Plenary on Item 8:
Development strategies in a globalized world:
Growing domestic and regional demand for balanced and sustainable growth

Trade and Development Report 2013

Speaker: Division on Globalization and Development Strategies, UNCTAD

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Adjusting to the changing dynamics of the world economy

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Persistent slow growth in developed countries undermine export-led strategies oriented to those markets– Need for more balanced development strategies with greater role for domestic and regional demand

Key challenges:

- Economic size: some of the most populous countries likely to have large enough domestic markets – others will need to rely more on regional markets
- To realize growth potential of domestic markets, domestic purchasing power must be created, not through increased household debt, but through wage growth and policies that favour the domestic low and middle classes
- Investment by domestic firms must adapt the structure of supply to new demand patterns, in order to benefit from expansion of domestic/regional demand and make it sustainable (employment, income, balance of payments)
The structure of world economy is changing

**Shares in global GDP, 1990-2012**

- **At market prices**
- **At purchasing power parity**

Graph showing the change in shares of global GDP from 1990 to 2012 for developed, transition, and developing economies.
The direction of global trade has shifted towards a greater importance of South-South trade.

Shares in world exports, selected country groups, 1995–2012 (per cent)
Consumption of selected commodities by region, 2002 and 2012
• The rapid rise of commodity prices starting in 2002 has boosted economic growth in commodity producing countries.

• The expansionary phase of the commodity price supercycle may have come to an end, but a price collapse is unlikely to occur in the next few years.

• The main challenge for commodity producing countries remains appropriating a fair share of the resource rents and using the revenues to reduce income inequality and spur industrial production.
South-South exports by region
*(Average annual percentage growth)*

### Intra-regional exports

- **Asia**
- **Latin America and the Caribbean**
- **Africa**

### Exports to other developing countries

- **Asia**
- **Latin America and the Caribbean**
- **Africa**

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Per capita income and different income classes, selected countries, 2005
Financing the real economy for meeting the new patterns of demand

A redesign of development strategies involves an expansion of productive capacities and their adaptation to new demand patterns, all of which requires investment and its financing

Key challenges:

- Capital flows management: pragmatic exchange-rate management and capital-account management needed to reduce vulnerability to external financial shocks

- Domestic financial systems need to channel credit towards productive investment in the real sector: central banks should pursue a credit policy, rather than just a monetary policy
Monetary policies in developed countries did not lead to more domestic credit, but contributed to international financial instability.

MONETARY BASE AND BANK CLAIMS ON THE PRIVAT SECTOR, 2001–2012

(Per cent of GDP)
International capital flows are highly volatile

Net capital inflows, billions of dollars

Net private capital inflows to emerging economies, per cent of GDP
Developing countries should rely mainly on domestic sources of finance, especially retained profits and bank credit.

Sources of investment finance, selected country groups, 2005-2012, in %
Financing the real economy

Policy conclusions

- Monetary policy alone is not sufficient to stimulate investment.
- Central banks should play an active role in the implementation of a growth and development strategy through a credit (and not only monetary) policy.
- Reform at the national and global levels is needed not only to improve financial and economic stability but to ensure that sufficient investment finance goes into productive activities and helps developing countries address the new development challenges.