UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Trade and Development Board, sixtieth session

Geneva, 16–27 September 2013

Plenary on Item 4:
Interdependence: Towards new patterns in global growth

Presentation of the Trade and Development Report 2013

Speaker: Division on Globalization and Development Strategies, UNCTAD

Tuesday, 17 September 2013

Not checked against delivery *

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT REPORT, 2013

Adjusting to the changing dynamics of the world economy

Geneva, Palais des Nations

17 September 2013

http://unctad.org/en/PublicationsLibrary/tdr2013_en.pdf

Central message: structural transformations are needed

- ✓ *The world economy faces a decades-long, deep-rooted crisis;* ***reverting to pre-crisis growth strategies is neither possible nor desirable***

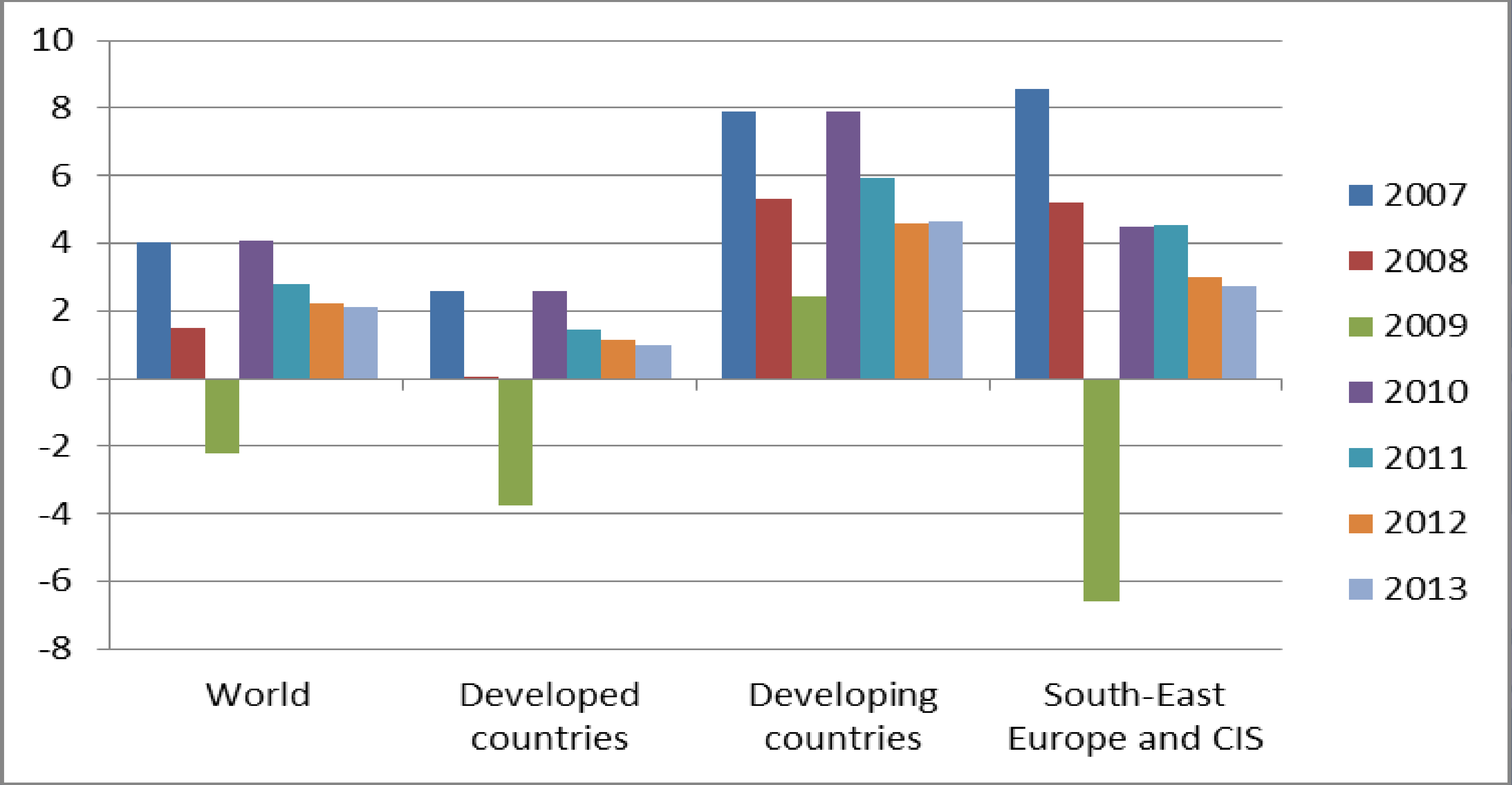
- ✓ *Export-led development strategies are no longer viable.* ***The TDR 2013 calls for more balanced development strategies with focus on domestic and regional demand***

- ✓ ***Income from labour*** *and* ***fiscal policy*** *play essential role*

- ✓ *Five years after the collapse of Lehman Brothers,* ***taming finance remains a pending task that should take priority****: financial systems should serve the real economy and facilitate adaptation to new global demand patterns*

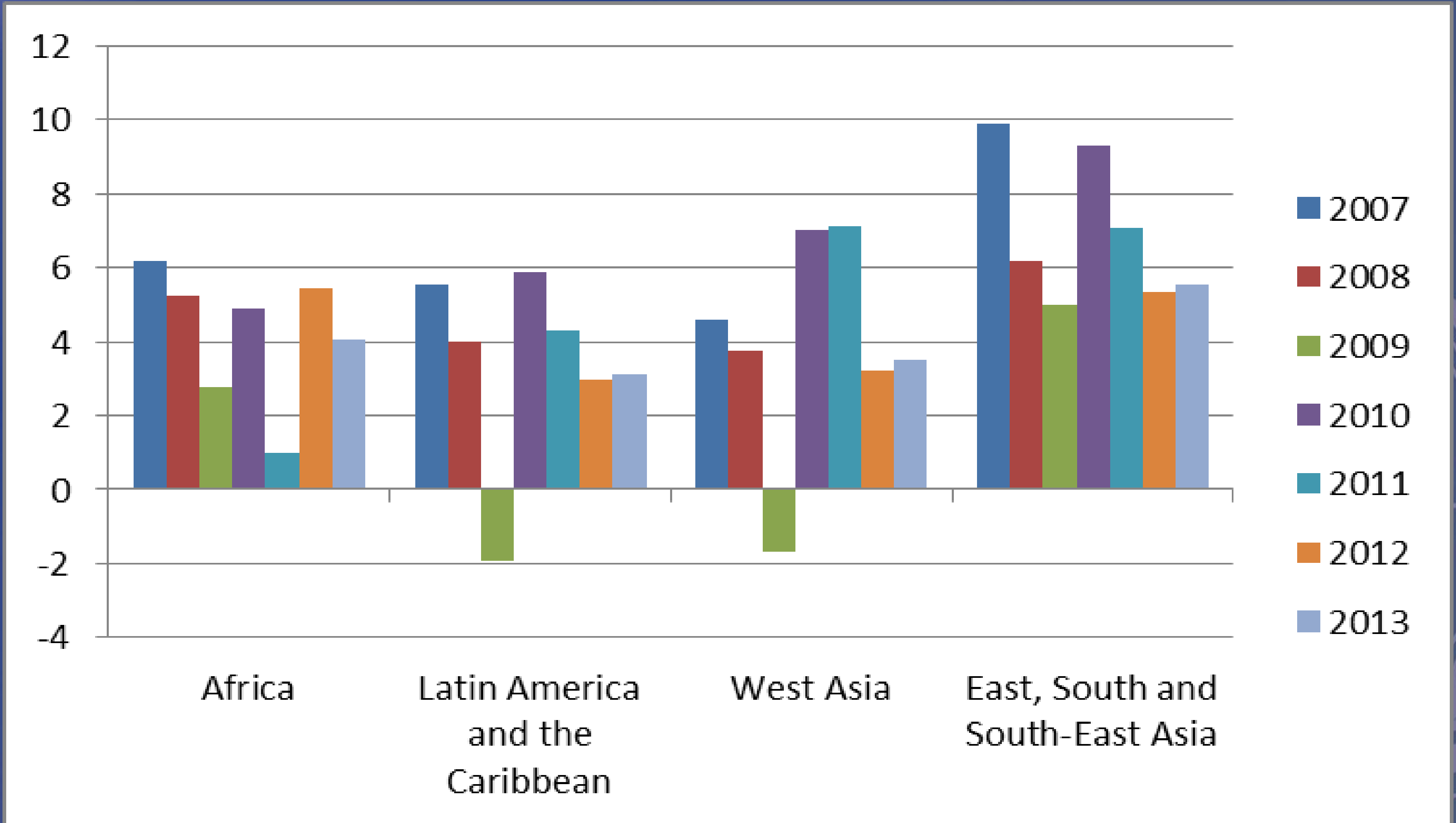
Five years on and the world economy continues to be affected by the crisis

World output growth, percent change, 2007–2013



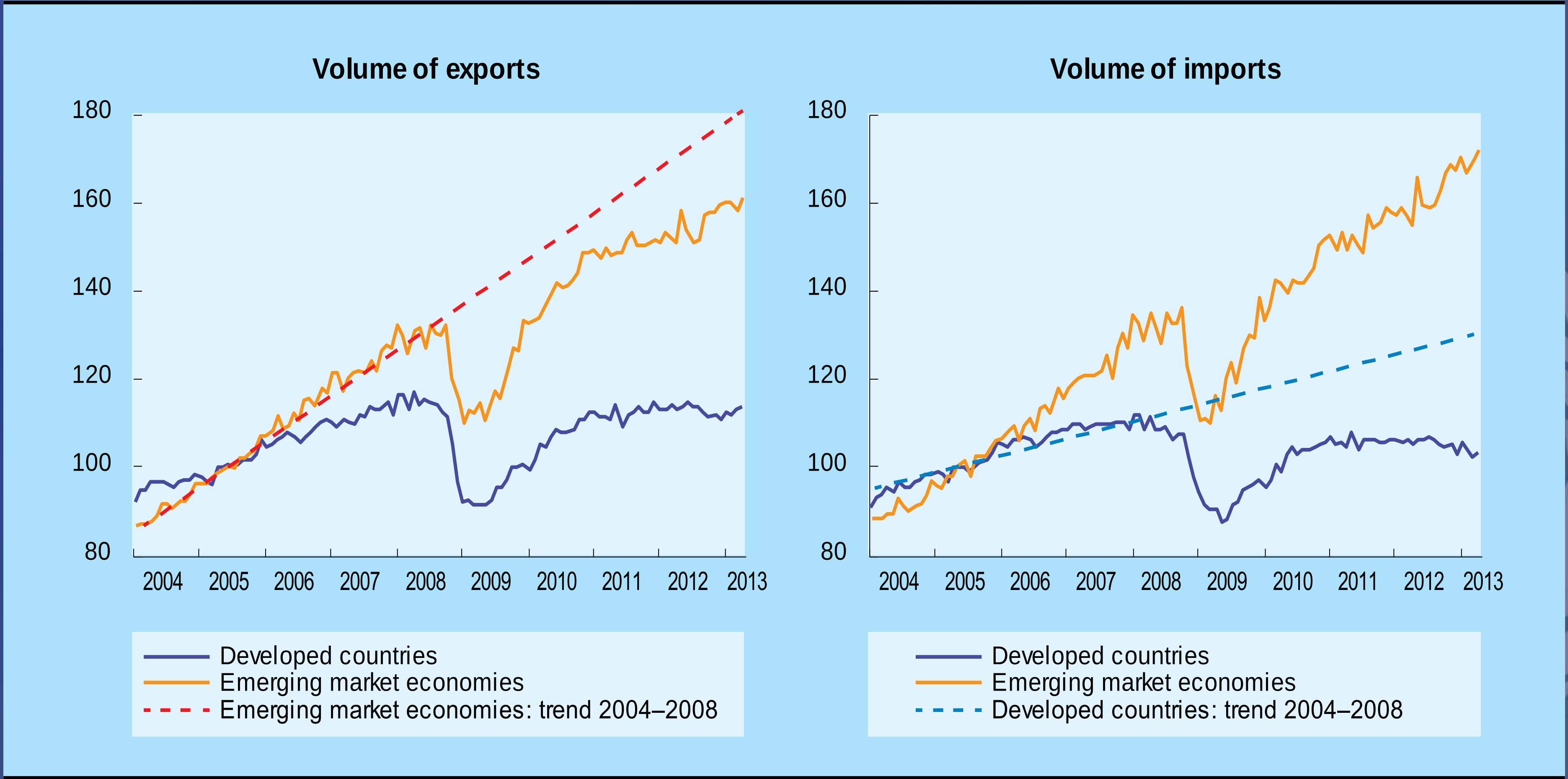
The deceleration is also apparent for the various regions in the developing world

Crecimiento del producto, variación porcentual anual, 2007–2013



Neither the exports of developing countries nor the imports of developed countries recovered

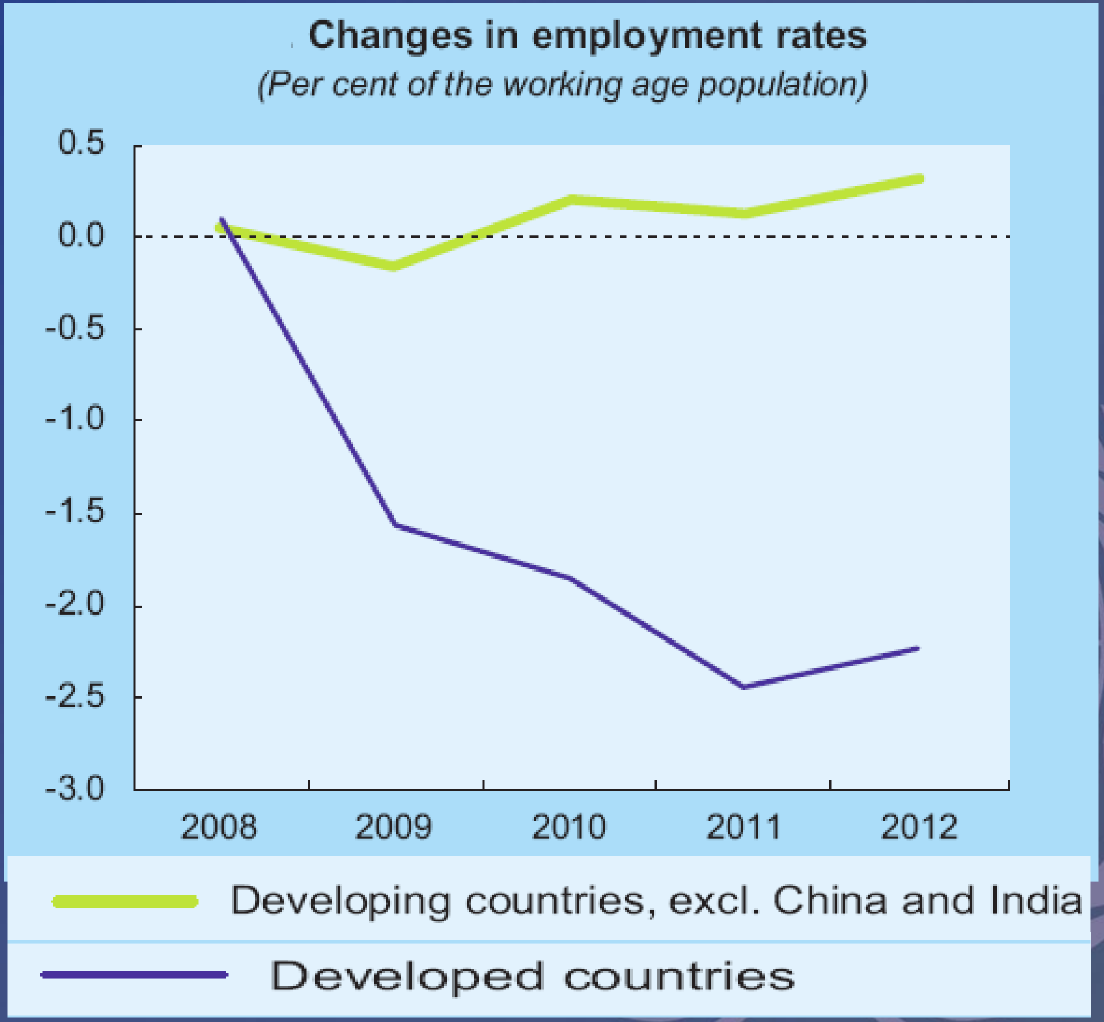
Volume of exports and imports, 2004–2013 (Index: 2005=100)



Employment is not picking up in developing countries and lags far behind elsewhere

- Despite progress, generating more employment and decent work in developing countries remains a pending task

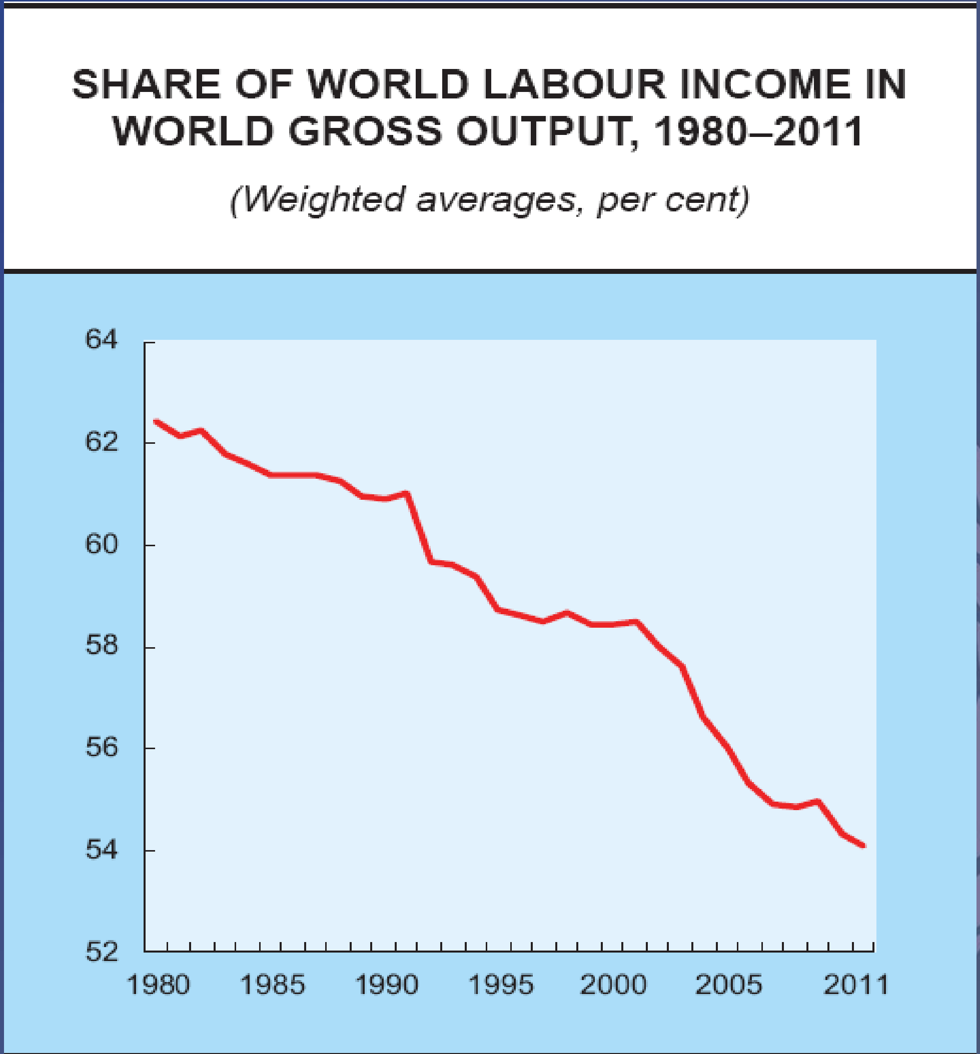
- For developed countries the jobs deficit caused by the sluggish recovery is by far the most pressing problem



In the long-term perspective, compression of labour income is at the root of the crisis

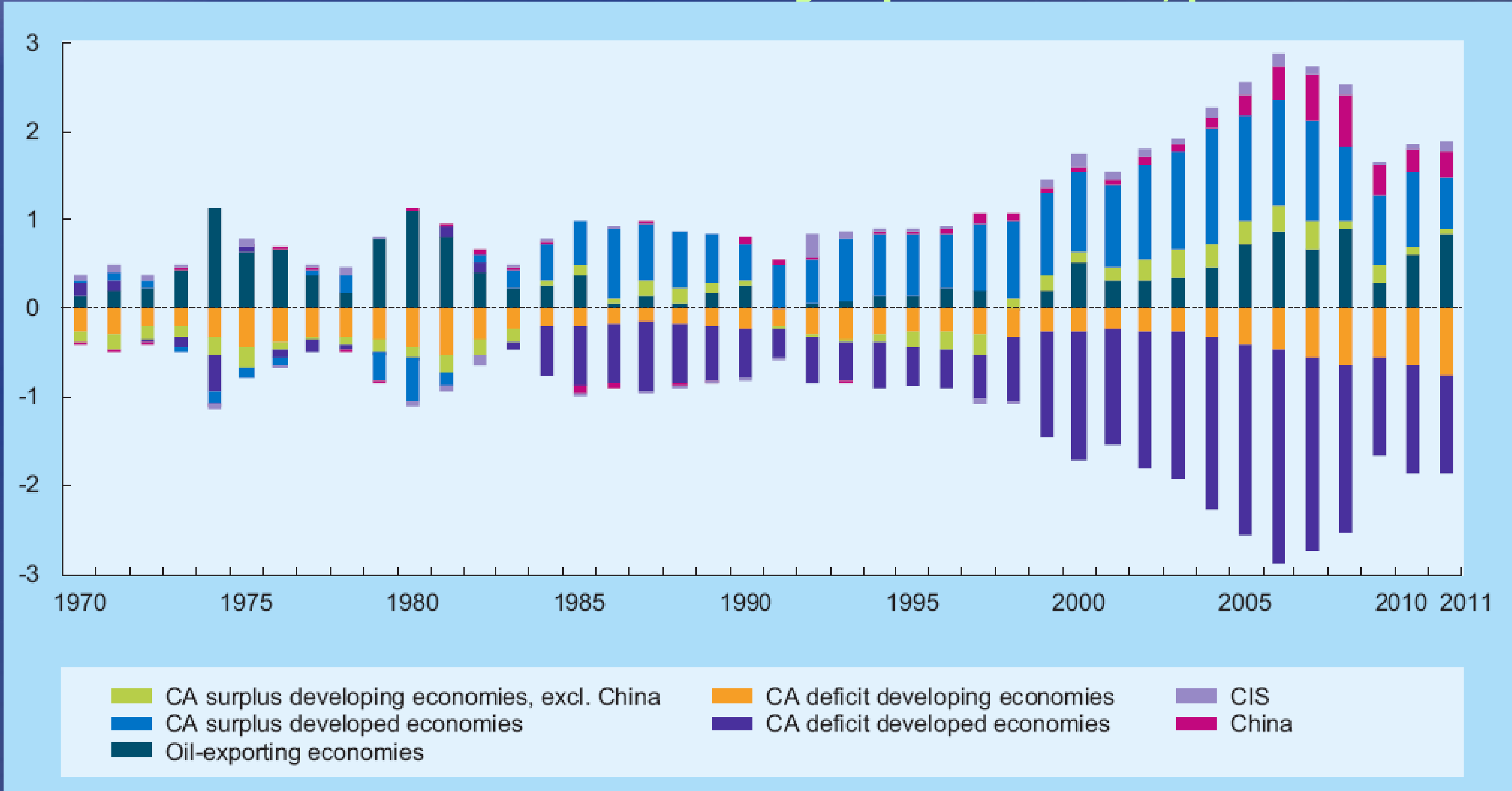
- The deterioration in the share of labour income has squeezed household incomes of the majorities and thus consumption and investment

- In some countries, the insufficient growth of wages was compensated with lending, contributing to the build-up of the financial crisis



Global imbalances resulting from the failing growth of labour income may surge again

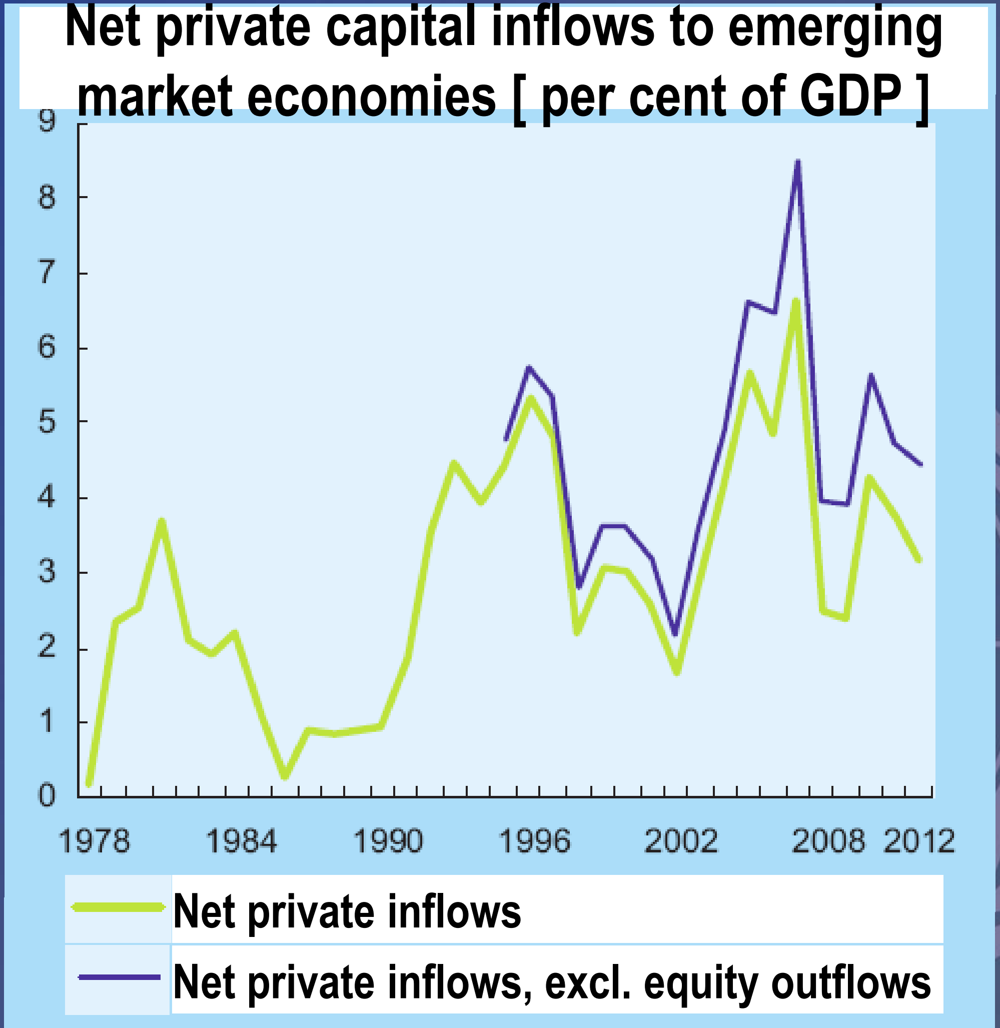
Current account imbalances of selected groups of countries, percent of WGP



Capital flow boom-bust cycles continue and are significant in magnitude

- The cycles of inflows and outflows of capital have tended to magnify the changes in the real economy, driven by waves of risk perceptions and short-term gains

- The predominance of financial capital over productive capital causes damaging spillovers in many developing countries



… driving price trends and causing volatility in major world markets

Price indices of main world markets, 1980-2012

In brief, structural failures of the world economy are far from being resolved

- ***Developed economies*** *continue to be affected by conditions that contributed to the crisis or are not sufficient to revert to sustained growth:*
  - *compression of labour income*
  - *narrow focus on fiscal austerity*
  - *stock market appreciations with little support on productive investment and employment*
  - *monetary policy with little effect in credit creation*
  - *continuing prevalence of finance over the real economy*

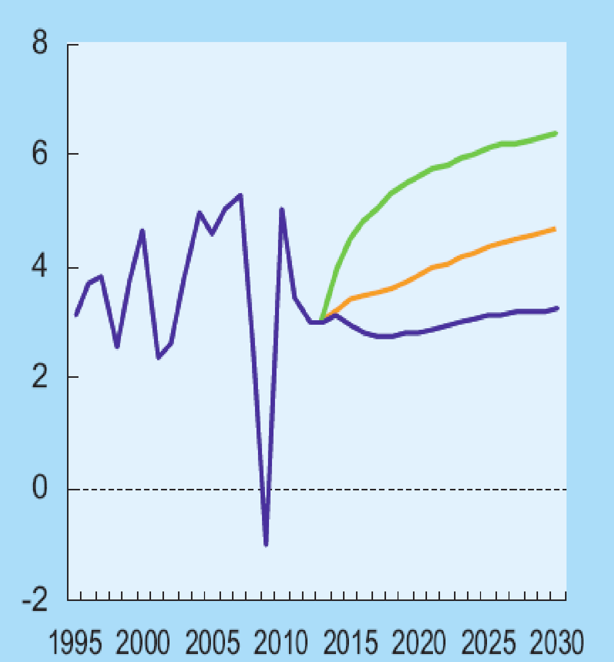
- *Under current conditions,* ***developing and transition economies remain vulnerable****, since they are not de-coupled from the macro-financial dynamics of global trade and capital flows*

And yet, there is scope for changing the dynamics of the world economy

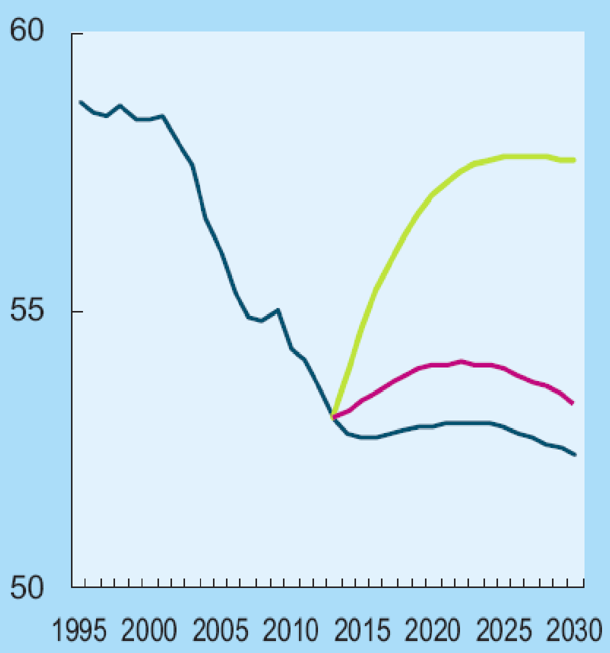
- *The **shares of developing economies in world income and in trade have grown** considerably*

- *They could persuasively and effectively engage in a **coordinated (globally or regionally) reorientation of economic policy** towards:*
  - *the expansion of domestic demand,*
  - *sustained by the growth of labour income and an active role of the state,*
  - *where monetary and credit policy promotes production and employment creation,*
  - *and in which technical progress and industrial policy follow the expansion of global demand and trade*

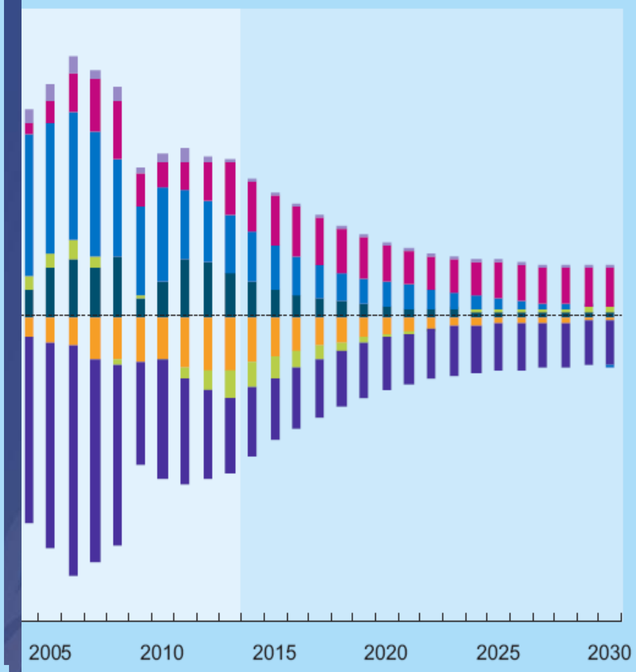
Globally or regionally coordinated alternative strategies are economically feasible



World output growth [%]



Share of labour income [%]



Global imbalances [% of WGP]

Baseline: *Projection with neither changes of policy nor shocks*

Scenario A: *Globally coordinated expansionary policies*

Scenario B: *Expansionary policies adopted in coordination by developing and transition economies, while developed economies maintain their current policy stance*

Basic elements of the re-orientation of macro-economic policies towards domestic and regional demand

- *Demand impulses resulting from fiscal policy and the growth of labour income enable the economies of scale that can trigger and sustain technical progress*

- *Largely populated countries can rely more on domestic markets while smaller countries will rely more on regional demand*

- *Industrial promotion policies accompanied by public investment in infrastructure and education become essential for the sustained growth of private activity and domestic production, avoiding unsustainable deficits*

Global finance at work for the real economy

The reorientation towards the growth of demand and production hinges on re-defining the financial system:

- *Internationally: pragmatic management of capital flows and exchange-rates aimed at reducing vulnerability to external financial shocks and with a view to sustain long-term development strategies*

- *Domestically: financial systems with a focus on channelling credit towards productive investment in the real sector; central banks should pursue a credit policy, rather than just a monetary policy*