COMMENT

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Reversing the productivity decline

Methods must be sustainable, and economic development should focus more on shared prosperity, not just GDP growth

By LI XU

The world economy at present is in the middle of profound adjustment. Slow economic growth and obvious economic divisions are resulting in the self-fulfilling "low-growth trap", while productivity is declining all over the world and income inequality is worsening at the country level.

These trends have been interacting and blending with each other since the global financial crisis of 2008 and have triggered a vicious cycle that has become an obstacle to world economic recovery.

The potential growth rates of both developed market economies and emerging market economies are declining. The International Monetary Fund has indicated that the potential growth rate of developed countries will decline from 2.2 percent to 1.5 percent, while that of emerging economies is also declining due to total factor productivity decline and is predicted to fall from about 7.5 percent before the global financial crisis to 5 percent between 2015 and 2020.

Labor productivity growth has shown a general decline due to population aging, labor-skill mismatch, barriers to labor mobility, and so on. Low-skilled groups have had difficulty in securing job offers, leading to a general productivity decline, a widening of inequality, and a detrimental effect on economic growth.

As an example, labor productivity growth among Organisation for Economic Co-operation and Development members declined from about 2 percent during 1990-2007 to below 1 percent after the global financial crisis in 2008. Although the situation in China has been better than in other countries, labor productivity growth has still declined from 12 percent to around 8 percent since 2008.

As for investment, the law of diminishing marginal returns has played a role due to resource mismatches. Overinvestment or, in contrast, the lack of investment in some important public service fields and barriers to investment have in some areas resulted in a lower ratio of return on investment.

The effects of the global financial crisis, such as high unemployment rates, debt accumulation in developed countries, the significantly increased degree of operating leverage of enterprises in emerging economies, and overcapacity, have severely hindered the revival of the world economy.

Rethinking the development concept and implementing structural reforms are the best measures for preventing declining productivity and escaping the low-growth trap. Economic development should focus more on realizing inclusive growth and increasing national wealth and shared prosperity rather than only on the GDP growth rate. Based on this idea, methods for improving productivity must be sustainable and environmentally friendly to ensure success in achieving both sustainability and green growth.

First, policies should be matched to ensure maximum effect. Policy reform tools should be chosen carefully based on economic circumstances. Product market reform and deregulation are the most effective methods for structural reform. Structural reforms should be carried out in order of urgency to promote medium- and long-term reform items, such as pension systems, medical insurance and the labor market, while accelerating the implementation of short-term reform items with quick expected results.

Second, policies should optimize systems for infrastructure investment and governance. We should not only increase investment to achieve infrastructure connectivity but also increase innovation in investment to improve results. For infrastructure construction, economies should focus not only on important areas and vulnerable links related to the development of their national economies but also on the fields that can bring new opportunities to people, such as the Internet and the financial industry.

Third, policies should increase investment in human capital and remove barriers to labor mobility. Increasing human capital is important for improving productivity and the health of nations. At the same time, it is also crucial for enhancing national competitiveness. In most developing countries, the priorities at present are facilitating the transfer of labor, promoting skill matching, reducing government intervention and lowering barriers to entry for private enterprises.

Fourth, policies should promote green growth and the development of a low-carbon economy. Implementing stricter environmental policies will not affect productivity in the long run. Instead, such policies will effectively increase productivity and competitiveness by making effective use of natural resources, such as land, water and energy, and reducing waste.

Lastly, steps should be taken to strengthen international cooperation and create an external environment that contributes to shared prosperity.

We should promote trade integration, facilitate cross-border investment and other relevant reforms, and maintain a transparent, nondiscriminatory, open and comprehensive multilateral trading system based on regulations that will be beneficial for encouraging investment and technology transfer and promoting the integration of global value chains to achieve the potential for improving productivity.

The author is a senior research fellow at the Asian Development Bank Institute.

Applying China lessons in Africa

Countries like Liberia look to emulate successful policies that will provide sustainable growth and improved living standards

By PLINGLOH EMMANUEL MUNYENEH

Since people call China's growth since 1978 a miracle, I decided to study at the Institute of South-South Cooperation and Development (ISSCAD) in Beijing to understand what lessons from China can be applied to my home country, Liberia, and to other African countries.

What policies can be used to help emancipate people from a dragnet of poverty and improve their standard of living? What policies has China used to create consistently high growth rates, averaging 9.85 percent annually, over such a long period of time?

How can such policies be adapted to an African setting to help alleviate some of the major economic challenges that we face?

China did not apply the "Washington consensus" policies of rapid marketization and privatization. It is now better off than the countries that applied these growth strategies. From Nigeria to Liberia to Latin America, these policies have not led to sustained growth. Why did the nations that applied the Washington consensus fail, and why did a country that did not apply these policies succeed?

I came to China to study whether the Washington consensus or "socialism with Chinese characteristics" or some other political prescription can be used to treat developing countries for the diseases of poverty and economic stagnation.

Earlier, I went to university in Liberia, and then had the opportunity to study at the University of Maryland School of Public Policy in the United States. Now I am in China. This triangular academic experience is intended to help me explore solutions to some of the major challenges that confront developing countries, especially in Africa.

China's large investment in research and development, amounting to more than 2 percent of GDP, is practically and visibly seen through the level of infrastructure development, the construction of superhighways and modern industries.

As a means of expanding its developmental trajectory to other parts of the world, China has adopted the Belt and Road Initiative, which aims to boost connectivity by reviving the ancient Silk Road routes. Simply put, it is a trade and investment program that helps expand China's economic growth corridors while at the same time bringing shared prosperity to other nations along the routes.

Liberia is currently getting a lot of support from China in terms of infrastructure. Some are gifts to the Liberian people; for example, the addition to the legislature and a new ministerial complex are gifts from China.

Much work is being done under the auspices of the Forum on China-Africa Cooperation (FOCAC). It is a mixture of infrastructure development, in terms of loans at low interest rates, and industrial cooperation, in terms of manufacturing.

We are now trying to put regulations in place to ensure that foreign direct investment takes import substitution into consideration. Most of the intermediate goods that can be produced in Liberia will be produced in terms of semi-finished products. We do not want to be involved just in the export of natural resources; we want to transform them into finished products so that we can add value.

Under FOCAC, China is building a steel complex in Liberia. Instead of exporting iron ore, steel will be manufactured in Liberia and exported to surrounding countries. Natural resources will be converted into a finished product.

The influence of China in the development of Africa is enormous. Most of the new thinking on economic development will focus on how African countries will gain from the advantages that China presents and from the lessons of its development path.

The author is a student at ISSCAD and a former assistant minister for international cooperation at Liberia's Ministry of Foreign Affairs.