UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Trade and Development Board
Sixty-first session

Geneva, 15–26 September 2014

Item 4: Interdependence: Trade and development policy challenges for a sustained recovery of the global economy

Speaker: UNCTAD - Division on Globalization and Development Strategies

Tuesday, 16 September 2014

Not checked against delivery *

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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT REPORT 2014

Global governance and policy space for development

Trade and Development Board

Geneva, 16 September 2014

DGDS

Item 4

Interdependence: Trade and development policy challenges for a sustained recovery of the global economy

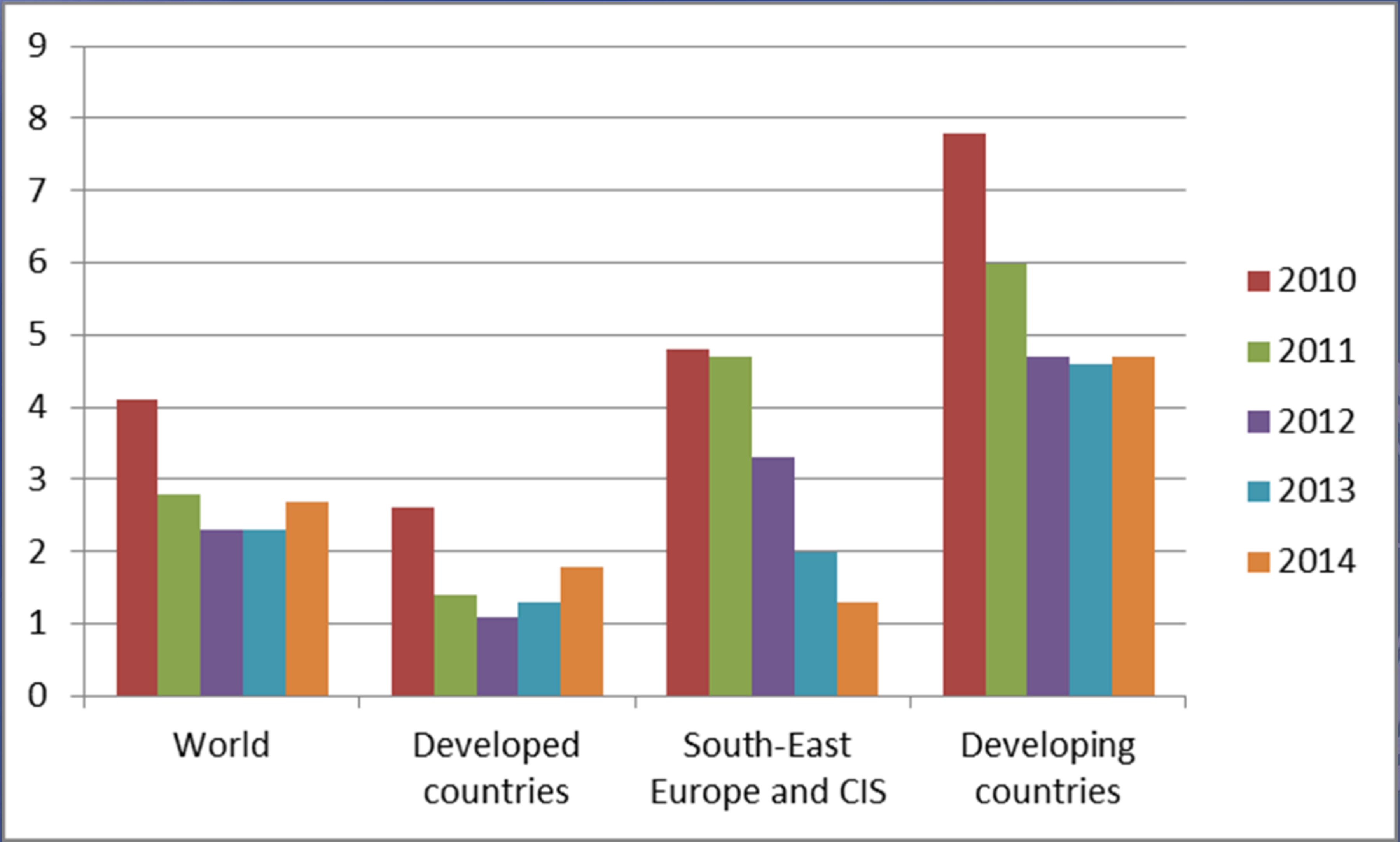
http://unctad.org/en/PublicationsLibrary/tdr2014_en.pdf

Key points

- Need for greater policy ambition in both rich and poor countries to get global economy out of the doldrums
- Current policy mix in the developed economies combining monetary expansion with fiscal austerity and wage restraint is ineffective
- Developing countries need new growth drivers, strengthening domestic demand and expanding productive capacity
- Developing countries need sufficient policy space for handling negative spillovers and implement macroeconomic and industrial policies

The world economy in 2014: still in the doldrums

Output growth, selected country groups, annual percentage change, 2010–2014

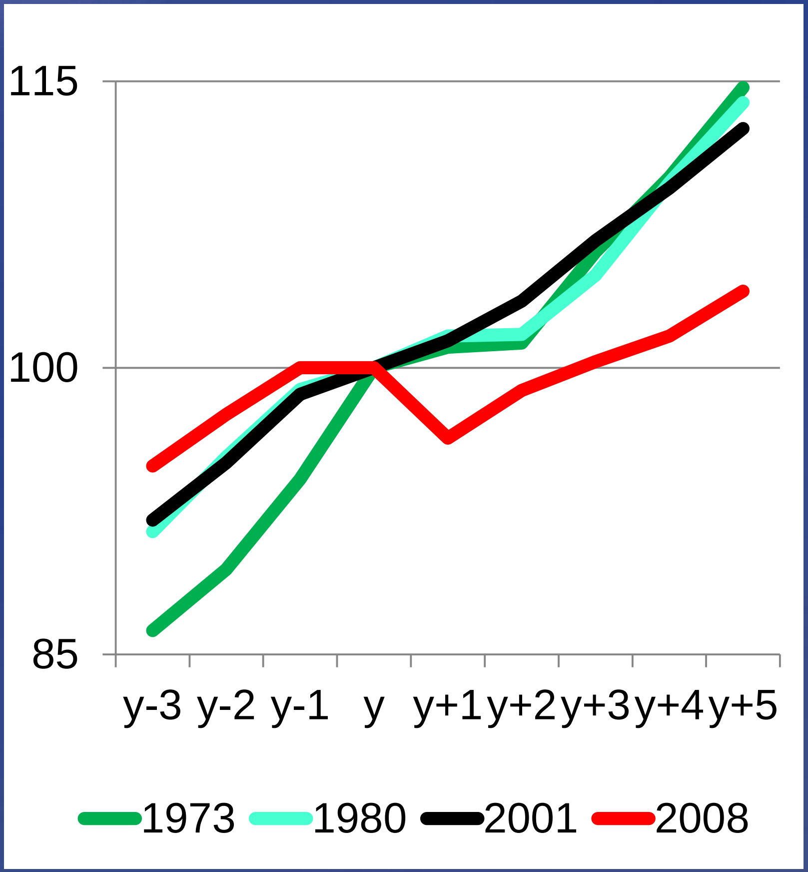


Developed countries: insufficient demand

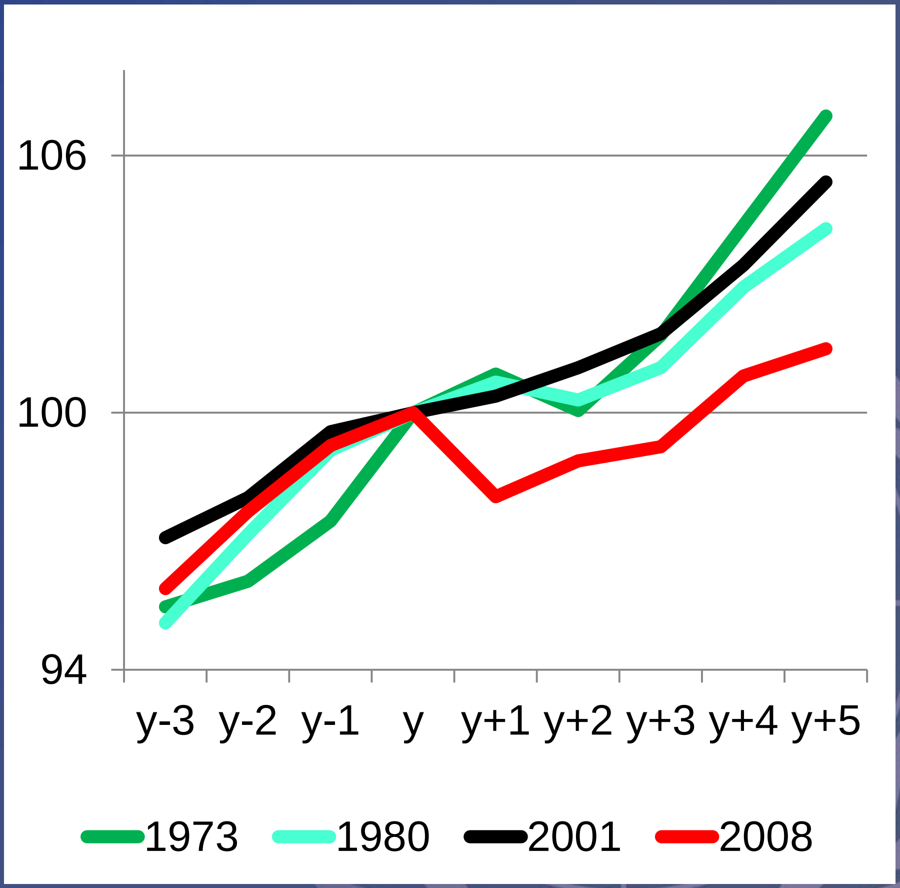
- Advanced countries avoided a great depression, stabilized their financial markets and gained back most of the output lost to 2008-2009 crisis
- But continued weak employment conditions, stagnant wages, high household indebtedness and low real investment cannot be accepted as "new normal"
- Reliance on monetary expansion spurs asset price bubbles, while fiscal austerity and wage containment dampen demand

Weakest recovery in the post-war period

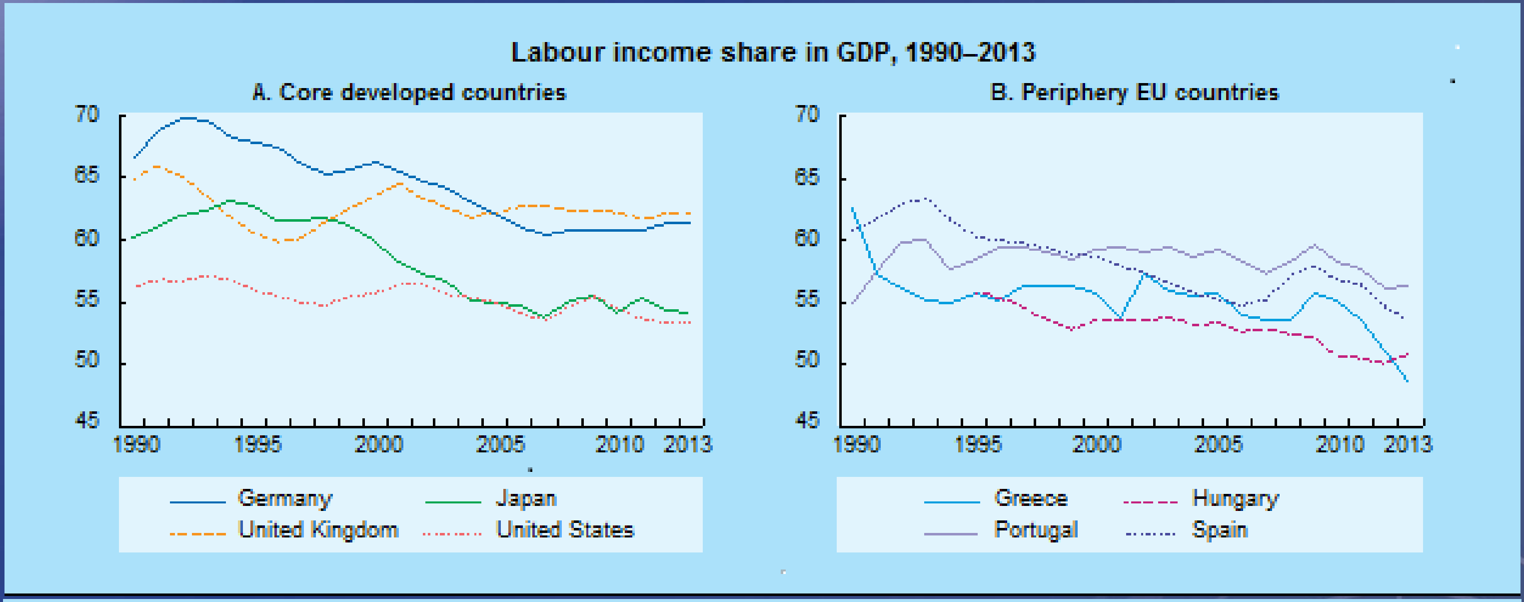
Constant GDP in developed economies
index numbers, crisis year=100

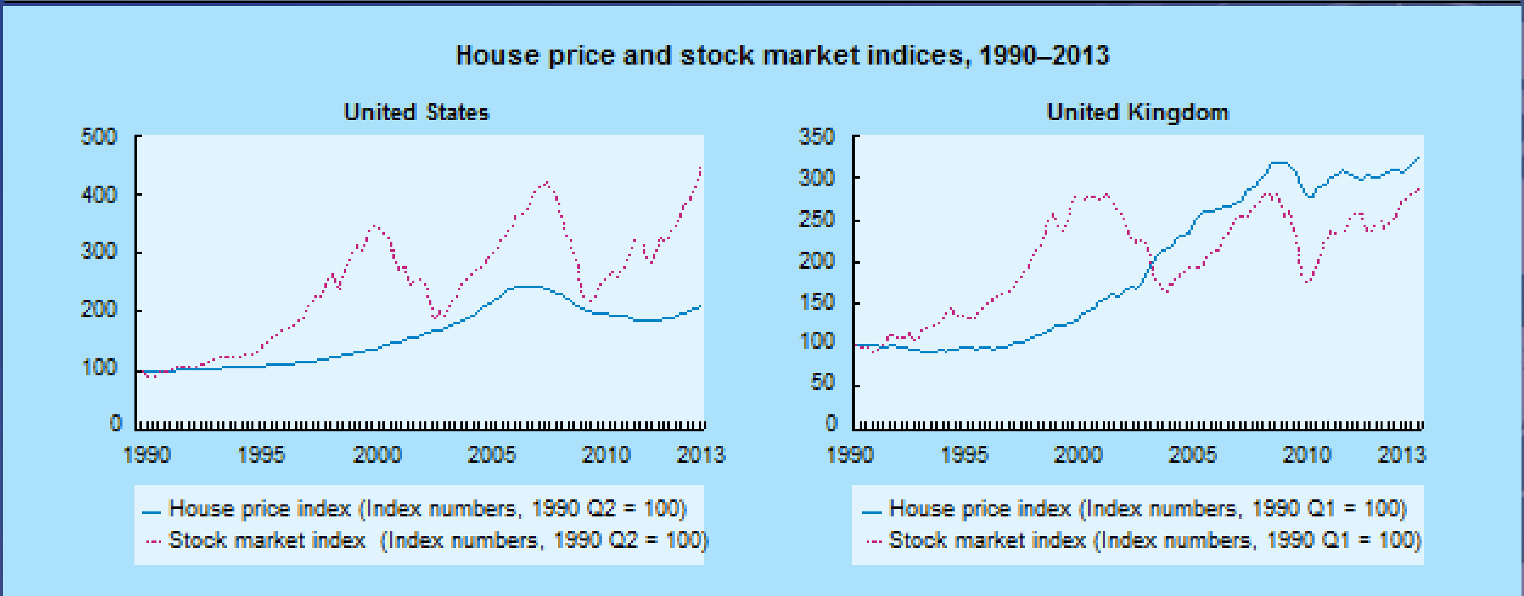


Employment in developed economies
index numbers, crisis year=100



The roots of the crisis are not addressed





There is an alternative

Breaking with the protracted period of low economic growth requires stronger aggregate demand, especially in surplus economies, through:

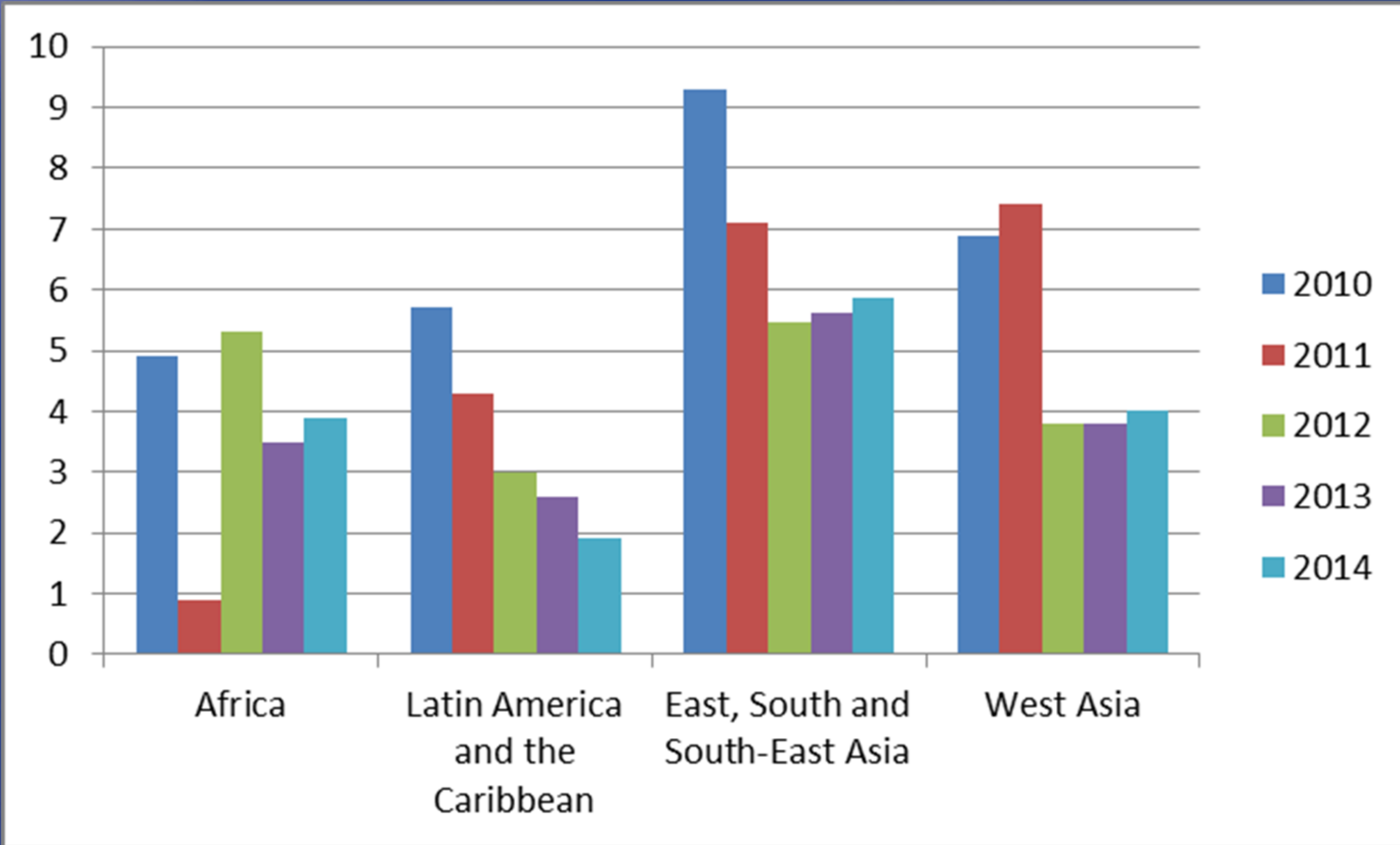
- **Reflation** (government spending and credit policies)
- **Regulation** (ring fence bank activities and manage capital flows)
- **Redistribution** (incomes policies, progressive taxation, improved debt restructuring)

GDP growth in selected regions, 1990-2024

		Average annual growth of GDP *(Per cent)*		
	Scenario	**1990-2014**	**2015-2019**	**2020-2024**
World	Baseline	3.3	3.4	3.6
	Balanced-growth	–	4.7	5.5
Developed economies	Baseline	1.9	1.8	2.0
	Balanced-growth	–	2.8	3.5
CIS	Baseline	2.7	2.0	2.1
	Balanced-growth	–	3.3	4.9
Developing Asia	Baseline	6.3	5.5	5.4
	Balanced-growth	–	6.7	7.2
Africa	Baseline	3.8	3.9	3.9
	Balanced-growth	–	6.1	7.0
Latin America and the Caribbean	Baseline	3.1	2.9	3.0
	Balanced-growth	–	4.5	5.7

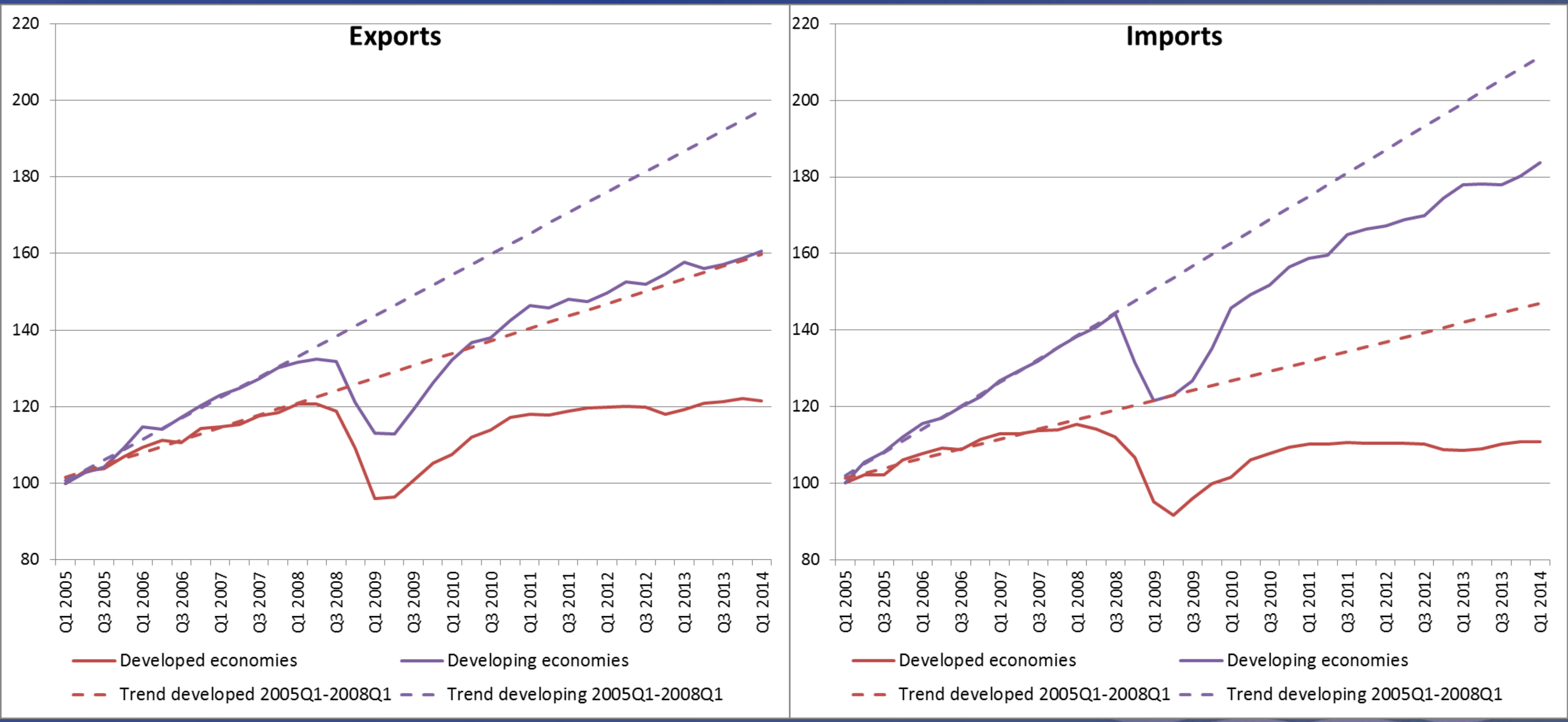
The main developing regions are set to maintain their recent growth performance …

Output growth, selected developing regions, annual percentage change, 2010–2014



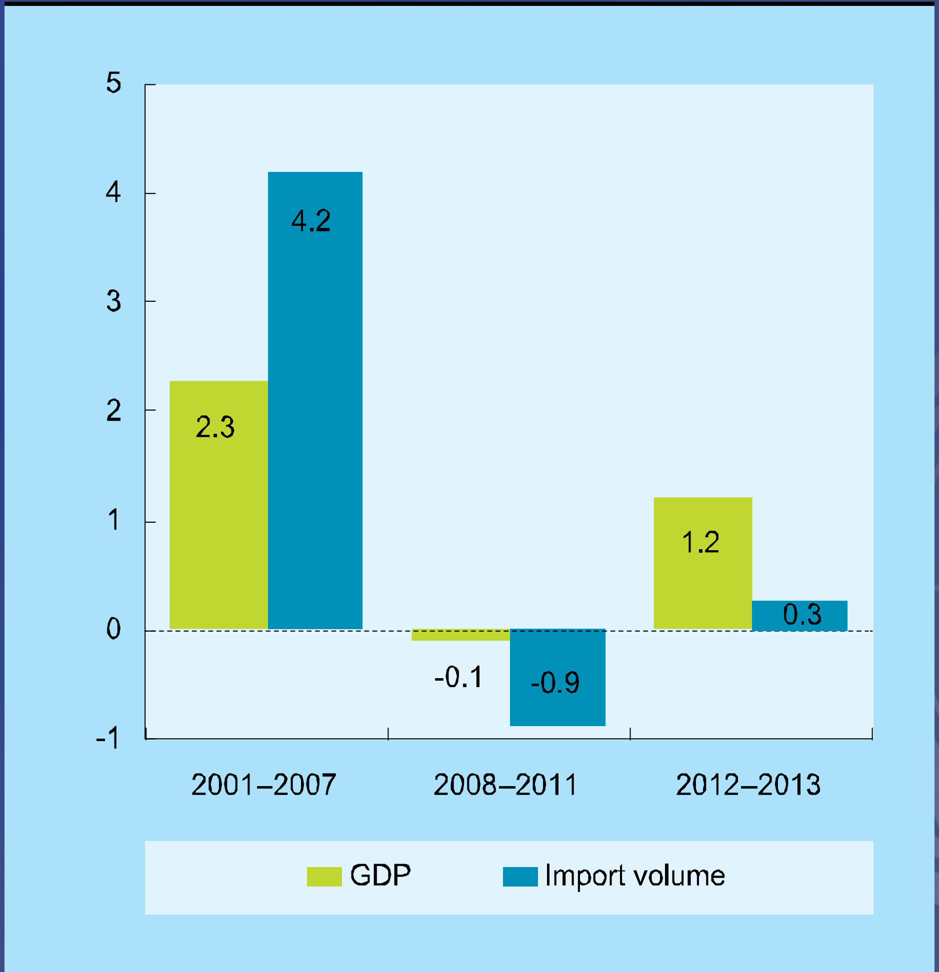
... but risks are in the horizon: Developing country exports and developed country imports remain far from their pre-crisis dynamism

Volume of export and imports, selected country groups, 2005–2014 (index numbers, 2005–100)

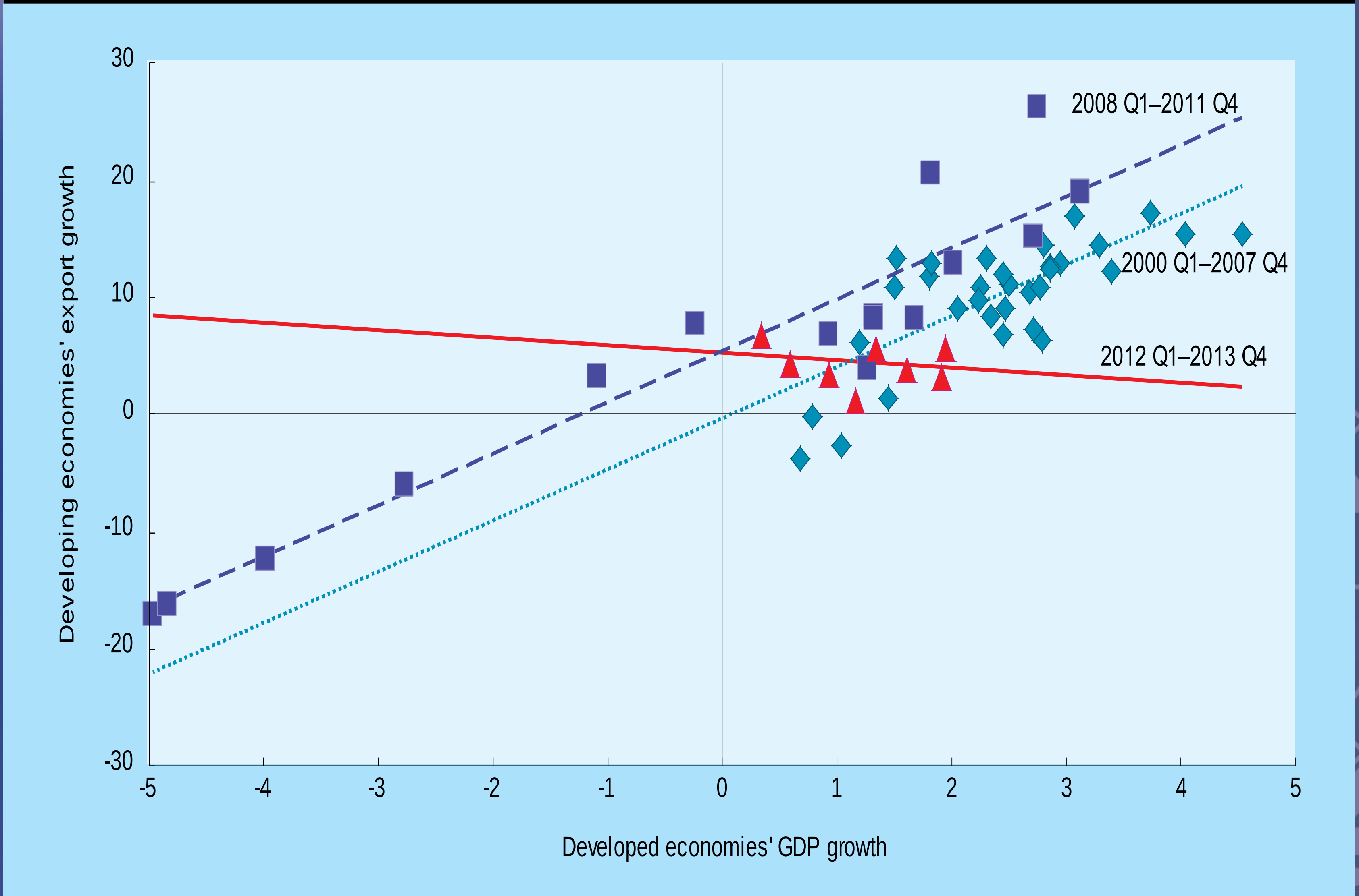


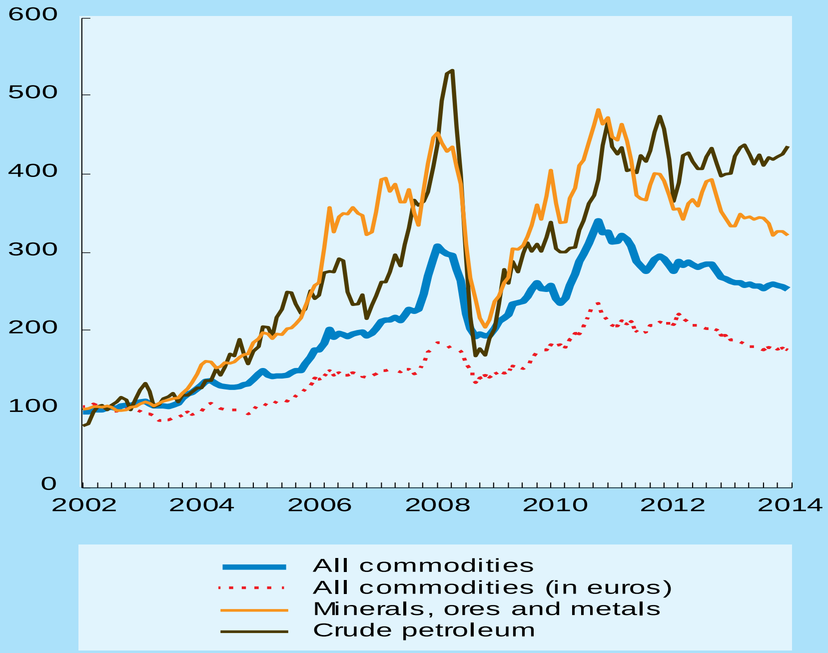
Export-oriented policies are becoming less effective …

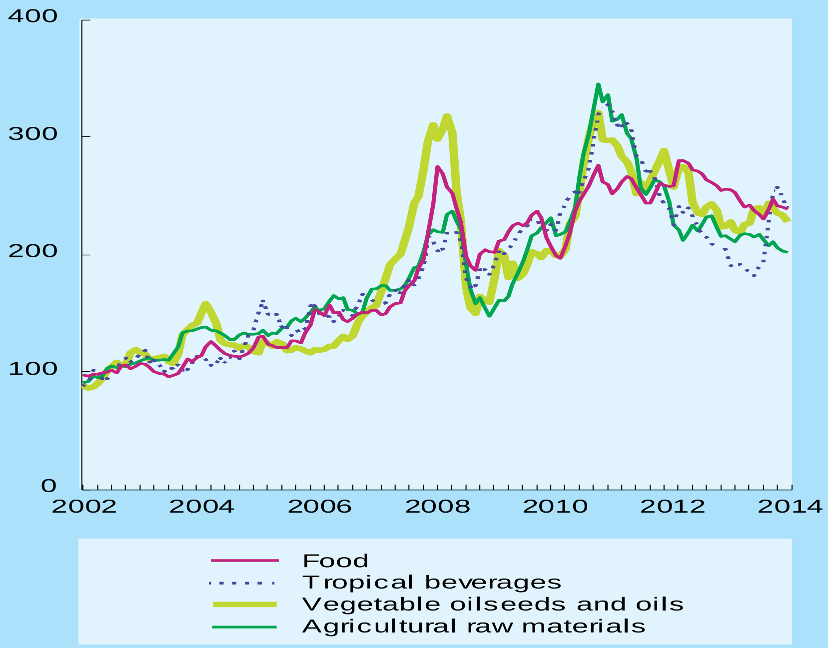
GDP and import volume growth, developed economies, 2001–2013 (Annual average percentage change)



Developed economies' GDP growth and developing economies' export growth, 2000–2013 (%)







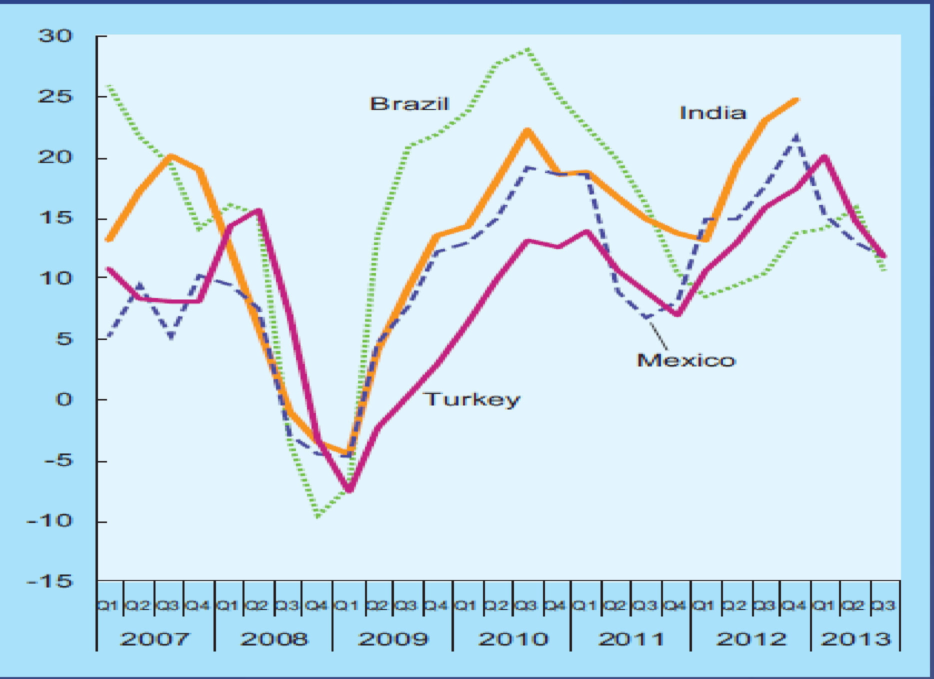
… commodity prices are likely to remain high but terms of trade unlikely to keep improving…

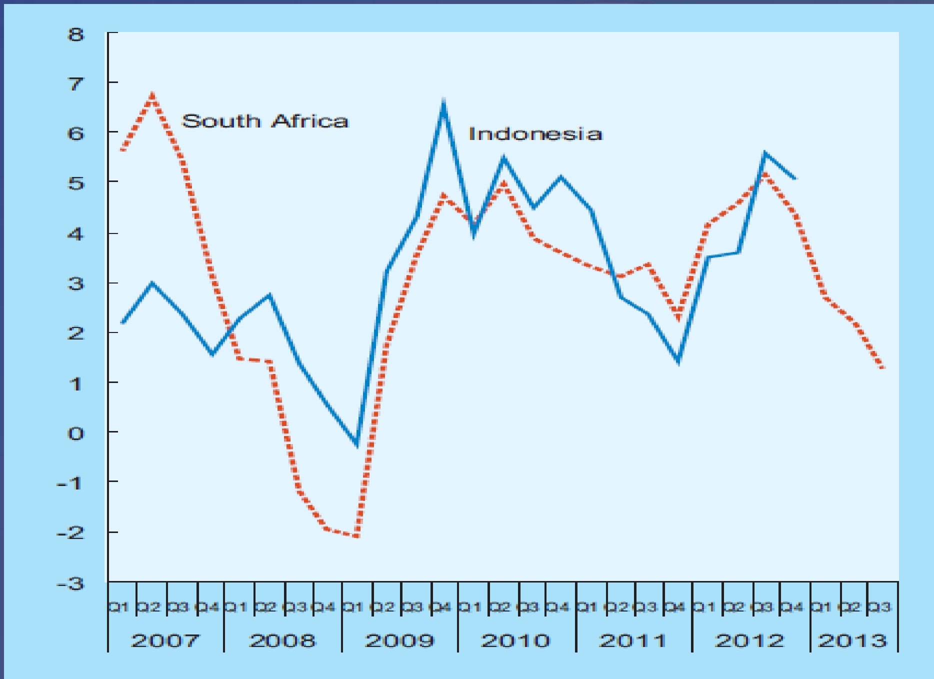
The main challenge for commodity producing countries remains appropriating a fair share of the resource rents and using the revenues to reduce income inequality and spur manufacturing

… and financial instability remains a real threat

- The global financial cycle is driven mainly by developed countries' policy decisions guided by the needs of their own domestic economies
- Given their volume and instability, international capital flows frequently have disruptive effects on developing countries' macroeconomic variables and financial systems, and should be managed according to prudential and developmental goals

Capital inflows, 2007 Q1–2013 Q3 (Billions of current dollars)





Developing countries need new growth drivers…

- Developing countries recovered from the financial crisis faster than developed countries, by supporting domestic demand with counter-cyclical policies and in some cases helped by rising commodity prices. But they have not decoupled and vulnerabilities remain:
  - Countercyclical policies and gains from terms of trade are important but insufficient to drive a development process
  - Developing countries need to rebalance growth strategies with less emphasis on exports to developed countries and a greater role of domestic and regional demand (TDR 2013)
  - Primary exporters cannot be complacent with relatively high prices and need to diversify production and exports
  - Structural transformation is the big challenge everywhere

… and avoid negative spillovers, including through the management of the capital account

- A global financial cycle is driven by developed countries' economic conditions and decisions; resulting capital flows not necessarily aligned with developing countries needs and may have disruptive economic effects
- Capital account management measures are needed for managing amount, composition and direction of foreign capital flows; they should be considered normal instruments in the policymakers' toolkit, not exceptional devices to be employed only in critical times
- Multilateral rules allow governments to manage their capital accounts, but some bilateral trade and investment agreements introduce commitments to financial liberalisation that may impede such regulations
- There is a need for multilateral mechanisms for crisis prevention and management