UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

TRADE AND DEVELOPMENT REPORT 2019

FINANCING A GLOBAL GREEN NEW DEAL

UNITED NATIONS

TRENDS AND CHALLENGES IN THE GLOBAL ECONOMY

I

A. The global conjuncture

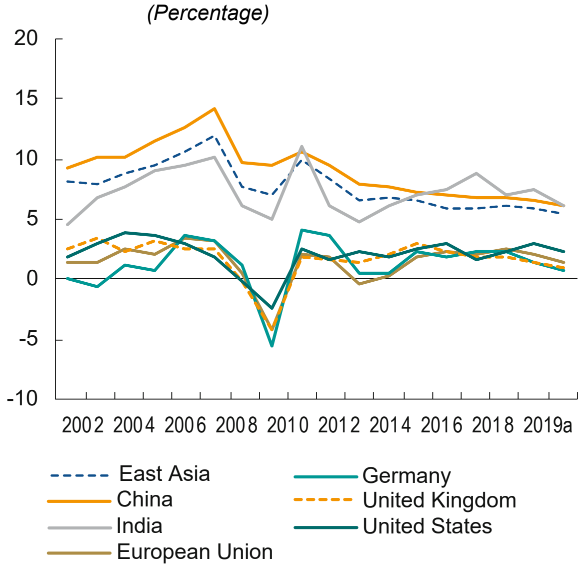
1. Happy days are here again … and again … and again

Once again, the question of whether the world economy is finally breaking free from the gravitational pull of the global financial crisis (GFC) is being asked. There is no consensus, with answers hinging on whether the current robust growth of the United States economy is here to stay the course.

For those of a more bullish disposition, strong quarterly growth figures since mid-2017, combined with an unemployment rate at a 49-year low, signs of renewed wage growth, a still-buoyant stock market and rising house prices, provide solid grounds for optimism. On more bearish accounts, growth is the product of one-off tax cuts and unsustainable deficits, made all the more precarious by a rapid build-up of private debt positions, particularly in the corporate sector, while the unemployment figures hide problems of insecure jobs and discouraged workers; on these trends a slowdown – and possibly even a recession – looks likely, with an inverted yield curve (with yields on longer-terms bonds lower than yields on short-terms bonds) already forcing the United States Federal Reserve to signal a reversal of monetary normalization.

While the bulls may be still holding on in the United States, elsewhere among the advanced economies the picture looks more troubling. In Western Europe, unemployment, although falling in recent years, remains generally much higher than in the United States and while the growth figures for the first quarter of 2019 (relative to the previous quarter) for the eurozone and the European Union were marked up slightly to 0.4 and 0.5 per cent respectively (Eurostat, 2019), these are hardly reassuring numbers. Moreover, the German economy is faltering in the face of weakening exports and the French economy has been unable to get out of second gear since the beginning of 2018. The European Central Bank has already signalled a possible return to quantitative easing, although the prospect is complicated by an impending change of leadership. In May, the Bank of England (2019) marked up its estimate of growth in the United Kingdom in 2019 to 1.5 per cent though there is too much political uncertainty surrounding Brexit to hold to any figure with much confidence and most observers anticipate a significant hit if no deal is reached by the latest deadline. Slowing external demand, especially from China, has seen real growth in Japan in 2018 slip to 0.8 per cent (from 1.9 per

FIGURE 1.1 Annual growth rates: Developed and developing countries
(Percentage)



Source: Same as table 1.1.
Note: a: Forecasts.

cent in 2017) and it is forecast to stay around that level in 2019, with inflation remaining stubbornly low (table 1.1).

If the situation with respect to growth and employment is uncertain in the advanced world, it is decidedly more fragile in developing countries. Even before trade tensions and oil prices began to rise, growth rates were slipping (figure 1.1) and anxiety levels were increasing due to an easing of capital inflows, and in some cases capital outflows, which followed announcements of the unwinding of unconventional monetary policies by leading central banks. According to the Institute for International Finance, portfolio flows to emerging markets, which amounted to $51 billion in January 2019, fell significantly from that level in subsequent months, even turning to a negative $5.7 billion in May (IIF, 2019). To date, uncertainty over economic performance has outweighed any confidence-building effect from the pronouncements of leading central banks of a return to monetary easing.

TABLE 1.1 **World output growth, 1991–2019**
(Annual percentage change)

Country or area	*1991–2000*[a]	*2001–2008*[a]	*2009–2018*[a]	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*[b]
World	**2.8**	**3.5**	**2.7**	**-1.7**	**4.3**	**3.2**	**2.5**	**2.6**	**2.8**	**2.8**	**2.5**	**3.1**	**3.0**	**2.3**
Developed countries	**2.6**	**2.2**	**1.6**	**-3.5**	**2.6**	**1.5**	**1.1**	**1.3**	**1.9**	**2.3**	**1.7**	**2.3**	**2.2**	**1.6**
of which:														
Japan	1.2	1.2	1.0	-5.4	4.2	-0.1	1.5	2.0	0.4	1.2	0.6	1.9	0.8	0.8
United States	3.6	2.6	2.0	-2.5	2.6	1.6	2.3	1.8	2.5	2.9	1.6	2.2	2.9	2.2
European Union (EU 28)	2.2	2.2	1.2	-4.3	2.1	1.8	-0.4	0.2	1.8	2.3	2.0	2.5	2.0	1.3
of which:														
Euro zone	2.1	1.9	0.9	-4.5	2.1	1.6	-0.9	-0.2	1.4	2.1	1.9	2.4	1.9	1.1
France	2.0	1.8	1.0	-2.9	2.0	2.2	0.3	0.6	1.0	1.1	1.2	2.3	1.6	1.1
Germany	1.7	1.3	1.6	-5.6	4.1	3.7	0.5	0.5	2.2	1.7	2.2	2.2	1.4	0.6
Italy	1.6	1.0	-0.2	-5.5	1.7	0.6	-2.8	-1.7	0.1	0.9	1.1	1.6	0.9	0.0
United Kingdom	2.8	2.5	1.7	-4.2	1.7	1.6	1.4	2.0	2.9	2.3	1.8	1.8	1.4	0.9
EU member States after 2004	1.9	5.0	2.4	-3.4	1.6	3.1	0.7	1.2	3.0	3.9	3.2	4.7	4.3	3.6
Transition economies	**-4.9**	**7.2**	**1.6**	**-6.6**	**4.5**	**4.6**	**3.5**	**2.4**	**0.9**	**-1.9**	**0.7**	**2.1**	**2.8**	**1.4**
of which:														
Russian Federation	-4.7	6.8	1.2	-7.8	4.5	4.3	3.7	1.8	0.7	-2.5	0.3	1.6	2.3	0.5
Developing countries	**4.8**	**6.3**	**4.8**	**2.7**	**7.8**	**6.2**	**5.0**	**5.0**	**4.5**	**4.0**	**3.9**	**4.4**	**4.2**	**3.5**
Africa	2.6	5.8	3.1	3.4	5.4	1.4	6.0	2.2	3.5	2.7	1.6	2.7	2.8	2.8
North Africa (excl. Sudan and South Sudan)	2.9	5.0	1.6	3.6	4.3	-6.1	9.6	-3.4	0.3	2.5	2.8	3.3	3.7	3.6
Sub-Saharan Africa (excl. South Africa)	2.7	7.0	4.5	5.3	7.0	5.1	5.4	5.2	5.6	3.2	1.4	2.7	3.0	3.3
South Africa	2.1	4.4	1.8	-1.5	3.0	3.3	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.3
Latin America and the Caribbean	3.1	3.8	1.7	-1.9	6.0	4.5	2.8	2.8	1.0	-0.4	-1.5	0.9	0.7	0.2
Caribbean	2.2	5.1	2.5	-0.9	3.0	2.3	2.1	2.8	2.8	4.1	1.8	2.1	3.1	2.5
Central America (excl. Mexico)	4.4	4.5	4.0	-0.5	4.0	5.7	5.0	3.8	3.9	4.2	3.9	3.7	2.7	2.6
Mexico	3.2	2.2	2.6	-5.3	5.1	3.7	3.6	1.4	2.8	3.3	2.9	2.1	2.0	0.4
South America	3.1	4.3	1.2	-1.0	6.4	4.9	2.5	3.2	0.4	-1.8	-3.2	0.4	0.1	-0.1
of which:														
Brazil	2.8	3.7	1.1	-0.1	7.5	4.1	1.9	3.0	0.5	-3.6	-3.3	1.1	1.1	0.6
Asia	6.3	7.5	6.1	4.3	8.8	7.5	5.6	6.1	5.7	5.5	5.8	5.6	5.3	4.5
East Asia	8.8	9.1	6.8	7.0	10.0	8.3	6.6	6.7	6.5	5.9	5.9	6.2	5.9	5.4
of which:														
China	10.6	10.9	7.9	9.4	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.9	6.6	6.1
South Asia	4.8	6.7	5.8	4.1	8.9	5.4	2.9	4.8	6.0	6.0	8.8	6.3	6.0	4.4
of which:														
India	6.0	7.6	7.0	5.0	11.0	6.2	4.8	6.1	7.0	7.5	8.7	6.9	7.4	6.0
South-East Asia	4.9	5.6	5.1	2.0	7.8	4.9	6.0	5.0	4.5	4.6	4.7	5.2	5.0	4.5
West Asia	4.1	5.7	4.4	-1.9	5.8	9.1	4.6	6.0	3.4	4.3	3.0	2.8	2.3	0.7
Oceania	2.7	2.8	3.1	1.8	5.8	1.7	2.4	2.6	6.6	4.7	1.1	0.9	1.4	2.8

Source: UNCTAD secretariat calculations, based on United Nations, Department of Economic and Social Affairs (UN DESA), *National Accounts Main Aggregates database and World Economic Situation and Prospects : Update as of mid-2019; ECLAC, 2019; OECD.* Stat, available at https://stats.oecd.org/Index.aspx?DataSetCode=EO (accessed 29 May 2019); IMF, 2019; Economist Intelligence Unit, *EIU CountryData database*; J.P.Morgan, *Global Data Watch*; and national sources.
Note: Calculations for country aggregates are based on GDP at constant 2010 dollars.
a Average.
b Forecasts.

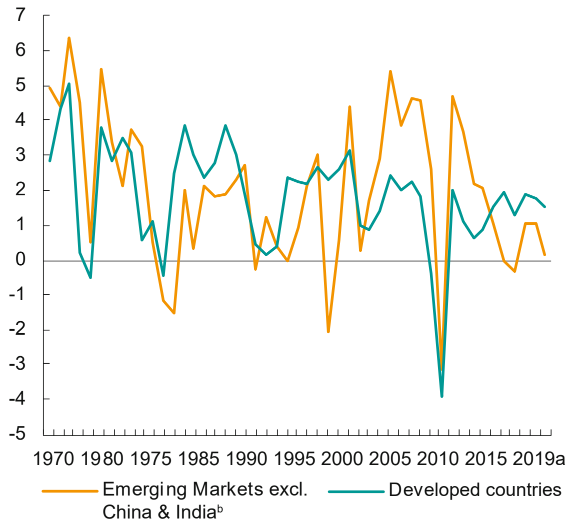
Talk of "decoupling" and "convergence", which briefly united the chattering and investor classes after the GFC as developing (including so-called emerging) economies bounced back quickly, has ended (figure 1.2). There is a real possibility of further setbacks for many countries. In some, already close to or in recession, economic and political uncertainties are compounding existing fragilities. In Turkey, pre-election spending and enhanced lending by public banks helped push growth up to 1.3 per cent in the first quarter of 2019 (relative to the preceding quarter), after three quarters of negative growth. But with the elections over, growth is expected to turn negative, and this could have further adverse effects on capital flows and interest rates, as in the recent past. In Latin America, Argentina is already deep in recession despite the largest International Monetary Fund (IMF) loan on record, and the return of investor confidence seems unlikely with elections planned later in 2019. The situation is gloomy elsewhere on the continent: in both Brazil and Mexico, GDP fell by 0.2 per cent in the first quarter relative to the preceding quarter, with political uncertainty a contributing factor (OECD, 2019a).

The geopolitics of energy complicate the situation, with the blockade in the Bolivarian Republic of Venezuela and heightening tensions in the Middle East putting upward pressure on oil prices since the beginning of 2019, reversing the decline in the last quarter of 2018. While the Russian Federation is expected to benefit from higher oil prices, production cuts and subdued domestic demand are still likely to keep growth in 2019 well below the 2.3 per cent registered in 2018. On the other hand, the adverse impact of price hikes on oil-importing economies, such as Pakistan, which is preparing for an IMF-agreed adjustment programme, will probably be significant.

Elsewhere in Asia, the two economies that were among the fastest growing in the world, China and India, are showing signs of a loss of growth momentum. Growth projections for India have been marked down, because of a sharp fall to 5.8 per cent in the first quarter of 2019 (relative to the corresponding quarter of the previous year) (National Statistics Office, 2019). This continues a decelerating trend which began four years ago. Meanwhile, growth in China fell from 6.6 per cent in 2018 to 6.4 per cent in the first quarter of 2019 and 6.2 per cent in the second quarter (relative to the corresponding quarter of the previous year) (Yao, 2019), confirming expectations that the ongoing trade tensions with the United States will weigh on growth in 2019. In addition, domestic debt pressures remain an ongoing concern for Chinese policymakers. Given the strong linkages these high-growth countries, especially China, have with the rest of Asia, their slowdown will have region-wide ramifications.

FIGURE 1.2 Convergence blues: GDP per capita growth, 1971–2019

(Annual percentage change)



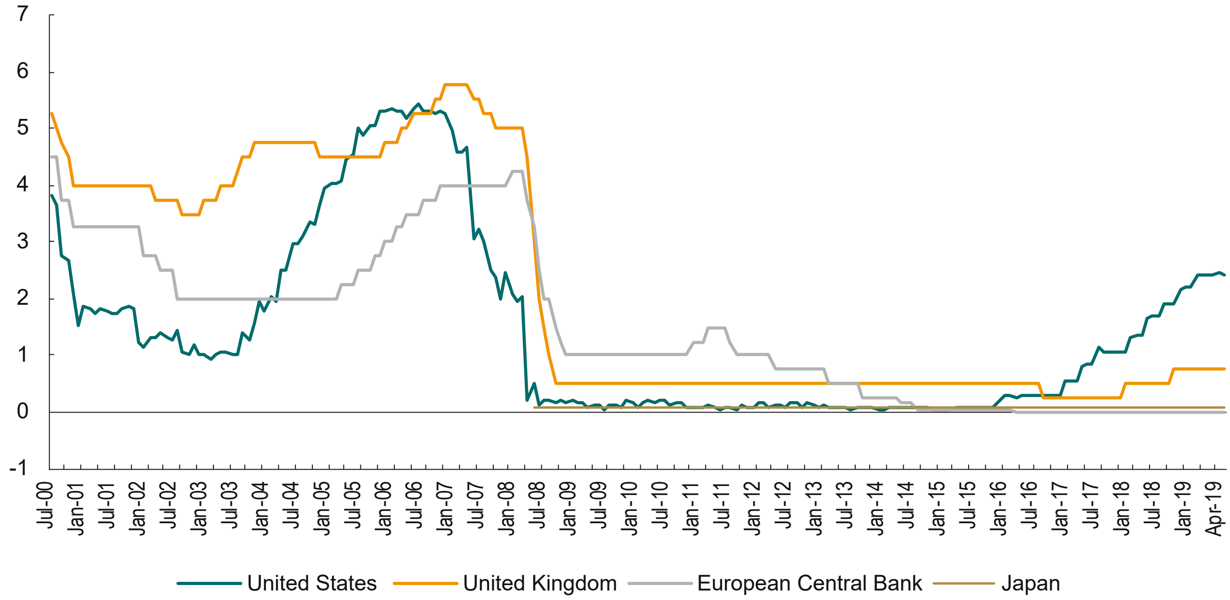
Source: UNCTAD secretariat calculations, based on UNCTADstat; and table 1.1.

Note: a: Forecasts.
b: Based on UNCTAD's definition of EMs.

All in all, talk of a new growth trajectory for the global economy seems wishful thinking. Rather, a pattern of unstable growth looks set to persist, as a mixture of financial exuberance and debt dependency leaves many economies lurching between ephemeral spurts of varying intensity and financial retrenchment. Global growth is also projected to fall to 2.3 per cent in 2019. Even if the United States eschews further tariff increases, optimistic forecasts are likely to miss the mark, as has happened repeatedly in the past.

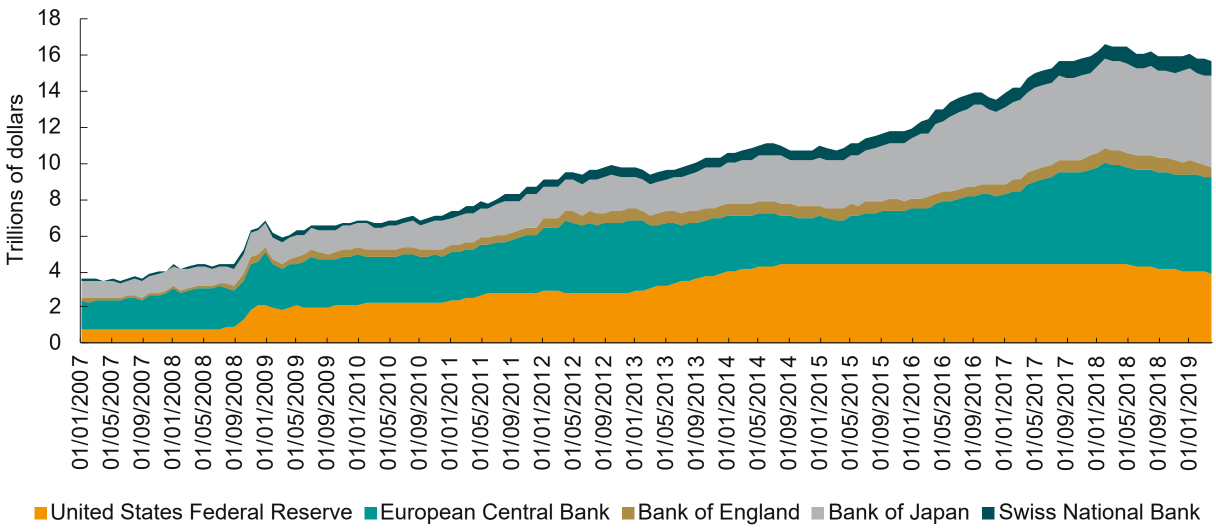
What is of immediate concern is the presence of multiple sources of vulnerability, such as unsustainable corporate debt, disrupted supply chains, volatile capital flows and rising oil prices – all of which could feed off each other and transform a growth slowdown into another recession. Not surprisingly, those who had positive assessments of the global economic situation are again turning downbeat, with increasing talk of a global recession in 2020.

FIGURE 1.3 **Central bank policy rates, 2000–2019**
(Percentage)



Source: CEIC data drawn from national central banks.

FIGURE 1.4 **Total assets of selected central banks, 2007–2019**



Source: Thomson Reuters EIKON.

Underlying this pessimism is a recognition that the policy instruments favoured in the battle for recovery since the financial crisis have not only failed to deliver robust growth but are facing ever-diminishing returns. The reliance on such instruments was heavy. As figure 1.3 shows, central bank policy rates were slashed in the immediate aftermath of the crisis and have been maintained at or close to those low levels since. Quantitative easing has resulted in a huge expansion in the assets of central banks, especially in the case of the Federal Reserve, the Bank of Japan and the European Central Bank (figure 1.4).

The United States Federal Reserve, which in December 2018 had announced that it would opt for another three interest-rate hikes to take the range to 3–3.25 per cent and continue to unwind its balance sheet by selling bonds and securities to the tune of $30–50 billion every month, has now changed its position. In March 2019, noting that "growth of economic activity has slowed from its solid rate in the fourth quarter" (Board of Governors, 2019a), the Fed decided to hold back on rate rises and scale down the planned monthly reductions in its bond holdings. Since then, this revisionist position within the Fed has further strengthened, leading to a cut in the benchmark short term interest rate by one quarter of a percentage point to a target range of between 2 and 2.25 per cent at the end of July 2019.

Despite the weakness of the recovery, the urge in policy circles to stick to easy monetary conditions and avoid proactive fiscal measures still rules. The argument is that there is no alternative, even though the evidence is clear that there is little headroom for further reliance on monetary instruments. Interest rates are near or at zero and central bank balance sheets are bloated beyond early repair. So the debate has been reduced to arguments on whether (if at all) and if so how far and when, the so-called "unconventional" monetary policies should be unwound or withdrawn.

In Europe too, the mood is similar. The European Central Bank has officially announced that it will not reverse its interest rate policy and, perhaps, reduce interest rates further. This implies a negative interest rate, currently at 0.4–0.6 per cent on deposits held by banks, which adds to costs of banks and affects their profitability in the current situation of abundant liquidity. The European Central Bank has also hinted at a return to its bond-buying programme (quantitative easing), which it had previously promised to withdraw, as has the Bank of Japan.

2. *The limits of debt-dependent growth*

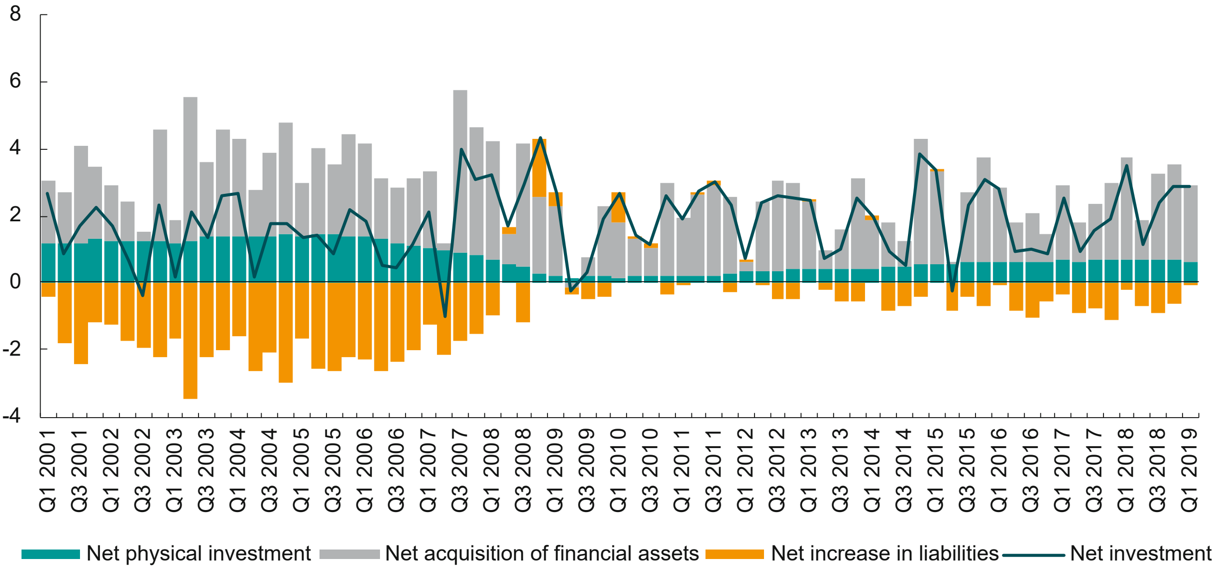
One consequence of the long-term adherence to cheap and easy money policies in the developed countries was a surge in investments into equity and debt markets. In August 2018, the New York Stock Exchange marked the completion of the longest bull run in its history. Over 3,453 days, the S&P 500 index of United States stocks rose cumulatively by more than 300 per cent when compared with its post-crisis low value on 9 March 2009, and did not fall by a cumulative 20 per cent anytime in between. Though the magnitude of the rise has fallen short of previous records, a bull run of nearly 10 years is a remarkable record. All the more so because, over much of this period, the United States economy was struggling to recover from the depths of the recession created by the financial crisis. Even after August 2018, though the index has fluctuated, the average value for June 2019 was at almost the same level as it was in August and September 2018.

Throughout 2017, across all major economies, there were synchronized and steep increases in stock market indices, which either stabilized at high levels or continued to rise through roughly the first half of 2018 (except in China, where markets experienced a decline throughout the full year 2018). Subsequently, these indices fell over the second half only to rise again and reverse that decline. It was partly this boom in stock markets that generated the expectations that found expression in the enthusiastic GDP growth forecasts issued a year ago by most institutions. At the same time, a sustained rise in house prices pushed real estate markets to record highs in many parts of the global economy (Evans, 2019).

As argued in *TDR 2018*, behind such dramatic and synchronized stock market and housing price appreciation lies the excessive reliance on monetary easing in the major economies as an instrument to ensure recovery. However, the Flow-of-Funds accounts of the United States (a major player in the liquidity expansion experiments of the post-crisis period) show that household acquisition of physical assets, which mainly takes the form of housing investments and was largely matched by household borrowing (increase in liabilities), has been relatively small and lower than earlier (figure 1.5). This suggests that the segment of the housing market, sustained by credit, was possibly not as buoyant as the luxury segment and commercial real estate. On the other hand, overall household net investment was much higher because of the purchase of financial assets, which, being much larger than the increase in liabilities, must have been financed with savings. The evidence that household savings were invested in financial assets also points to the consequences of the increase in inequality, as the wealthy tend to allocate a significant portion of their income to savings and the acquisition financial assets. This feature of household behaviour has been an important driver of financial markets.

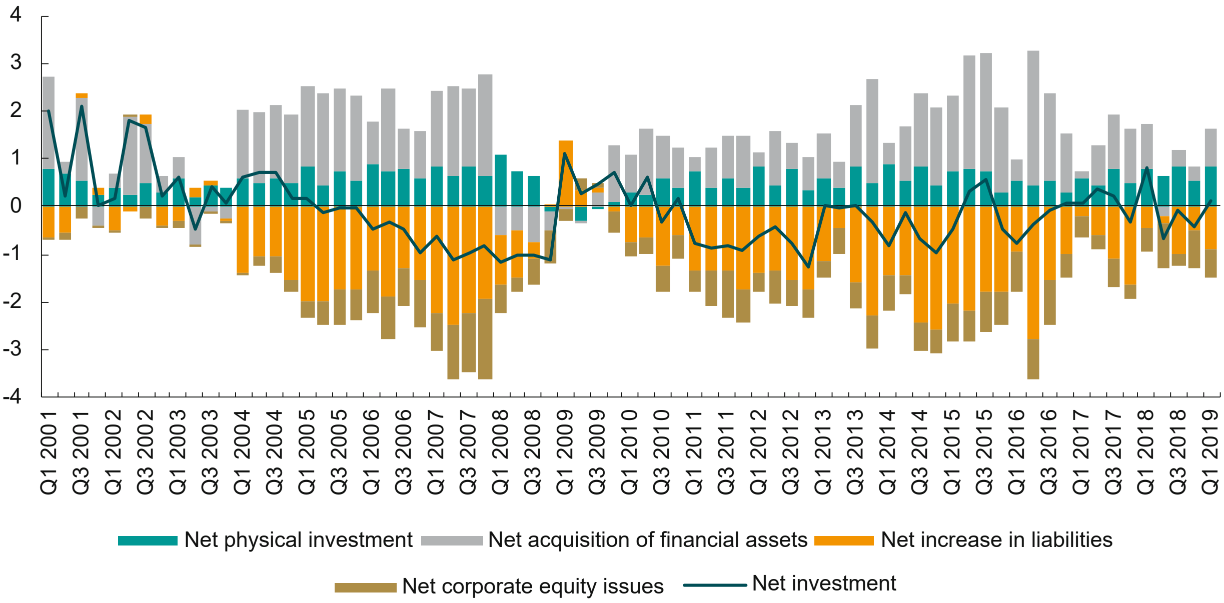
An even more striking conclusion can be drawn from the financial allocations of the corporate sector in the United States (figure 1.6). Net (financial) borrowing of the corporate sector has been largely devoted to acquisition of financial assets, not physical

FIGURE 1.5 Decomposition of net investment of households and non-profit organizations of the United States, 2001–2019
(Percentage of GDP)



Source: UNCTAD secretariat calculations, based on the Federal Reserve of the United States, Financial Accounts of the United States database.
Note: 'Net increase in liabilities' appears as negative in the figure.

FIGURE 1.6 Decomposition of net investment of the United States, 2001–2019
(Percentage of GDP)



Source: UNCTAD secretariat calculations, based on the Federal Reserve of the United States, Financial Accounts of the United States database.
Note: 'Net increase in liabilities' appears as negative in the figure.

investment. This pattern has actually worsened compared to the pre-2008 boom: financial investment on average amounted to 1.78 times physical investment of the United States corporate sector in the period from the first quarter of 2001 to the last quarter of 2007, but that figure increased to 2.11 in the period from the first quarter of 2010 to the first quarter of 2019. The liquidity experiments of the post-crisis period have not led to more productive activity: productive investment has been limited and mostly financed by retained profits. Net equity issues were negative because of the speculative activity characteristic of the post-crisis period, with the corporate sector using its own and borrowed funds for "share-buy-back" (SBB) operations.[1] This focus of both the household and corporate sector on acquisition of financial assets, especially equity, underlay the buoyant trend in the stock market. Other forms of speculative activity encouraged by the availability of cheap liquidity are an increase in mergers-and-acquisitions and growth of the leveraged loan market, or lending to poorly rated companies that are already heavily in debt. According to the Financial Stability Report of the United States Federal Reserve (Board of Governors, 2019b) the United States leveraged loan business has grown rapidly over the past decade to touch $1.1 trillion. Such activities, which were, in effect, the only observable result of quantitative easing, were replicated in other advanced economies that continued monetary expansion through 2018.

While the debt-driven, low-investment growth model has been good for asset owners, it has not been good for the majority of people who depend on labour income. Even when growth has picked up since the financial crisis, labour incomes have lagged behind. According to the *Global Wage Report 2018/19* of the International Labour Organization (ILO, 2018), in 2017 the rate of growth of average monthly earnings adjusted for inflation of workers across 136 countries registered its lowest growth since 2008, well below peak figures recorded in the pre-crisis years. What is more, if China – where wage growth has been rapid and whose size substantially influences the global figure – is excluded, wage growth in 2017 (1.1 per cent) was much lower than the figure for all countries including China (1.8 per cent). The deceleration in wage growth outside China is apparent for both developed and developing countries. The *OECD Employment Outlook 2018* (OECD, 2018) has concluded that, outside China, wages no longer appear to respond to declining unemployment given the informal and precarious nature of many new jobs.

3. Looming threats

Against this backdrop of a fragile growth path, the rising anxiety of policymakers reflects their concern that temporary disruptions could quickly turn into more vicious downward spirals.

(a) From tariff tantrums to technology turbulence

Trade figures suggest that the world economy is still locked into a low growth trajectory. The World Trade Organization's *World Trade Outlook Indicator* (WTOI) released in May 2019 (WTO, 2019), for example, stood at 96.3, well below its baseline value of 100, which is its weakest level since 2010, and a clear sign that world trade growth has dropped in the first half of 2019. This is because much of the world economy outside the United States is slowing down, and because, barring the outlier year of 2017, global trade has been on a downward trend relative to GDP since 2011 (Shin, 2019). The fact that growth in the United States has not helped lift global trade, as it did in the past, points not just to the tepid nature of its recovery but to the weight of dampening influences originating elsewhere in the global system, including from the Chinese slowdown. These effects have been compounded by the added shocks to the trading system from resort to tariff measures and sanctions by the United States Administration (Caceres et al., 2019).

While this policy shift has been couched in a wider discourse on unbalanced trade that also called for a rewrite of the North American Free Trade Agreement (NAFTA) and exit from the Trans-Pacific Partnership negotiations, the focus of the United States Administration has been on trade with China, in particular, its large bilateral deficit with that country. While this is, to a large extent, the consequence of macroeconomic imbalances within the United States that have seen domestic demand running ahead of domestic output, a series of tariff increases have aimed at limiting imports from China into the United States, provoking a series of measured responses from China. A large volume of trade between the two nations has been directly affected and this has rippled across the world economy through the networked organization of trade in global value chains.[2]

The overall loss suffered by the United States and the rest of the world depends on the responsiveness of consumers to price increases, on whether and which firms would absorb part or much of the effects of the tariff increase, and which countries would gain from trade diversion, if any. Not surprisingly, estimates vary.[3] To date, the impact on global growth has been limited, although that is likely to change if the tariffs persist or, worse still, a further round of tit-for-tat tariff increases ensues. As suggested in *TDR 2018*, this would probably lead to a slowdown in investment demand.

This possibility has grown over the course of the first half of the year with the realization that trade measures are aimed as much, if not more, at technology flows than current-account imbalances, with the United States Administration accusing the Chinese Government of stealing intellectual property from American companies (USTR, 2018a, 2018b). Putting aside the mercantilist logic behind these accusations and ignoring the lack of clear evidence to justify the use of national security measures as a tool for managing economic relations, the fact that the electronics sector and other high-technology sectors are among the most networked parts of the global economy raises the economic risks attached to unilateral trade actions.

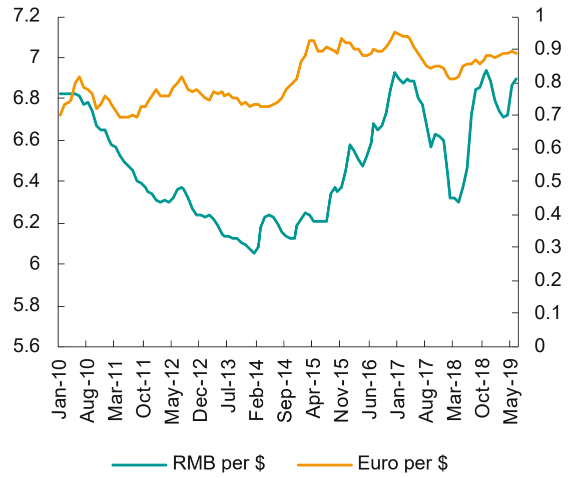
Trying to stymie efforts by China to break through the middle-income economic barrier by further upgrading and diversifying its economy raises the very serious danger of heightened turbulence around technology issues and a rapid deterioration in trust and confidence in the wider workings of the multilateral system. Moreover, China has not only served as the final-stage export platform for firms located in other Asian countries producing intermediates and components but has also been a major source of demand for the goods of many developing countries. To the extent that tensions between the United States and China affect growth prospects in the latter, reduces its imports and accelerates the turn inward as part of a strategy of rebalancing growth, some of these countries could face a sharp deterioration in their external position, with a heightened threat of a slowdown turning into a more serious recession.

(b) From currency clashes to debt debacle

Tariffs are not the only, or the most significant, policy measure impacting on the scale and direction of trade flows. As the United States Administration has widened the list of countries it sees as having benefited asymmetrically from bilateral trade, it has also raised the possibility of these countries manipulating their currency for economic gain.

The Morgan Stanley Emerging Market Currency Index rose significantly over January but fell sharply between mid-April and late May, only to climb again thereafter. Three factors underlay this volatility.

FIGURE 1.7 Renminbi and euro per dollar, 2010–2019



Source: Bank for International Settlements. Available at https://www.bis.org/statistics/xrusd.htm?m=6%7C381%7C675.
Note: Scale is decreasing so an upward movement represents a depreciation and a downward movement indicates an appreciation.

The first is the presence of crisis-hit countries such as Argentina and Turkey in the index, with these currencies recording sharp fluctuations at different points in time. The second is the volatility of capital flows to emerging markets, resulting from the uncertainty surrounding monetary policy in the developed countries and growth prospects in emerging markets. Finally, there is pressure from the United States Administration on all concerned to keep the dollar "competitive" vis-à-vis the currencies of its trading partners (*Financial Times*, 2019; Sobel, 2019). In an international financial system still heavily dependent on a predictable role for the dollar, turning that role – regarded as an "exorbitant privilege" – into a source of economic ordnance could bring more destabilizing consequences.

If Chinese and German trade surpluses were the result of currency manipulation, then the bilateral nominal exchange rates should have been reflecting unusual depreciation of these currencies vis-à-vis the United States dollar. Figure 1.7 charts the movement of the Chinese currency, the renminbi, and the German currency, the euro, relative to the dollar.

Between January 2010 and June 2014, the German currency (the euro) fluctuated around a largely stable trend, and thereafter it depreciated against the dollar, with subsequent fluctuations. So clearly the increase in trade surplus of Germany with the United States was despite changes in the relative value of its currency, not because of it.

Similarly, the renminbi appreciated continuously vis-à-vis the United States dollar from early 2010 to around September 2015. This was the period when the Chinese trade surplus with the United States was increasing. Thereafter, there has been a significant depreciation of the renminbi driven in part by capital outflows. However, in this phase marked by renminbi depreciation, exports from China to the United States and its trade surplus have both stagnated. In fact, to the extent that Chinese authorities have intervened in the foreign exchange market, they have attempted to prevent further depreciation of the renminbi.

Overall, the disruption caused by currency movements that are influenced significantly by capital flows rather than just trade flows, and the lack of policy coordination to mitigate such disruption is a long-standing concern for the international community (chapter IV). That concern is only likely to intensify with the "scourge of hot money" currently circling around cryptocurrencies (Foroohar, 2019; and see box 1.1) The danger of a sharp depreciation of currency feeding vicious deflationary spirals, as has already occurred in Argentina and Turkey, is real. In light of their current debt positions, emerging markets are likely to suffer the most from volatile currency movements.

However, over the last four decades, there has been a kind of implicit policy coordination among advanced

BOX 1.1 Cryptocurrencies: The democratization of money or libertarian scam?

In 1976, Friedrich Hayek published a slim volume entitled *Denationalisation of Money* in which he advocated a system of competing private currencies to replace central banks' monopoly on the issuance of legal tender and their (supposed) control over state-organized private banking and financial systems. Hayek paid little attention to the technical and operational detail of private currencies, focusing instead on the promotion of private competition as the (for him) core organizing principle of economically superior and democratic market economies, whose main enemies he saw as state intervention and the state-driven creation of monopoly powers, primarily in the form of trade unions and central banks.

Decades later, with digital technologies going mainstream, a similar spirit of wrestling the powers of money creation from state control and placing these in the hands of competing peer-to-peer digital currencies and payment systems has supported the emergence of cryptocurrencies. Starting with bitcoin in 2009, more than 1,500 cryptocurrencies and related digital "tokens" are now in play (Richter, 2018).

Cryptocurrencies rely on decentralized record-keeping systems or "distributed ledgers", the best known of which is blockchain, used by bitcoin. Through vast networks of connected computers, transactions are verified and time-stamped so that they become unalterable, with each new transaction added as a "block" to the list (or "chain") of peer-to-peer transactions. The process of confirming records is known as "mining" and the work of "miner" companies is paid for in newly created bitcoins. Bitcoin's code (or regulation, in old-fashioned terms) currently stipulates an upper limit of the equivalent $21 million in new bitcoin issuance for this purpose, and this has now almost been reached, as opposed to original expectations that this would not be the case until around 2040. This upper limit on the issuance of new bitcoins provides some kind of an "anchor" for this digital currency, at first sight not unlike gold. But while gold (and other precious metals) are an actual industry that will continue to produce economic value of some sort even when losing its attraction as an "anchor" for the issuance of means of payment, bitcoins will simply disappear if trust in their use as a means of payment evaporates (Häring, 2018).

As a decentralized alternative to state-led monetary and banking systems, cryptocurrencies also claim to protect the privacy (or anonymity) of citizens in matters of monetary transactions. But as with other Internet-based forms of digital money, this claim rests on assumptions about the willingness and technical ability of untested third parties to safeguard personal details behind digital "wallets" operating under codenames and numbers. It certainly should give pause for thought that it is the National Security Agency (NSA) of the United States that holds the patent on blockchain codes for Ethereum, the second-most popular cryptocurrency after bitcoin, and is happy to promote its use free of charge (Diedrich, 2016). A much more efficient payment mechanism, from the point of view of anonymity, is cash, that is also cheaper, safer and much less energy-consuming. But cash is an inconvenience for banks and fintech companies more interested in promoting corporate digital payments systems that generate higher fees as well as mostly free but lucrative user data.

In practice, most leading cryptocurrencies, including bitcoin and Ethereum, do not function as day-to-day payment systems but as yet another speculative financial asset. Headline-generating frenzy in the market mainly for bitcoins in 2017 and 2018 also gave rise to wider considerations about the impact of self-driving computer-generated financial trading strategies on stock market volatility and even financial crashes, prompting comparisons with self-driving cars (Tett, 2017).

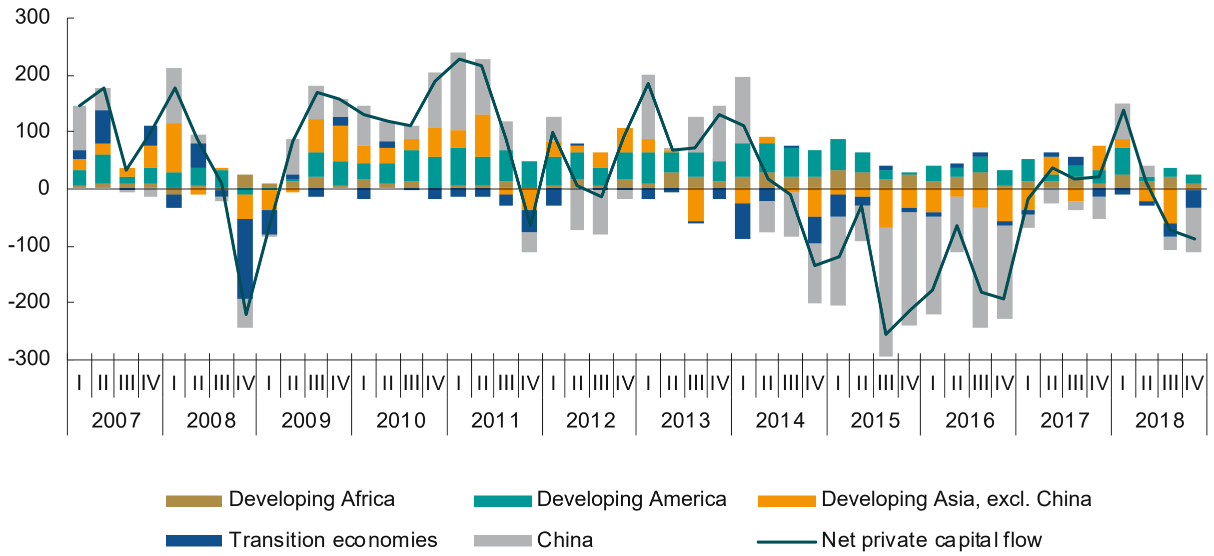
Whatever the reservations about the claims and realities of existing cryptocurrencies, the nature of this debate radically changed when, in June 2019, Facebook announced its plan to create its very own private money, called Libra. Libra is different from conventional cryptocurrencies not only in terms of its global reach resulting from Facebook's 2.4 billion active user base, but also from its centralized corporate operation, with PayPal as one of its main founding members, and with no pretence to anonymity. And while if Bitcoin ceased to function, the loss would be that of its investors, Libra would depend on the use of national currencies as collateral. To protect the Libra's value, the plan at present is to peg it to a basket of such currencies. This means that governments (and their taxpayers) would have to step in for liquidity support in the event of a run on the Libra. Given the massive scale at which the Libra would be launched, the risk and cost to the public of having to backstop this corporate money through liquidity provision in the event of a run on the Libra, would be enormous and possibly unprecedented (Pistor, 2019).

While some treat cryptocurrencies and even the Libra launch as yet another financial innovation, it is becoming more difficult to defend the idea that these currencies are democratic inventions that promote privacy and competitive efficiency. Instead, and unsurprisingly for the sceptics of financial inclusion and fintech, they are fast turning into rather old-fashioned corporate rent-seeking ventures designed to generate vast private profits but reliant on public bailouts when things go wrong.

nations, not as a result of a clearly negotiated consensus, but through a degree of policy conformity enforced by the rise of internationally mobile finance. That coordination involved abjuring proactive fiscal policies, focusing on monetary instruments for macroeconomic management, and leaving it to central banks to decide on whether the principal objective of inflation targeting could permit using monetary policy to stimulate growth.

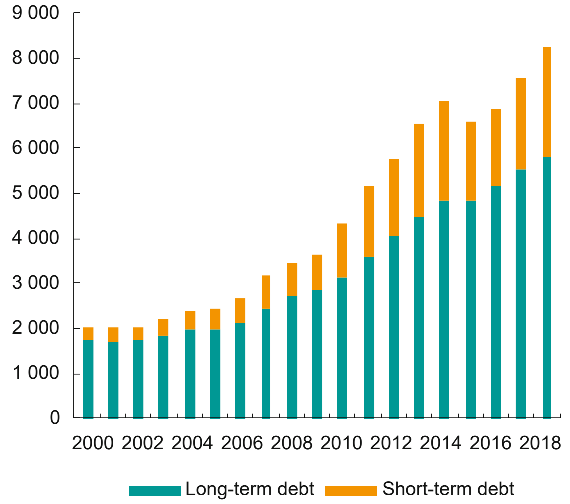
The easy money policy was initially designed to contain contagion after the GFC. It led to a post-crisis revival of capital flows to developing countries, especially the so-called emerging markets. Besides putting upward pressure on the currencies of some of these countries, such a surge soon led to increased fragility because of the possibility of capital reversal as unconventional monetary policies in advanced economies were ended. The extent of that fragility is seen in the volatility of aggregate capital flows (figure 1.8), affecting both equities and bonds (IMF 2019). Such volatility has persisted, with a substantial reduction of net capital flows to the emerging markets and developing economies between the first

FIGURE 1.8 **Net private capital flows by region, 2007–2018**
(Billions of dollars)



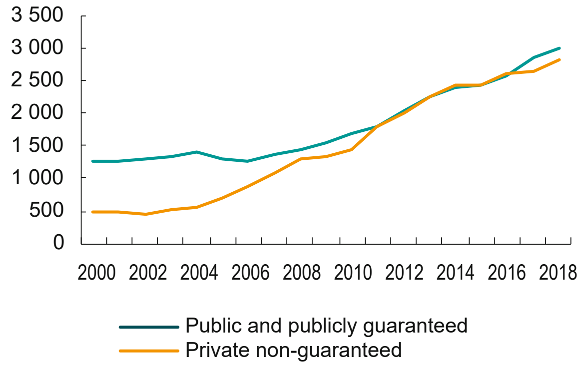
Source: UNCTAD, Financial Statistics Database based on IMF, Balance of Payments database; and national central banks.

FIGURE 1.9 External debt of developing countries and economies in transition, 2000–2018
(Billions of dollars)



Source: UNCTAD secretariat calculations based on World Bank, IMF and national sources.

FIGURE 1.10 Structure of long-term external debt of developing countries and economies in transition, 2000–2018
(Billions of dollars)



Source: UNCTAD secretariat calculations based on World Bank, IMF and national sources.

and fourth quarters of 2018, and then a recovery in inward capital flows in the form of both foreign direct investment and bank lending in the first quarter of 2019 (IMF 2019).

The reliance on cheap money to engineer the recovery also had the collateral effect of the return of unsustainable debt levels reminiscent of the years before the GFC. At first, the rebalancing of private debt positions resulted in the piling up of public debt, as governments borrowed to recapitalize banks, rescue financial firms and finance a stimulus in the form of increased public spending or large tax cuts. However, soon thereafter, private debt levels started rising once again. In particular, private non-financial sector debt in the G20, which fell from 151 per cent of the GDP in March 2008 to 139 per cent in December 2011, increased thereafter and stood at 151 per cent of GDP at the end of 2018.

The problem of persisting debt afflicts both advanced and developing economies. A specific aspect of the post-crisis debt explosion was the huge increase in the external debt of developing economies, driven by the excess liquidity originating in the advanced economies (figures 1.9 and 1.10). The total external debt of all developing countries and economies in transition, which had doubled to $4.5 trillion between 2000 and 2008, rose to $9.7 trillion in 2018. This increase was not only on account of borrowing by middle-income developing countries. The external debt stock of low-income developing countries fell slightly between 2000 and 2008, from $88 billion in 2000 to $83 billion in 2008, partly because of a round of debt write-offs under the heavily indebted poor countries initiative. But thereafter it has more than doubled, to $173 billion. Even in the case of the least developed countries, the stock of external debt has more than doubled, from $156 billion in 2008 to $341 billion in 2018.

The situation is particularly worrying in a number of Bank of International Settlements-identified emerging markets, where borrowing by the private, non-financial sector has exploded, with corporate debt rising from 83 per cent of GDP in the first quarter of 2008 to 145 per cent in the first quarter of 2018. This explosion of debt in a period when what could rather be expected was deleveraging from the highs of the pre-crisis years, has led to debt warnings flashing everywhere. The possibility of a perfect storm of rising debt servicing, weakening currencies and slowing economic growth is already keeping policymakers awake in many of these economies, with the outcome hinging as much on decisions taken in central banks of advanced economies as their own actions.

(c) From commodity price collapse to environmental breakdown

The extraction of natural resources remains a primary driver of development in many developing countries where, since the start of the millennium, strong demand for commodities has contributed to growth surges. However, commodity markets have, in this period, also become more and more volatile, thanks to the highly financialized nature of the underlying assets. The resulting boom–bust cycles have held back diversification efforts in many of these economies, adding to their vulnerability to external shocks.

At the same time, growth across much of the global economy continues to rely on the intensive use of natural resources. The consequences of carbon-heavy growth on global temperatures is now fully recognized but this is just part of a wider environmental breakdown resulting from the exploitation of natural resources; soil degradation, deforestation, the pollution of oceans and the atmosphere, the loss of animal species, etc., are not only a growing concern for the health of the planet but carry increasingly high economic costs (IPPR, 2018).

The economic consequences of global warming are already apparent, with much of the damage felt by countries and communities with the least responsibility for the problem. Between 2010 and 2016, an average of around 700 extreme events each year cost an average of $127 billion per annum. This is the most visible part of a wider pattern of environmental destruction. For example, exposure to air and water pollution is estimated to have caused 9 million deaths annually. Meanwhile, the vulnerabilities created by financial liberalization and debt-dependent growth are undermining the ability of countries, rich and poor, to mitigate the costs of environmental damage.

4. We are all "populists" now

The interconnected nature of the threats facing the global economy cannot be met without large coordinated investments between countries, across the North and the South, improved policy coordination and increased transfers of technology (chapter III). But while circumstances demand such cooperation, many governments are reluctant, in the absence of a robust international framework and effective development cooperation, to respond to that challenge. The G20 meeting in Osaka in June 2019 exposed the weakness of the current arrangements.

The adherence to a policy agenda that prioritizes control of inflationary pressures and the interests of the financial sector has produced a sluggish recovery, growing inequalities and rising political tensions. Alternative policy prescriptions, such as demands for restoring a role for proactive fiscal policies and retreating from versions of austerity, adopting redistributive measures that stimulate demand and pushing for more managed trade as a means of national revival are dismissed as attempts by "populists" (whether of the right or the left) to register short-term political gains by capitalizing on the impatience of the population with no consideration for binding economic and financial constraints.

But this orientation to short-term political gains is no less true of the dominant policy agenda. Indeed, the populist foundations of today's conventional economic policy wisdom are often forgotten: trade liberalization, privatization and tax cutting have all been sold as bringing big gains for the majority against the resistance of narrow self-serving interest groups, whether they be government bureaucrats, organized labour or favoured industrial sectors. Adding unorthodox monetary policy to this mix, although couched in a more technocratic language, follows the same logic.

Much like the old trickle-down argument, the implicit case being made for a combination of free trade agreements, lower taxes and easy money is that galvanizing and rewarding the asset-owning class will also do good for the majority of their fellow citizens. This "centrist populism" promises a return to the "great moderation" with shared benefits for all while ignoring the long-term damage to distressed homeowners, discouraged workers and derelict local communities.

Like other brands of populism, this also has its villains. At the time of the crisis, "bad apples" and "rogue traders" were vilified (but rarely prosecuted) for abusing the financial system, but attention has since switched to governments who, it is alleged, are undermining the integrity of the rules-based liberal international order.

This narrative ignores the massive deployment of public capital, in the form of fiscal and monetary policy, in successfully mitigating the crisis-induced recession and triggering recovery. Financial firms and businesses were certainly able to use that cheap capital to speculate their way back to profit through asset-market investments in the developed countries and carry-trade activities in emerging markets. But there has been little sign of a recovery in productive investment. And once profits were restored to "normalcy", there was a retreat to fiscal conservatism and a reliance on infusing large volumes of cheap liquidity into the system, that fattened the balance sheets of leading central banks.

The result is that while global asset markets have been buoyant and financial rents and the profits of the largest corporations have risen, incomes of the working and middle classes have been squeezed, profits in smaller enterprises have evaporated and government spending has been cut. As a result, aggregate demand has failed to pick up and the global economy has lacked a solid base on which to establish a robust recovery. The resulting inequalities and instabilities are triggering new economic, social and political tensions, which are then feeding back into economic uncertainties.

B. Trade trends

1. *Deceleration mode*

World trade is in deceleration mode. After having recovered smartly from 1.3 per cent growth in 2016 to 4.5 per cent in 2017, the average growth in the volume of world exports and imports slowed to 2.8 per cent in 2018 (table 1.2). Growth is projected by most agencies to slow further in 2019, with the figure likely to be much lower than the 2.6 per cent prediction made by the WTO in April 2019. This is because the deceleration in trade growth has been sharp in recent quarters. Data from the Netherlands Bureau for Economic Policy Analysis (CPB, 2019) show quarterly growth rates (relative to the corresponding quarter of the previous year) fell from 3.7 per cent in the third quarter of 2018 to 1.6 per cent in the fourth quarter and 0.5 per cent in the first quarter of 2019 (figure 1.11).

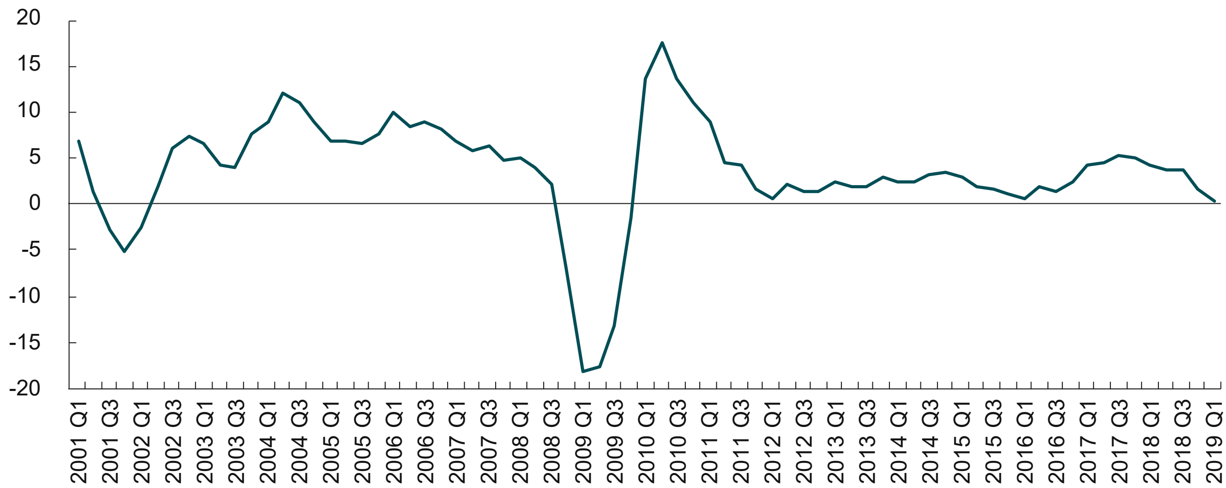
Given the intensification of the trade and technology tensions between China and the United States, the trade slowdown is often attributed to the disruption caused by that stand-off. While the disruption caused by actions taken by the United States cannot be denied, there is reason to believe that it cannot be the whole story, as world trade had started decelerating well before the eruption of these trade tensions. In addition, the effects of the trade tensions work in multiple ways, making the magnitude of the net negative effect on the volume of world trade uncertain.

TABLE 1.2 Export and import volumes of goods, selected groups and countries, 2016–2018
(Annual percentage change)

	Volume of exports			*Volume of imports*		
Group/country	*2016*	*2017*	*2018*	*2016*	*2017*	*2018*
World	**1.3**	**4.1**	**2.5**	**1.2**	**4.8**	**3.1**
Developed countries	**1.0**	**3.3**	**2.1**	**2.2**	**3.1**	**2.5**
of which:						
Japan	2,3	6.0	2.7	0.8	2.8	2.0
United States	−0,2	4.0	4.1	0.5	4.0	5.3
European Union	1.1	3.6	1.6	3.1	2.6	1.5
Transition economies	**0.0**	**4.5**	**4.1**	**5.8**	**13.0**	**3.9**
of which:						
Commonwealth of Independent States	−0.3	4.2	4.3	5.1	14.1	3.3
Developing countries	**2.0**	**5.2**	**2.9**	**−0.4**	**6.8**	**4.0**
Africa	0.5	3.7	−0.6	−5.4	−0.4	4.5
Sub-Saharan Africa	0.1	6.1	6.3	−10.4	1.1	2.1
Latin America and the Caribbean	2.5	3.0	2.5	−6.0	5.2	5.9
East Asia	1.3	6.5	3.3	1.7	6.9	4.6
of which:						
China	1.4	7.1	4.1	3.7	8.9	6.4
South Asia	5.7	5.8	2.5	1.3	11.5	2.8
of which:						
India	2.7	6.6	4.3	−1.8	11.7	3.1
South-East Asia	2.6	8.9	4.6	2.4	9.5	6.8
West Asia	2.5	−1.2	2.0	−1.7	2.5	−4.1

Source: UNCTAD secretariat calculations, based on UNCTADstat.

FIGURE 1.11 Quarterly growth rates relative to corresponding quarter of previous year, 2001–2019
(Percentage)



Source: CPB World Trade Monitor, March 2019.

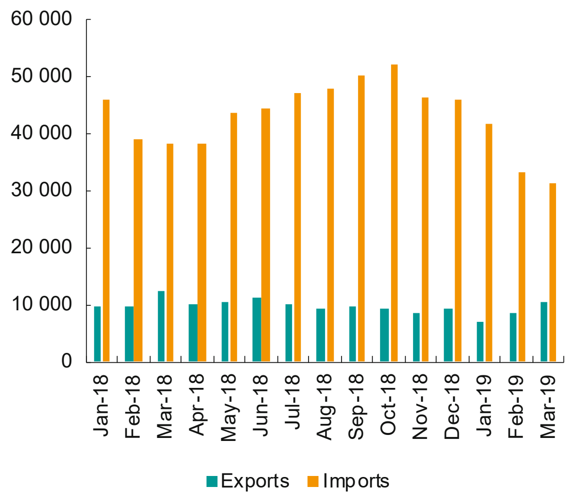
Rather, the overall deceleration of trade reflects a more generalized moderation of global demand, resulting in a loss of growth momentum. The signs of a medium-term loss in the momentum of trade growth signals persistent fragility in the post-GFC global economy.

China has been the main loser from the heightened trade tensions. Imports by the United States of Chinese goods fell from $52.2 billion in October 2018 to $31.2 billion in March 2019 (compared to $38.3 billion a year earlier). The effect on the United States was much smaller in absolute terms, with exports of the United States to China falling from $12.4 billion in March 2018 to $10.4 billion in March 2019 (figure 1.12). This is partly because China has been circumspect in responding to the measures adopted by the United States Administration, given its own persisting dependence on external demand, even as it seeks to rebalance growth away from exports and in favour of the domestic market and from investment in favour of domestic consumption.

There are wider implications for global trade beyond this bilateral action. The United States–China tensions have effects on aggregate import demand from both countries, which affect their other trading partners. China, because of its rapid growth and rising demand for raw material and intermediates, and because it has served as a final-stage export platform for global production chains, has been a major source of import demand in the world economy. So, any slowdown in China is bound to affect world trade adversely. In addition, measures by the United States have not been confined to China, but directed to other countries, as reflected in the adoption of similar measures for other countries, such as Mexico and those of the European Union.

However, the trade tensions also have some positive effects on growth both within and outside China. To start with, it has already resulted in a diversion of the export trade away from Chinese and American exporters to suppliers from third countries, thereby benefiting them. To the extent that there is such trade diversion, the total volume of world trade is unaffected. Further, to the extent that Chinese and United States producers who were restrained by import competition in the past benefit from the new protectionism, the growth-reducing effects of the protectionist actions would be neutralized. This only strengthens the view that the recent slowdown in world trade must in substantial measure be explained by factors other than the trade tensions, the effects of which are in any case still working themselves through. The slowdown in import growth is everywhere other than Japan and the United States, with the deceleration being significant in the euro area, other advanced economies, Eastern Europe / Commonwealth of Independent States and Latin America, and import volumes stagnating in Africa and the Middle East. Growth of imports in value

FIGURE 1.12 United States trade with China, 2018–2019
(Millions of dollars)



Source: US Census Bureau.

terms showed a better picture, largely because the prices of fuels which had fallen by 14.6 per cent in 2016, registered positive increases of 22.2 per cent in 2017 and 27.2 per cent in 2018.

The deceleration in import volume growth has been particularly marked in the emerging economies of Asia and Latin America, pointing to a loss of momentum in the countries that were expected to be new growth poles in the immediate aftermath of the 2008 crisis. China led the trend of deceleration, as its imports fell by 4.8 per cent in the first quarter of 2019, when compared with a year earlier.

2. Trade in commercial services

Trade in services, accounting for 23 per cent of global exports of goods and services, has remained buoyant. UNCTADstat estimates that the dollar value of global exports of services grew by 7.7 per cent to touch $5.8 trillion in 2018. This revival came after exports of services had only risen from a little less than $5 trillion in 2016 to around $5.4 trillion in 2017. All regions of the world registered increases in the export of services, with Africa and Asia and Oceania performing best with rates exceeding 9 per cent. Travel services, other business services and transportation were three of the dominant traded services. In most African countries, travel services dominated services exports, whereas the composition of services exports was more diversified in Asia.

Volume figures for two large components of trade in services, tourism and seaborne trade – which provide quantity data and thus avoid concerns related to valuation issues – offer additional insight on trends in the trade in services.

International tourist arrivals grew 4.4 per cent year on year during the first quarter of 2019, which represents about one fifth of the yearly total. This was below the 6.3 per cent average annual growth for the previous two years. The growth was spread across all main regions, with the Middle East registering the fastest expansion (8.2 per cent), followed by Asia and the Pacific (5.8 per cent), Europe (3.8 per cent), Africa (3.6 per cent) and the Americas (2.7 per cent). For 2019, UNWTO (2019) forecasts an expansion of 3–4 per cent.

Growth in international seaborne trade lost momentum after its volume expanded at a moderate rate of 2.7 per cent in 2018 to reach an all-time high of 11.0 billion tons (UNCTAD, forthcoming). This deceleration – which falls slightly below the historical average growth of 3.0 per cent – contrasts with the cyclical rebound of 4.1 per cent in 2017. This downside trend reflects various factors, including the global economic slowdown, the related heightened uncertainties and more specific idiosyncratic developments. For instance, growth in major dry bulk (iron ore, coal and grain) and tanker trade, each accounting for roughly 30 per cent of total seaborne trade, decelerated, from 4.7 per cent in 2017 to 1.9 per cent and from 3.0 to 1.5 per cent, respectively. Trends shaping dry bulk trade underscore the central role of China and the rebalancing of its economy, as the country imports more than 43 per cent of world trade in major dry bulk commodities and nearly one quarter of aggregate seaborne trade. Headwinds in tanker trade mostly relate to stagnating crude oil shipments. On the demand side, oil imports into the United States and Europe declined and decelerated in China, owing in particular to refinery capacity constraints suffered earlier during the year. On the supply side, disruptions involving the Bolivarian Republic of Venezuela and the Islamic Republic of Iran, together with OPEC-led cuts, have weighed on crude oil shipments. Meanwhile, containerized cargo remained relatively the most dynamic segment of seaborne trade, growing 4.3 per cent in 2018. Yet, its expansion also slowed from 6.4 per cent in 2017.

C. Commodity price trends

In keeping with the deceleration of global trade, suggestive of moderation in global demand, commodity prices that had registered gains of 17.4 and 16 per cent respectively in 2017 and 2018, were in decline (−4.3 per cent) in the first five months of 2019 relative to the corresponding period of the previous year (table 1.3). The differences between commodity price trends in the previous two calendar years and the first five months of 2019 were more marked at the disaggregated level (figure 1.13). In 2017 and 2018, the buoyancy in the aggregate commodity price index was driven largely by the rise in the prices of fuel commodities, influenced by production cuts by OPEC, the Russian Federation and other non-OPEC producers, geopolitical factors (especially United States actions against the Islamic Republic of Iran), and political instability in the Bolivarian Republic of Venezuela. The commodity group minerals, ores and non-precious metals also registered gains, especially in 2017. On the other hand, other non-fuel commodities, such as food and tropical beverages and vegetable oilseeds and oils, registered price declines in 2017 and especially in 2018.

These trends have persisted into the most recent period. The UNCTAD commodity price index fell from 134 in October 2018 to 112 in December that year, and since then has risen to reach a level in the neighbourhood of 120. Fuel prices drove the fall in the index in the last quarter of 2018, with the index of fuel prices falling from 149 in October to 115 in December. The subsequent recovery has been partially on account of the impact on oil prices of the United States action against the Islamic Republic of Iran and partially because of mild buoyancy in the prices of minerals, ores and metals. Prices of food, beverages and vegetable oils, on the other hand, showed no buoyancy and, in some cases, even experienced a decline.

While depressed demand underlies the absence of price buoyancy in many commodity markets in recent months, medium-term volatility has been influenced by the wide fluctuations in oil prices and by the financialization of commodity markets and the concentration of market power in a small number of international trading companies.

TABLE 1.3 World primary commodity prices, 2008–2019
(Percentage change over previous year)

Commodity groups	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019[a]*
All commodities[b]	33.4	-31.6	24.3	28.6	-3.0	-3.7	-7.9	-36.2	-9.4	17.4	16.0	-5.7
Non fuel commodities[c]	22.2	-17.8	26.1	18.9	-12.7	-6.5	-8.0	-18.9	2.3	9.1	-2.2	-3.8
Non fuel commodities (in SDRs)[c]	18.3	-15.8	27.4	14.9	-10.0	-5.7	-8.0	-11.9	3.0	9.4	-4.2	-0.4
All food	32.6	-10.4	12.0	24.0	-6.5	-9.6	-0.8	-15.6	3.6	-1.3	-6.5	-8.0
Food and tropical beverages	31.1	-2.2	11.6	23.6	-9.9	-9.1	3.8	-14.2	2.2	-1.6	-6.6	-5.1
Tropical beverages	19.2	1.1	19.8	31.2	-22.4	-19.8	24.1	-10.3	-3.3	-3.1	-8.5	-11.9
Food	34.9	-3.2	9.1	21.1	-5.6	-6.0	-1.2	-15.4	4.0	-1.2	-6.1	-3.1
Vegetable oilseeds and oils	35.2	-24.1	13.0	24.8	0.7	-10.5	-9.6	-18.8	7.0	-0.5	-6.2	-14.1
Agricultural raw materials	8.4	-16.4	37.0	24.5	-19.2	-8.8	-11.8	-13.3	-0.3	5.3	-1.8	-3.8
Minerals. ores and metals	19.7	-12.9	33.6	20.5	-6.9	-9.5	-12.8	-17.2	4.6	11.3	1.3	-0.7
Minerals. ores and non-precious metals	17.5	-25.4	39.0	12.2	-16.8	-2.0	-14.6	-24.8	1.4	25.7	2.6	-0.5
Precious metals	23.4	7.5	27.5	30.8	3.4	-15.8	-11.0	-9.9	7.1	0.4	0.0	-1.7
Fuel commodities	37.9	-38.6	23.1	32.0	-0.5	-1.2	-7.5	-44.4	-17.5	25.9	27.5	-7.0
Memo item:												
Manufactures[d]	4.9	-5.6	1.9	10.3	-2.2	4.0	-1.8	-9.5	-1.1	4.7	4.5	n.a.

Source: UNCTAD secretariat calculations. based on UNCTAD, Commodity Price Statistics Online; and United Nations Statistics Division (UNSD). Monthly Bulletin of Statistics. various issues.

Note: In current dollars unless otherwise specified.

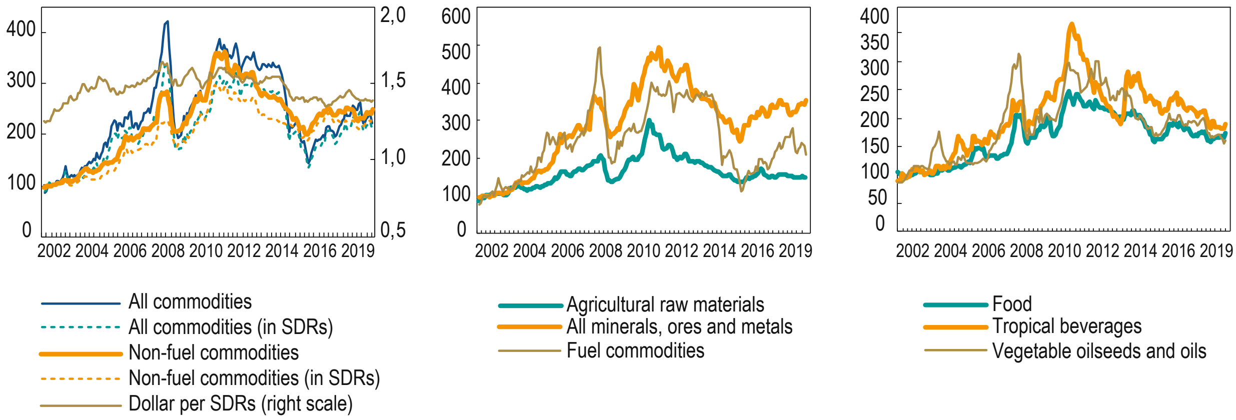
a Percentage change between the average for the period January to June 2019 and January to June 2018.

b Including fuel commodities and precious metals. Average 2014–2016 weights are used for aggregation.

c Excluding fuel commodities and precious metals. SDRs = special drawing rights.

d Unit value of exports of manufactured goods of developed countries.

FIGURE 1.13 Monthly commodity price indices by commodity group, January 2002–June 2019
(Index numbers, 2002 = 100)



Source: UNCTAD secretariat calculations, based on UNCTADstat. For more details on the data sources see http://unctadstat.unctad.org/wds/TableViewer/summary.aspx?ReportId=140863.
Note: SDR = special drawing rights.

What is noteworthy about early trends in 2019 is the more generalized decline in commodity prices, relative to the previous year, covering fuel commodities and all non-fuel commodity groups. In the case of oil, a number of factors have converged to reverse the earlier strong price trends. First, Saudi Arabia declared that it would ramp up production to cover any shortfall of supply from the Islamic Republic of Iran. Second, the production cut agreement between OPEC and non-OPEC producers, especially the Russian Federation, has not been implemented as per the original schedule, and has been extended with the same level of cuts. Finally, the increase in the price of oil has been enough to encourage increased shale production in the United States, given that technological developments has made it viable at lower prices than earlier. The influence of these factors, and the fear of recession, had set off a reversal of the Brent Crude price rise seen in the first four months of 2019. The price of Brent Crude, for example, fell from close to \$75 a barrel in late April 2019 to \$62 a barrel in the middle of June, despite the decision of the United States to end the waivers of adherence to its sanctions given to some countries importing oil from the Islamic Republic of Iran.

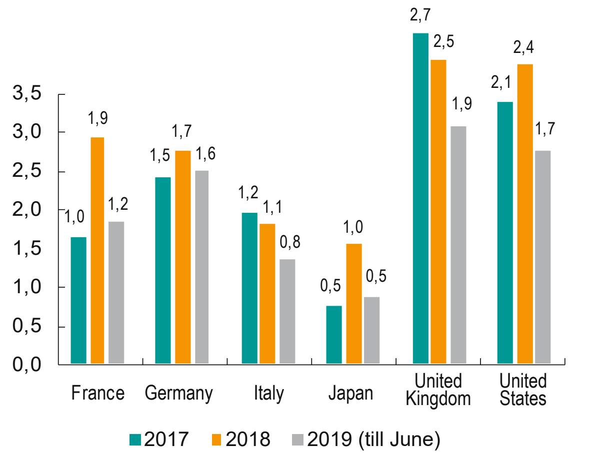
D. Regional growth trends

1. Developed countries

The United States surge in 2018 and the first quarter of 2019 has headlined news on growth performance in the advanced nations. But as a group, developed countries have not fared too well. While GDP growth in 2017 and 2018 in these countries stood at 2.3 and 2.2 per cent respectively, that figure is projected to fall to 1.6 per cent in 2019. An examination of growth in the leading advanced nations indicates that while the United States has managed to sustain a comfortable 2 per cent-plus rate of expansion, all the others have experienced a decline in growth, with the fall being sharp in the case of some, such as Italy (table 1.1). And the United States, too, is projected to record a significantly lower rate of growth in 2019, when compared with 2018. Japan has not merely lost the growth momentum it seemed to have gathered in 2017, but is struggling to get inflation to even 1 per cent (figure 1.14). Overall inflation rates in developed economies are low, but that seems to provide the justification for low interest rates and restrained spending by governments.

While uncertainties created by trade tensions and increased interest rates are blamed for the slowdown, there are other underlying reasons. The demand from emerging markets for developed country exports is slowing, especially from China, as the year-on-year rate of growth of Chinese merchandise imports fell from around 9.5 per cent in the first three quarters of 2018 to −1.9 per cent in the last quarter of 2018 and −3.1 per cent in the first quarter of 2019 (figure 1.15). Meanwhile, investment in housing markets and consumer spending triggered by access to cheap credit is tapering off as lenders and borrowers

FIGURE 1.14 National inflation for selected countries, annual average, 2017–2019
(Percentage)



Source: UNCTAD secretariat calculations, based on national sources reported by Thomson Reuters Worldscope.
Note: The 2019 rates are estimations, averages of monthly rates to respective period of previous year, available since the beginning of year.

recognize the dangers associated with excess debt exposure. In addition, governments have been reluctant to deploy the fiscal lever. General government debt relative to GDP has either remained constant in advanced nations, or fallen as in the case of Canada, Germany and the United Kingdom.

Interestingly, the United States has been an exception here. The United States Administration's large corporate tax cuts and moderate spending increases have pushed the country in the direction of rising budgetary deficits, with the deficit expected to exceed $1 trillion in 2020. The Congressional Budget Office projections place the average deficit at 4.4 per cent of GDP over 2020–2029, well above the average during the last 50 years of 2.9 per cent of GDP. This has helped the United States maintain comfortable growth rates and reduce the unemployment rate, even though global growth and demand have been decelerating. However, an inverted yield curve, volatile monthly job addition numbers and feeble wage growth all suggest that the recovery is fragile and uncertain, with growth projected to decelerate from 2.9 per cent in 2018 to 2.2 per cent in 2019.

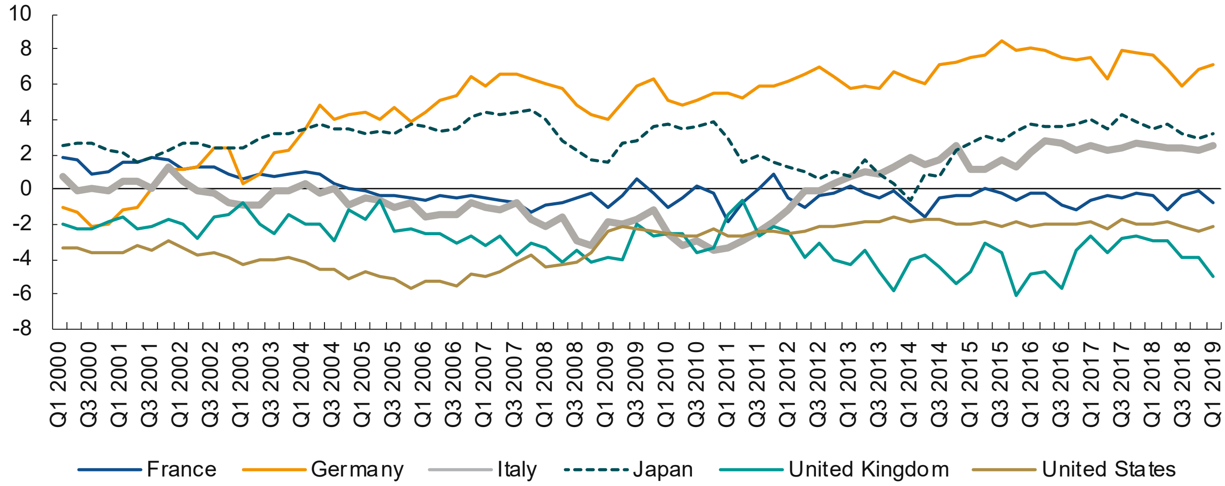
What is striking is that the United States still records current account deficits in its balance of payments, which while declining, point to the adverse performance of exports. Germany and Italy, on the other hand, have been recording large or significant current account surpluses, and France had seen a significant decline in its current account deficit (figure 1.16). This suggests that fiscal conservatism and weak investment in Europe, especially in Germany, is partly responsible for the new normal of low global growth.

Across the world, the case for expansionary fiscal policies is gaining support, given the fact that monetary policy has been exploited to the maximum with inadequate results (OECD, 2019b; Blanchard and Tashiro, 2019; The Editorial Board, 2019). But governments and central banks in the advanced

FIGURE 1.15 Volume of Chinese merchandise exports and imports, 2006–2019
(Percentage year-on-year growth)

Source: UNCTADstat.

FIGURE 1.16 Quarterly current-account balance, 2000–2019
(Percentage of GDP)



Source: Thomson Reuters Worldscope standardized series, based on national sources.
Note: Seasonally adjusted series.

economies continue to favour lowering interest rates and returning to quantitative easing. That will not do much for growth, but is likely to fuel more financial speculation.

Disruptive shocks like a no-deal Brexit at the end of October 2019 are now appearing more likely. If that were to happen, growth in the United Kingdom could possibly be strongly negative in the fourth quarter, leading to annual growth well below 1 per cent, as trading with the European Union comes to a standstill and financial firms from the City lose out because of the loss of passporting rights to conduct business in Europe, and the regulatory framework in the United Kingdom not being considered "equivalent" to that in European markets. That would only widen the gap in growth between the United States and the other advanced economies.

2. Transition economies

Two factors dominantly influenced economic performance in the transition economies that are members of the Commonwealth of Independent States. First, the economic integration with and dependence on the Russian Federation through trade and remittance earnings of these countries. And, second, the importance of commodities and oil in the economies of individual countries, making commodity trade trends and price movements a crucial determinant of their performance.

The Russian Federation, which benefited from the relatively high level of oil prices over much of 2018 was adversely hit both by the decline in prices in the last quarter of 2018, as well as by the production cuts it had implemented as part of its agreement with the OPEC-plus group of oil producers. The price of Brent Crude fell from around $85 per barrel at the beginning of October 2018 to around $50 at the end of December 2018. However, it subsequently rose to close to $75 a barrel by end April. Combined with the production cuts put in place, these trends adversely affected the economic performance of the Russian Federation in 2018. Russian GDP growth, which increased from 1.6 to 2.3 per cent (the best performance in six years) between 2017 and 2018, is projected to come down significantly in 2019. With the OPEC, Russian Federation and non-OPEC producers having cemented another agreement to extend the production cuts for another six to nine months, output is down though prices may continue along their roller-coaster path.

Weaker performance by the Russian Federation will impact growth in the rest of the Commonwealth of Independent States, so that the group as a whole, which had seen GDP growth rise from 2.1 to 2.7 per cent between 2017 and 2018, is expected to slow to around 1.3 per cent in 2019. However, regional integration efforts to increase the volume of intraregional trade, and infrastructural investments supported in part by the Belt and Road Initiative in China are helping to prop up growth in some countries in the Central Asian region. After growing at 4.1 per cent in 2017 and 2018, Kazakhstan is projected to grow at 3.5 per cent, and the other large economy, Uzbekistan, which accounts for close to half of the population in the Central Asian region, saw growth rise from 4.5 to 5.1 per cent between 2017 and 2018, with projections pointing to a similar performance in 2019. The tensions with the Russian Federation are seen to have adversely affected exports from Ukraine and growth is expected to slow in 2019.

The transition economies of South-Eastern Europe (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia) seem to have weathered the global deceleration in growth well. GDP growth in this group of countries which rose from 2.5 to 3.9 per cent between 2017 and 2018, is projected to stay marginally above 3 per cent. Increased public expenditure, including infrastructural investments supported by the Belt and Road Initiative, and buoyancy in net exports and tourism earnings in some economies explain the relatively good performance of this region. Being integrated into European value chains, these countries have also received relatively consistent foreign investment flows during periods without political uncertainties or conflict, which have contributed to exports.

Strikingly, the creditable growth performance was recorded in an environment in which consumer price inflation was relatively low (below 3 per cent in a few and 2 per cent in many). However, there are signs of vulnerability in the Balkans. First, the current-account deficit was significantly high in Albania and Montenegro, a cause for discomfort in Bosnia and Herzegovina and Serbia, and under control only in North Macedonia. Second, unemployment was high in almost all countries, even though the unemployment rate is expected to decline in 2019 relative to previous years. With new jobs increasing at a slow pace, unemployment among the youth is extremely high. Part of the problem is that the pattern of growth is such that the responsiveness of employment to GDP growth is low. This also leads to a drop in the workforce or the numbers actively seeking work. A third source of vulnerability is the growing indebtedness of some of these economies. Finally, demographic changes and migration to European Union countries are further lowering potential growth in the medium term.

3. Latin America and the Caribbean

As a region, Latin America and the Caribbean has been mired in stagnation for the last four years, and this poor growth performance is expected to persist throughout 2019. The subregion dragging down this regional grouping is South America, with negative and near zero growth over the five years ending 2019. Within South America, growth performance has been especially poor in Argentina, Brazil and the Bolivarian Republic of Venezuela, while some countries (such as the Plurinational State of Bolivia, Guyana and Peru) are expected to grow at 3 per cent or more in 2019. Central America too is projected to experience growth deceleration (driven by Mexico and Nicaragua) in 2019, while the Caribbean is expected to continue to grow at a moderate rate. The two fastest growing economies in the region as a whole continue to be the Dominican Republic and Panama. Both countries have averaged a growth rate of approximately 5 per cent over the last four years, and they are projected to grow at 5.2 per cent and 4.5 per cent respectively in 2019.

The overall subdued trend in commodity prices dampened the performance of the export sectors in the region. Two notable exceptions to this trend were Argentina and Brazil, where significant increases in the value of iron ore exports in the case of Brazil, and of soy exports from Argentina have provided a positive impetus in the first half of 2019. In the latter case, the income from these exports provided a respite, albeit temporary, from pressure on the exchange rate. Some countries are expected to benefit from the recent politically generated buoyancy in oil prices, strengthened by the renewal of the agreement on production cuts among the OPEC-plus group, which includes the Russian Federation.

The three big economies in the region are facing a difficult combination of economic shocks and political uncertainty. In Argentina, the adoption of policies favoured by the Washington Consensus, including reducing subsidies, doing away with price controls, liberalizing foreign exchange markets and lifting capital controls, helped reduce the primary deficit in 2018, but has done little to keep the peso from depreciating, rein in inflation or kick-start growth. Instead, faced with a severe drop in the value of the peso and spiralling inflation in 2018, the central bank was forced to abruptly hike interest rates and to sell off international reserves. The Government subsequently opted for the biggest loan given by the IMF in its history, of $57.1 billion in 2018, leading to a further increase in the huge debt in Argentina and to greater fiscal austerity. But that has not helped either. Argentina finds itself saddled with high inflation (which has doubled from 25 per cent in early 2018 to more than 50 per cent per annum), negative growth of -2.5 per cent in 2018 and a projected -2.4 per cent in 2019, and a mountain of debt obtained from private lenders and the IMF. Meanwhile, the promised increases in foreign investment and exports have not materialized. The net result is that unemployment exceeds 9 per cent and around a third of the population lives in poverty.

The Brazilian economy shrank by 0.2 per cent in the first quarter of 2019 relative to the preceding quarter. That matters because in the course of the recession of 2015–2016 the Brazilian economy shrank by close to 7 per cent, and in two years of weak recovery managed to raise output by a little more than 2 per cent. The first quarter figure points to 0.4 per cent of GDP growth relative to the corresponding quarter of the previous year, and growth for 2019 is projected at 0.6 per cent. A crucial internal reason for this long-run weakness characterizing the Brazilian economy is the low level of public capital formation resulting from fiscal conservatism, reflected in the new rule that sets a ceiling on expenditure. Federal Government investment, at 0.4 per cent, was at its lowest level in 10 years in 2018. Yet, Government capital expenditure is estimated to have fallen by 27 per cent in the first quarter of 2019 as compared with the corresponding quarter of the previous year. The central bank's decision to keep interest rates at record lows, after a total 775 basis-point reduction between October 2016 and March 2018, has not helped to spur private investment.

The other large economy in Latin America, Mexico, also contracted by 0.2 per cent in the first quarter. Over 2019, growth is projected at just above 0.4 per cent, down from around 2 per cent in 2017 and 2018. An important cause for sluggishness is the uncertainty generated by United States trade policy shifts, which, together with limited public investment, has held back private investment and growth.

4. Africa

GDP growth in Africa is projected to hold steady in 2019 at 2.8 per cent, from 2.6 and 2.8 per cent in 2017 and 2018 respectively. But given the size and diversity of individual countries constituting the continent, performance varied significantly, as is to be expected. Some of the largest economies in the continent (Angola, Nigeria and South Africa) remain stuck in a sluggish growth cycle. In the case of Nigeria, infrastructure shortfalls, power shortages and constrained credit conditions continue to weigh down growth prospects. Similarly, the South African economy trapped in a low-investment regime, has recently been hit by damaging power cuts. The latter has had a particularly detrimental impact on the mining sector. The poor growth performance in Angola is largely a result of the country's declining oil production, due to insufficient investments in the petroleum sector. On the other hand, the continent is also home to a number of countries recording the fastest rates of growth in the world economy, with Côte d'Ivoire, Ethiopia and Rwanda projected to grow at rates above 7 per cent in 2019.

At a subregional level, East Africa (with rates of growth of 5.5 per cent in 2018 and a projected 5.3 per cent in 2019) was ahead, while West Africa (3.2 and 3.4 per cent) performed comfortably, as did North Africa (3.1 and 3.0 per cent). Growth in Southern Africa was sluggish (0.9 and 0.5 per cent), with Botswana being the only economy that beat that trend (4.4 and 4.3 per cent). Middle Africa, which had performed poorly on the growth front, contracting by 0.5 per cent in 2017 and growing 0.8 per cent in 2018, is expected to register a recovery to 2.1 per cent in 2019. The positive effect of the higher growth in many economies in the continent was discounted because two of the largest economies – Nigeria and South Africa – were among the slowest growing. In 2018, South Africa recorded its lowest per capita GDP since 2012.

Government investment in infrastructural projects, particularly in the energy sector, underlie to a significant degree the buoyancy in the faster-growing economies. In East Africa, robust growth was generalized, unlike elsewhere, with growth being creditable in Djibouti, Ethiopia and United Republic of Tanzania, as well as Rwanda. One issue here is that most economies are dependent on primary commodity exports, making them vulnerable to the volatility in export volumes and prices. Subdued commodity prices and the decline in oil production in Nigeria account for the fact that West Africa fell behind East Africa, even though the former performed better than Central and Southern Africa. But Benin, Burkina Faso, Côte d'Ivoire, Ghana and

Senegal recorded rates of growth in excess of 6 per cent in 2018 and are expected to grow at well above average rates in 2019 as well.

Internal problems were an important factor holding back central Africa, with the Central African Republic, Chad and the Democratic Republic of the Congo being the worst affected. This, combined with the subregion's heavy dependence on the mining and oil sectors, which often are the focus of conflicts over control, has resulted in many of the countries being trapped in a vicious feedback loop of poverty, unemployment and conflict. Declining oil production was strong enough to lead to significant contraction in Equatorial Guinea. In Southern Africa, the biggest economy in the subregion, South Africa, performed poorly, which in turn also impacted the economic activity in its neighbouring countries. With the exception of Botswana – the only country to buck the low growth trend in Southern Africa – the rest of the countries in the subregion are expected to register growth rates between 1.0 and 1.5 per cent in 2019.

As mentioned earlier, the subdued trend in commodity prices was an additional factor weighing down on the prospects of the continent, as the vast majority of the countries in the region are net commodity exporters. While the oil price recovered somewhat in the first half of 2019 relative to the last quarter of 2018, it remains significantly below the levels of the first half of 2018. This has adversely impacted external balances in the petroleum-exporting countries in the region (Angola, the Democratic Republic of the Congo, Equatorial Guinea, Gabon and Nigeria). Rising external deficits combined with easy access to credit resulted in annual growth in external debt stocks of 9.5 per cent[4] over 2009–2018. Africa's debt-to-GDP ratio was an estimated 33.6 per cent in 2018, representing a debt-servicing ratio to GDP of 3 per cent, far higher than the respective levels (25.7 and 1.6 per cent) recorded for 2009. One notable exception to this generalized trend in commodity exports is South Africa, where the exports of iron ore (one of the few commodities to register a significant increase in its price in 2019) boosted the performance of the country's export sector.

5. Asia

Growth in developing Asia, which has been slowing after 2016, is estimated at 5.3 per cent in 2018 and projected to come down to 4.5 per cent in 2019. The growth slowdown has been significant in East, South and South-East Asia, and substantial in West Asia where growth was already slow. The deceleration would have been greater in the region as a whole if India had not registered an acceleration in growth between 2017 and 2018, from 6.9 per cent to 7.4 per cent. However, the slowdown observed in the rate of growth of the Chinese economy from 2017 onwards, is projected to intensify in 2019 because of the trade and technology tensions. Together with a projected deceleration in the rate of growth in 2019 for India, where below-target collections from the recently introduced Goods and Services Tax have combined with fiscal consolidation efforts to limit public spending, will further slow growth in the Asian region as a whole.

The slowing of China's trade growth has a major impact on other East Asian and South-East Asian economies, since it is likely that the integrated value chains spread across these economies and linked to China would be disrupted. In addition, specific factors such as natural disasters in Japan and deleveraging in the household sector in the Republic of Korea played a role in limiting growth. Growth in Japan fell from 1.9 per cent in 2017 to 0.8 per cent in 2018, and is expected to stay around that level in 2019. In the case of the Republic of Korea, the rate of growth fell from 3.1 per cent in 2017 to 2.7 per cent in 2018, and is expected to fall further to 1.9 per cent in 2019. However, some countries in South-East Asia, such as Indonesia and Viet Nam, have performed consistently well in recent years, despite sluggishness in their export markets.

Meanwhile, United States trade and financial measures against the Islamic Republic of Iran have reduced oil revenues, generated shortages and inflation, and limited utilization and expansion of productive capacity. Elsewhere, the efforts of OPEC to curtail production in order to prevent a renewed slide in oil prices helped to shore up revenues and raise growth in the member countries of the Cooperation Council for the Arab States of the Gulf (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Capital flow volatility and uncertainty regarding the policy stance to be adopted by the Government led to significant depreciation of the Turkish lira, forcing the Government to hike interest rates to extremely high levels with adverse growth effects. In some South Asian economies, such as Bangladesh, growth was quite robust. But Pakistan is in the midst of a crisis: the growth rate has almost halved, the balance of payments is in poor shape, the rupee has depreciated significantly, and external debt is large and rising. While support from China and Saudi Arabia and a large IMF loan have helped address the immediate problem, the crisis has not been resolved.

Notes

1 It is worth noting that such SBBs were also significant in the run-up to the 2008 crisis, and this period of boom in the 2000s was marked by falling net investments because of the significant role of borrowing for physical and financial investments by firms, as well as for SBBs.

2 Financial conditions, and the recent stringency in trade credit, may also be adding to the impact of low demand conditions in affecting global value chains in trade. It has been argued (Shin, 2019: 6) that the "overextended network of global value chains that were strung out across the world in 2006–2007 may have been sustainable only with the extraordinarily loose financial conditions that were then prevailing".

3 Estimates of losses to United States consumers and/or firms due to higher import prices vary from $36 billion to $68.8 billion in a full year and aggregate income losses in the United States after taking account of gains to producers and to government in the form of revenues from $7.8 billion to $16.8 billion in a full year (Fajgelbaum et al., 2019; Amiti et al., 2019). This compares, for example, with losses suffered by the United States from Hurricane Katrina of anywhere between $125 billion and $250 billion.

4 UNCTAD secretariat calculations based on World Bank, IMF and national sources.

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