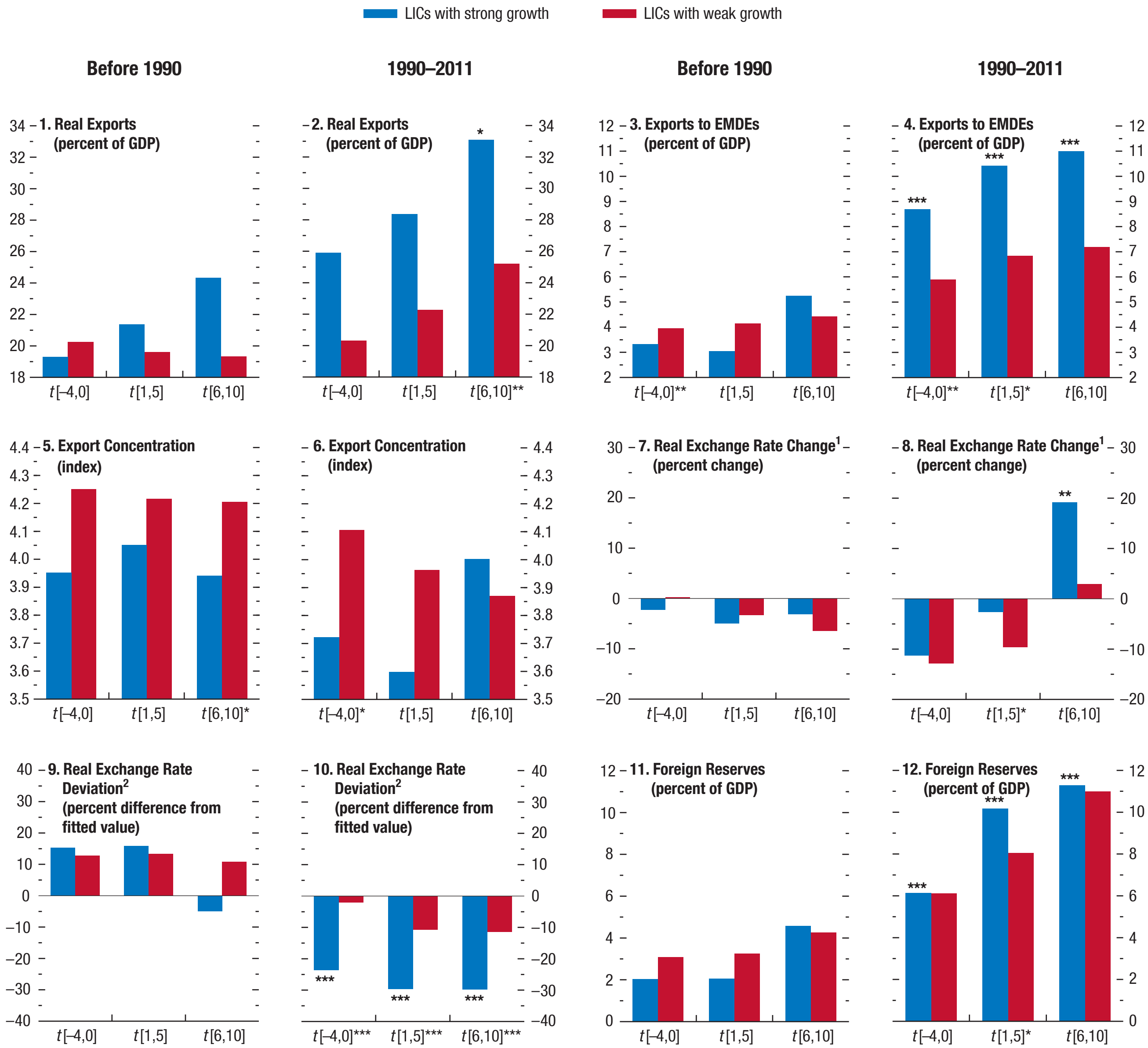
## Figure 4.8. External Competitiveness, Export Growth, and Diversification in Low-Income Countries

*(Median economy; t = 1 in the first year of a strong or weak growth episode)*

In the current and previous generations of takeoffs, dynamic low-income countries (LICs) experienced stronger export growth than weakly performing LICs. Today's dynamic LICs tended to have deeper trade linkages with emerging market and developing economies (EMDEs) and took off with more diversified exports, although diversification tended to reverse later. Today's dynamic LICs also have more competitive real exchange rates and a greater accumulation of foreign reserves.




Sources: IMF, Direction of Trade Statistics database; IMF, World Economic Outlook database (October 2012); Lane and Milesi-Ferretti (2007) updated to 2011; Papageorgiou and Spatafora (2012); Penn World Table 7.1; World Bank, World Development Indicators database (2012); and IMF staff calculations.

Note: Economy groups and indicators are defined in Appendix 4.1. LICs exclude countries experiencing or recovering from a serious external or internal conflict at the start of their takeoffs. See the text for definitions of strong and weak growth episodes (takeoffs are strong growth episodes). See Appendix 4.1 for the definition of conflict and the source of the conflict data. *, **, and *** denote statistically significant difference in distributions (based on the Kolmogorov-Smirnov test) at the 10 percent, 5 percent, and 1 percent levels, respectively. Significance tests on the *x*-axis are for the difference in the distributions between the groups of strong and weak growth. Significance tests on the blue bars are for the difference in the distributions across 1990–2011 and before 1990 (not shown for red bars). A constant composition sample underlies each of the panels to ensure comparability within the group of strong and weak growth episodes across time for that panel.

[1]The real exchange rate change is the percent change in the five-year average real exchange rate versus the United States over a five-year period.

[2]The real exchange rate deviation is the residual from a linear regression of the log real exchange rate versus the United States on the productivity differential of a country and the United States, as proxied by the income per capita differential.