International Implications of Slow Productivity Growth

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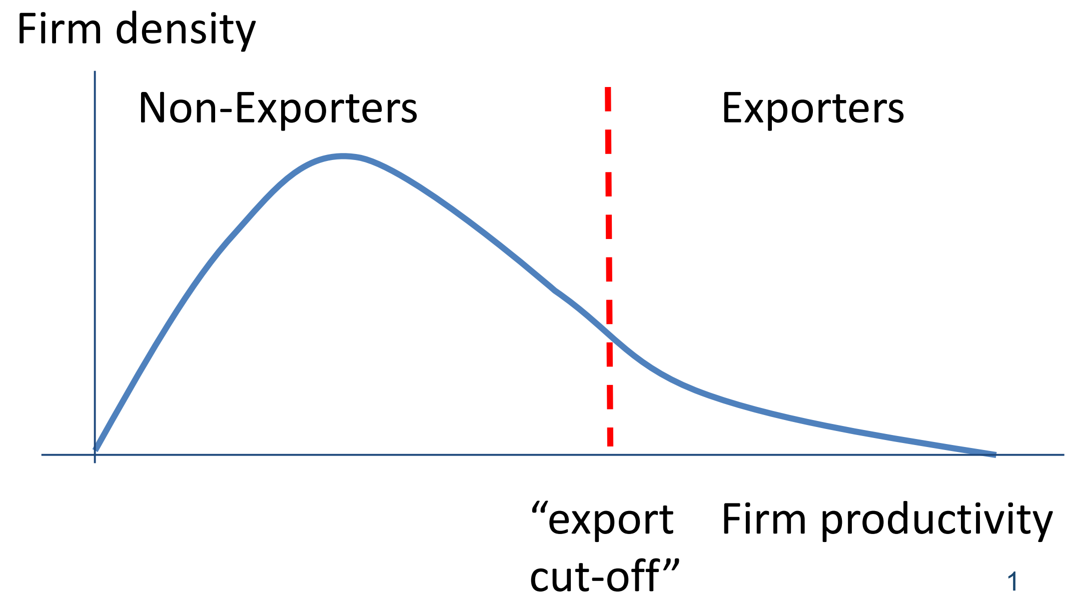
International implications of a productivity slowdown (mainly) in advanced countries

- Debt sustainability of small open economies might improve (lower world interest rates)
- Capital flows likely to remain strong/pick up (search for yield)
  - Good if used for investment
  - Bad if it fuels bubbles.
- Trade implications: less clear!
  - Depends on what happens to "exporting tail" of firm productivity distribution.



Di Mauro et al: dig into trade implications

Slower productivity growth will mean slower export growth (possibly reinforcing the productivity slowdown).

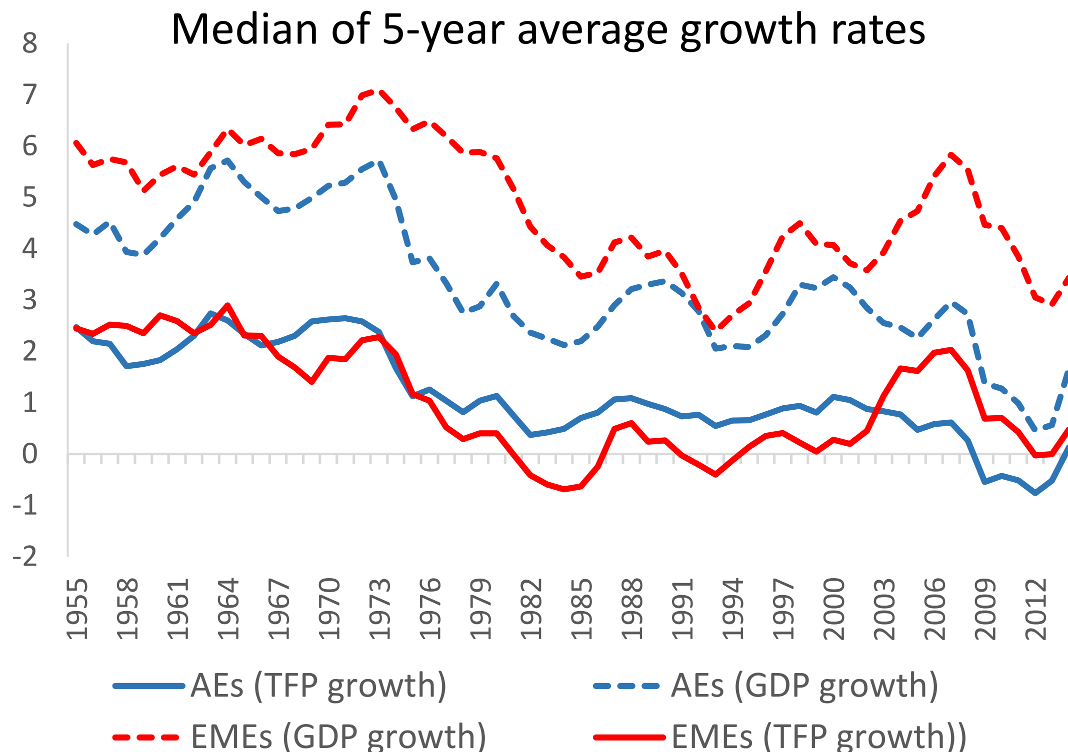
Argument (based on extensive firm-level European dataset):

- Empirically, there is a positive relationship between the productivity of the median firm and the share of exporting firms.
- Hence, slower productivity growth should lead to slower export growth (but not to absolute decline).
- This can be offset (temporarily) by policies leading to a reallocation of resources benefiting productive tail of firms
  - ➢ more vigorous competition, lower barriers to labor mobility

De Gregorio: can emerging market countries buck the trend?

Answer: Probably not.

- Productivity gap with respect to advanced countries has narrowed since 1950s. But driven by human and physical capital, not TFP. *No narrowing of the TFP gap.*



- Positive correlation of TFP in advanced and emerging market countries (0.2 – 0.9 for any 10 year period since 1975)