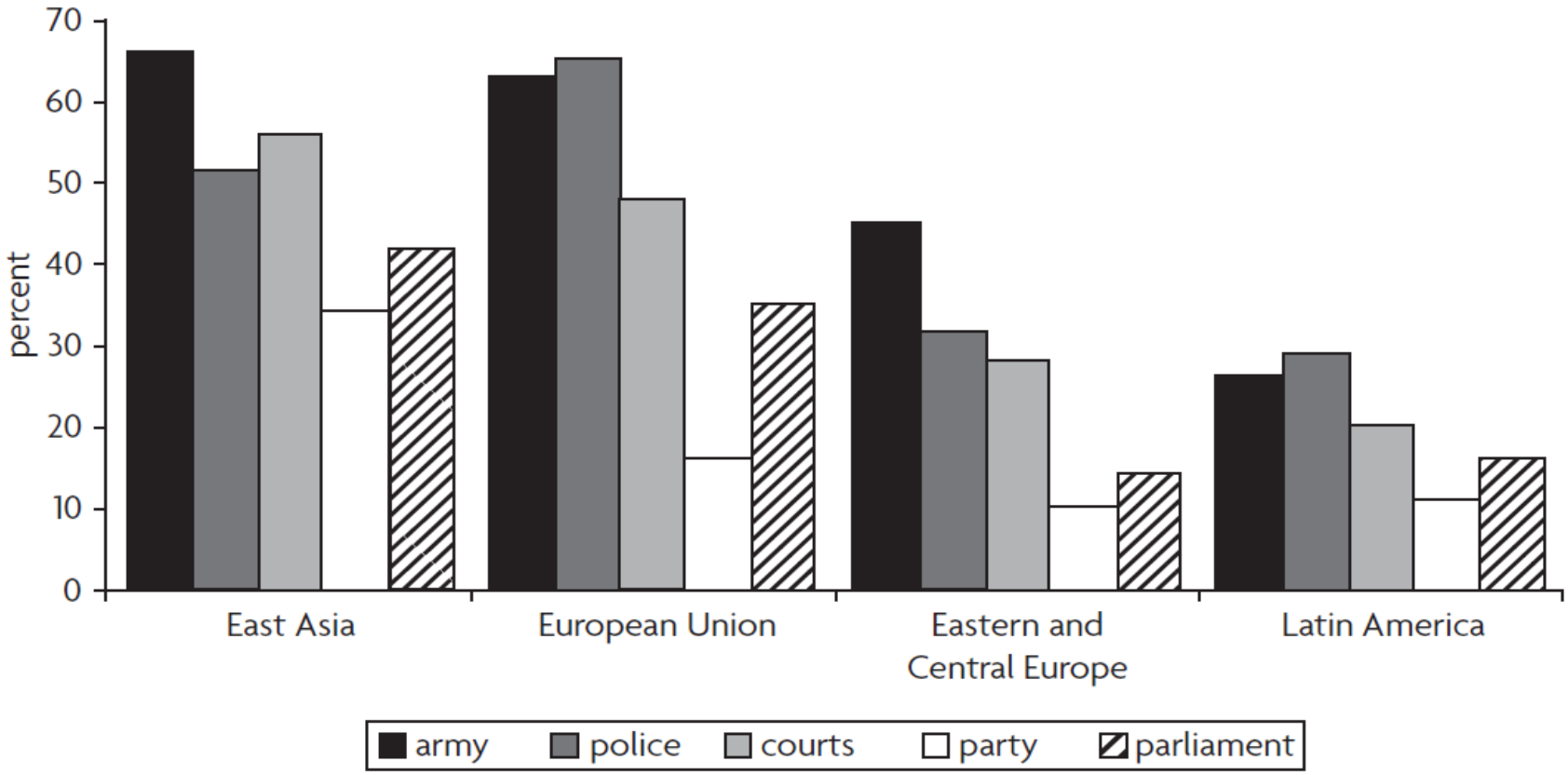
Source: World Bank

(A) Yes, there is a scope for a *switchover* where developing countries as a whole take on a greater role as global locomotives

(B) There is however some homework in terms of domestic policies and reforms fundamental to accomplish that mission

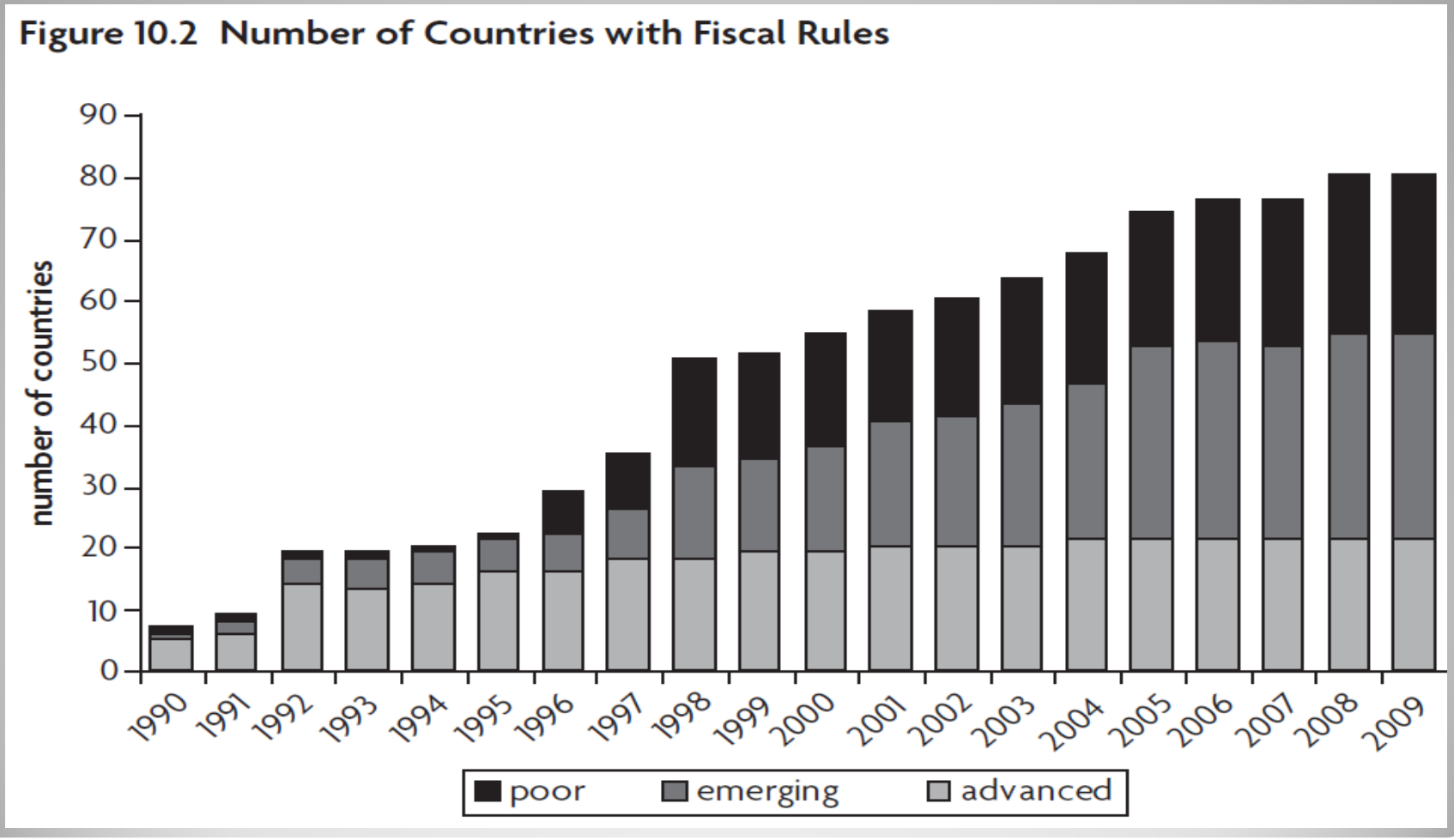
Building trust in government

Figure 9.1 Trust in National Institutions: Regional Averages



Ch. 9 – by Nick Manning and Deborah Wetzel

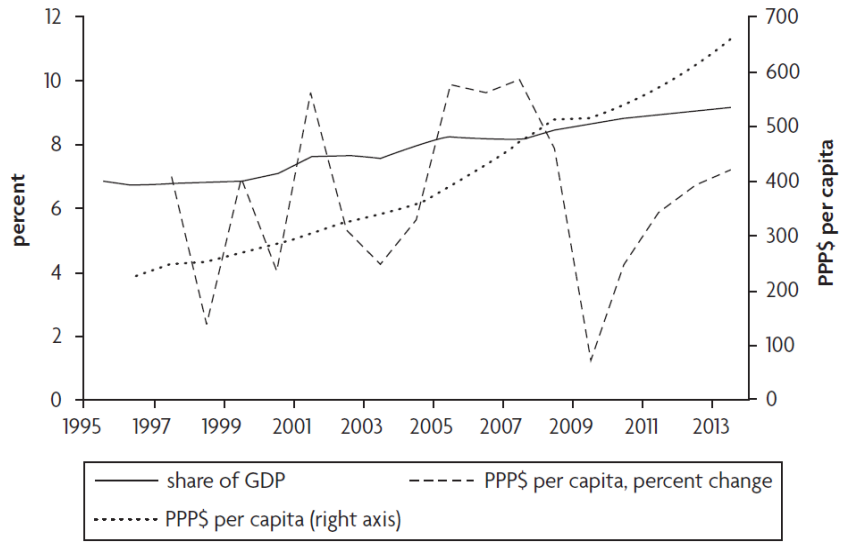
Fiscal policy quality

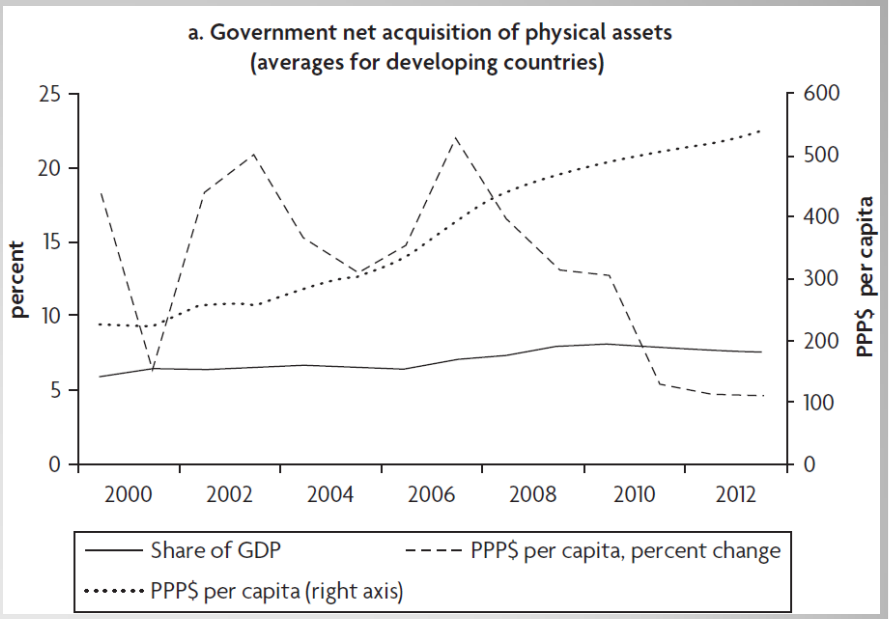


Ch. 10 - by Marcelo Giugale

Spring cleaning of public expenditures

Figure 11.1 Public Social Spending (Averages for Developing Countries)





Ch. 11 - by Jim Brumby and Marijn Verhoeven

Thanks!

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