



TRADE AND DEVELOPMENT

REPORT 2018

POWER, PLATFORMS AND
THE FREE TRADE DELUSION

The fog of (economic) war

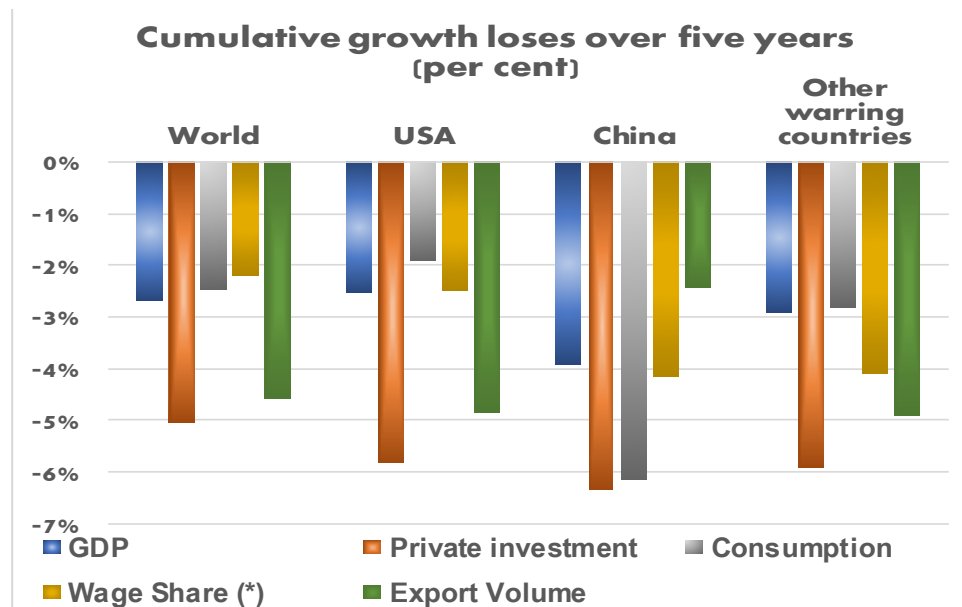
The economy is the realm of uncertainty; three quarters of the factors on which economic action is based are wrapped in a fog of greater or lesser uncertainty. A sensitive and discriminating judgment is called for; a skilled intelligence to scent out the truth.

- 10 years after multilateral action saved the global economy from financial meltdown the multilateral system is in crisis
- A fragile global economy walking a tightrope between debt-fuelled growth spurts and financial instability; sugar rush in the US? softening elsewhere, recession in some ([table 1](#))
- Haven't addressed the underlying problems (footloose capital, persistent inequality, rising debt); falling unemployment but stagnant wages; “safer-simpler-fairer” financial system but growing asset bubbles; high profits but low real investment ([figure 1.8](#) and debt figure).. debt fueled booms tend to end badly we just don't know when and how!
- Save the banks, push austerity, tolerate shadow banking; encourage mega-mergers; the “free trade” drum has provided the economic beat for a “medici vicious circle” and the rise of a rent-seeking economy (TDR 2017 and [Martin Wolf](#))
- Trust is being sucked out of politics; a “trade war” has filled the resulting vacuum but not the end of 70 year liberal order .. that died 30 years ago .. (too big to fail, bail, jail)



Trade war: spreading the pain, who loses?

- Tariff war unlikely to seriously disrupt trade flows, but investors and consumers' confidence will be shaken
- In a trade war scenario policy-makers are likely to find ways to compensate additional cost of tariff to their exporters
- Wage-earners would be the first in line to make concessions to avert losing out to trade competitors



(*) Measured in percentage points of GDP; thus negative numbers imply decelerations of wage earnings are sharper than those of GDP

- Consumption growth will slow down; investment confidence will be hit; and output growth will decelerate
- The sluggish growth of GDP affecting all warring countries will weaken import demand and thus everyone's exports
- Shock in vulnerable countries where financial conditions are weak could be very damaging

The wretched spirit of monopoly

- Trade is a big firm game ([fig 2.10](#)); these firms have been unequalising at home (superstar firms, monopolisation, etc) but also abroad (lead firms in GVCs)
 - Hollowing out of domestic value added in manufacturing ([table 2.1](#))
 - Headquarters and owners gain ... producers lose ([table 2.2](#))
 - Rising profits, growing inequality ([fig 2.14](#))
- Intangible assets a pervasive source of rents ([fig 2.12](#))
- Digital economy is dominated by very big players and possibly even more prone to rent seeking behaviour ([fig 3.6/7](#)) ..
- Are the rules rigged in their favour ([link to FT](#)) ... making more money in Luxembourg than Germany says they are; corporate rent seeking doesn't stop at the border ([fig 2.B1](#))
- Free trade agreements are none of these (Voltaire [fig 2.B2](#))



Digital diversions

- Digital is the world of intangibles (R&D, design, software, etc) where data is the key ingredient of profit-making (oil, blood?); disruptive technologies; leapfrogging
- Quasi public good ... non-rival (networks effects) but excludability is possible (first mover, market concentration, IPRs) .. Artificial scarcity
- Output is cooperative but control is privatized; rent-seeking is the game (Prebisch) and winner-takes-most outcomes carry big distributional consequences within and across countries; if data is the lifeblood of this economy, giant vampire firms are sucking the economic potential out of many developing countries
- Industrial policy is critical for building capacity and linkages
 - Data localization
 - Anti-trust (tax avoidance)
 - Innovation and technology transfer
- South south cooperation



Hyperglobalised, hyperspecialised ... hyperanxious

- The rise of the South? BRICS vs RIBS ([fig 2.6/fig 2.4/fig 2.B3](#)) ... But East Asia's success hasn't transformed other developing economies (mediated through GVCs)
- These chains have left many countries trapped in a narrow range of activities ... and not just commodity exporters ([fig 2.8/2.9](#))
- Countries are certainly trading a lot more ... but not earning more ([fig 2.7](#))
- Submerging economies ... vicious cycle of financialised economies ... no decoupling, monetary normalization will hit the South hard .. divergent commodity price trends squeezing some countries hard
- And the policy space needed to do something about all this is diminishing:
Q. if state ownership, technology transfer agreements and subsidies work to sustain growth and eliminate poverty (China) why do advanced countries want to deny others their use?



Back to the future

- Need to rethink multilateralism in progressive ways (a plague on the houses of regressive nationalism and corporate cosmopolitanism)
- A Havana Charter for the 21st Century
 - Active macro policy ... a healthy trade system emerges from healthy economies that are creating decent jobs (austerity damages trade)
 - Active distributional policy ... decent jobs pay decent wages and curtail corporate rent seeking (races to the bottom and regressive tax policies damage trade)
 - Active industrial policy ... productive investment, technological upgrading and strong productivity growth underpins healthy economies ... need policy space to manage these (rigged markets damage trade)
 - Active infrastructure policy ... infrastructure is key to sustained growth but there is more to this than bankability of projects (poorly planned infrastructure damages trade)



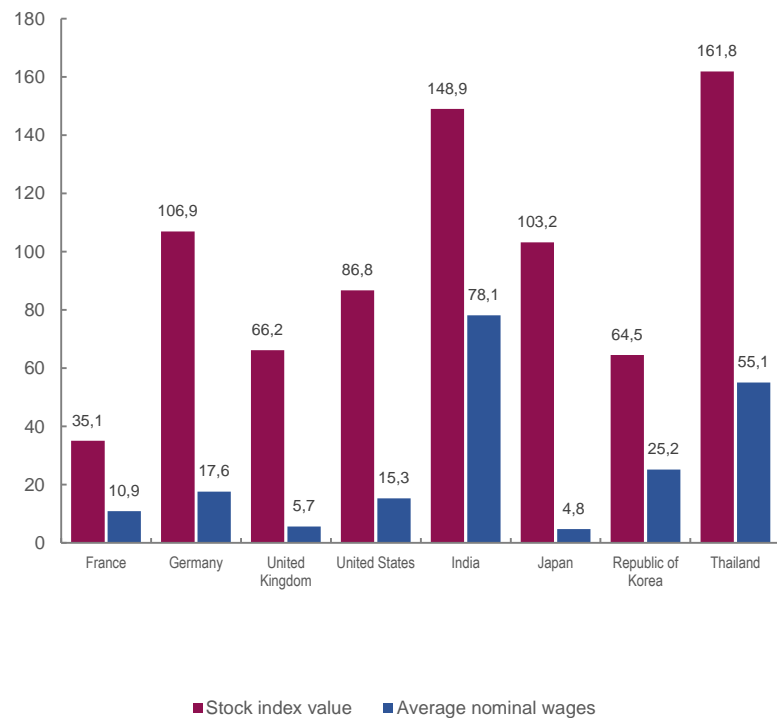
World output growth, 1991-2018

Table - World output growth, 1991-2018						
(Annual percentage change)						
Country or area	1991–2000 ^a	2001–2007 ^a	2008–2010 ^a	2011–2016 ^a	2017	2018 ^b
World	2.8	3.5	1.1	2.7	3.1	3.1
Developed countries	2.6	2.3	-0.7	1.6	2.3	2.1
Japan	1.3	1.4	-1.3	1.1	1.7	0.9
United States of America	3.6	2.7	-0.5	2.1	2.3	2.7
European Union (EU-28)	2.2	2.2	-1.0	1.2	2.5	2.0
Eurozone	2.1	1.9	-1.1	0.8	2.5	1.9
United Kingdom of Great Britain and Northern Ireland	2.7	2.7	-1.4	2.2	1.8	1.2
Transition economies	-4.9	7.2	0.2	1.4	2.1	2.2
Russian Federation	-4.7	6.8	-0.4	1.0	1.5	1.7
Developing countries	4.8	6.2	5.0	4.7	4.4	4.6
Africa	2.6	5.8	4.6	3.2	3.0	3.5
South Africa	2.1	4.3	1.2	1.9	1.2	1.1
Latin America and the Caribbean	3.1	3.6	2.2	1.6	1.1	1.7
Mexico	3.2	2.2	-0.3	2.8	2.3	2.1
Brazil	2.8	3.5	3.7	0.5	1.0	1.4
Asia	6.3	7.4	6.2	5.9	5.5	5.5
China	10.6	10.7	9.8	7.6	6.9	6.7
India	6.0	7.4	7.1	6.5	6.2	7.0

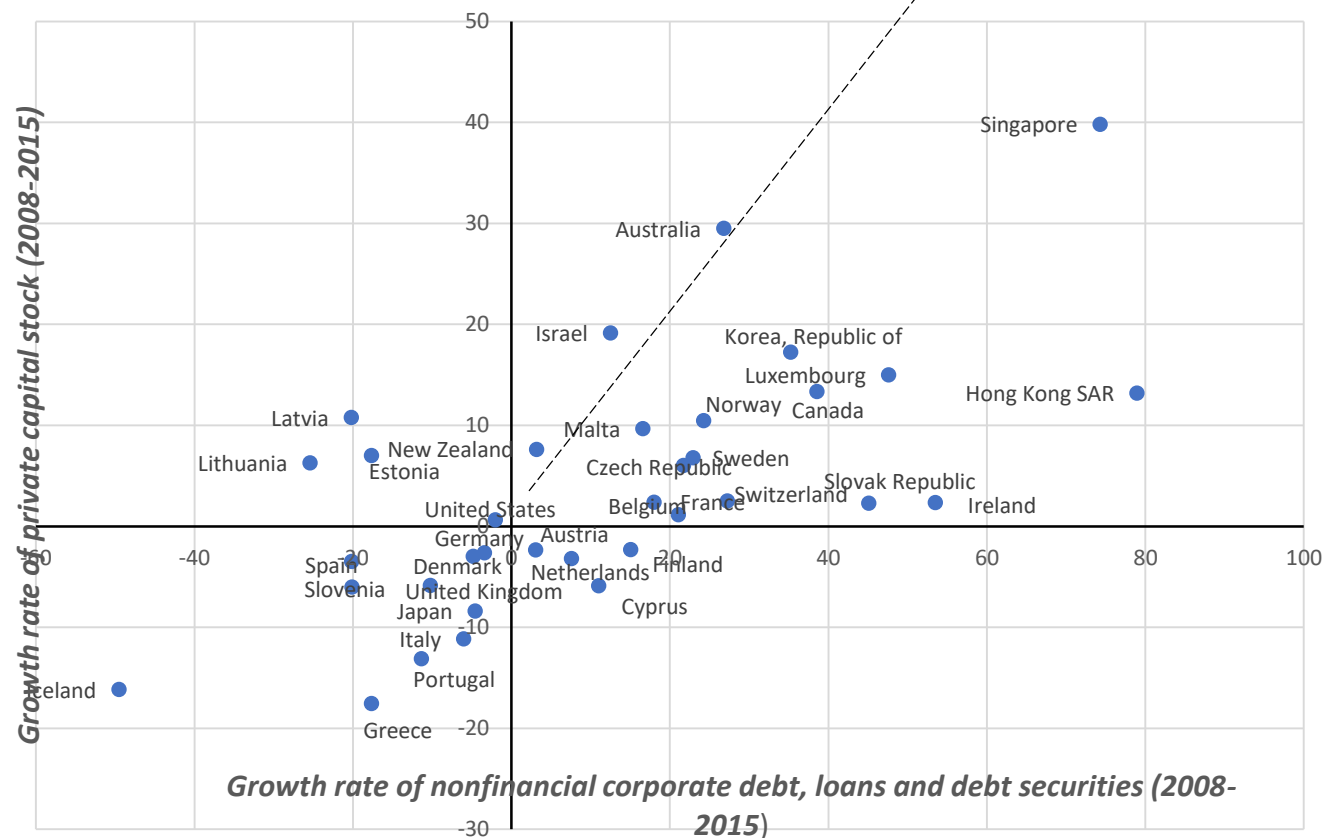
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Panglossian disconnect

Stock market appreciation and nominal wages increase, selected economies, 2009-2015 (percentage change)



Growth rates of private corporate debt and private capital stock, advanced economies, 2008-2015



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FT Series **Financial crisis: Are we safer now?**

Global financial crisis

Why so little has changed since the financial crash

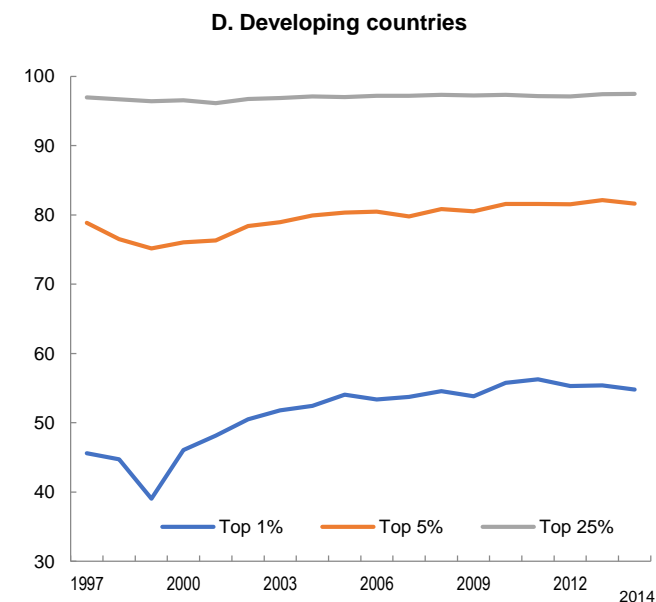
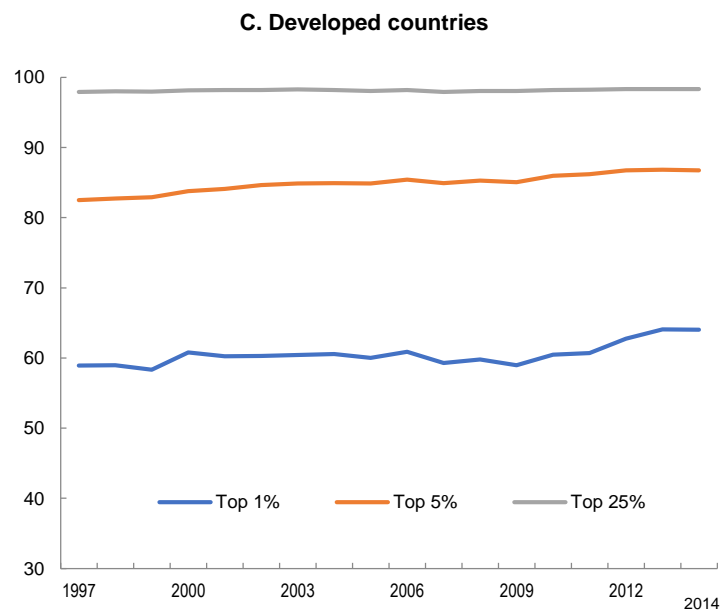
Martin Wolf on the power of vested interests in today's rent-extracting economy

Martin Wolf SEPTEMBER 4, 2018

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Average shares of top 1 per cent, 5 per cent and 25 per cent exporters in country total export, 1997–2014



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Changes in value added shares in gross exports, 1995–2014

(Percentage points)

	FOREIGN	DOMESTIC		
		<i>Agriculture and extractives</i>	<i>Manufacturing</i>	<i>Services</i>
Argentina	6.8	1.0	2.3	-10.1
Brazil	4.7	17.6	-16.5	-5.8
China	-1.7	-2.8	11.9	-7.4
India	11.6	-3.5	-12.9	4.8
Indonesia	0.1	3.7	4.3	-8.1
Mexico	6.1	0.0	0.4	-6.5
Republic of Korea	15.5	-0.6	-6.1	-8.8
Russian Federation	0.8	8.7	-6.4	-3.1
Saudi Arabia	-0.6	5.3	-0.3	-4.4
South Africa	7.5	8.3	-12.3	-3.5
Turkey	12.9	-0.3	1.8	-14.4
Rest of the World	-2.8	12.1	-4.9	-4.5
Developing economies	4.2	4.3	-3.5	-5.1
Developed economies	7.2	1.7	-10.1	1.1

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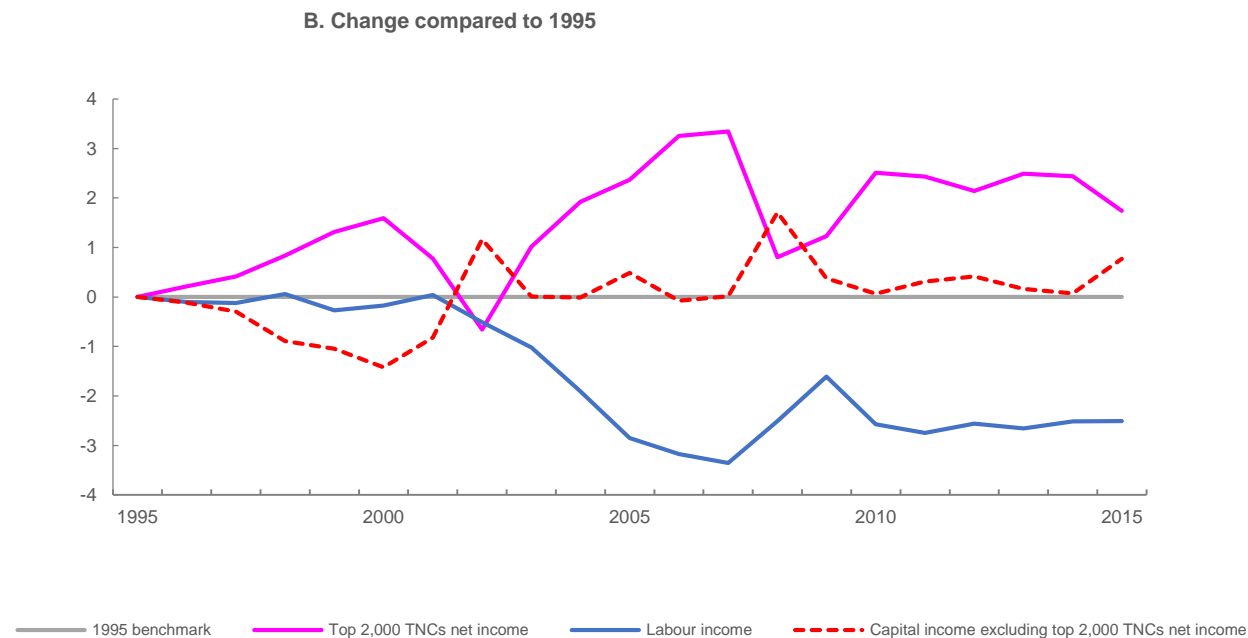


Shares in exported value added in manufacturing GVCs, 2000–2014

	Global level			High income		
	2000	2014	<i>Difference</i>	2000	2014	<i>Difference</i>
Capital	44.8	47.8	3.0	40.3	42.3	2.0
Labour	55.2	52.2	-3.0	59.7	57.7	-2.0
Headquarter functions	31.7	30.4	-1.3	35.2	37.0	1.7
Fabrication	23.5	21.8	-1.7	24.5	20.8	-3.7
	China			Other countries		
	2000	2014	<i>Difference</i>	2000	2014	<i>Difference</i>
Capital	57.0	49.6	-7.5	59.2	59.4	0.2
Labour	43.0	50.4	7.5	40.8	40.6	-0.2
Headquarter functions	13.6	19.7	6.0	22.5	23.7	1.1
Fabrication	29.3	30.8	1.4	18.3	16.9	-1.3

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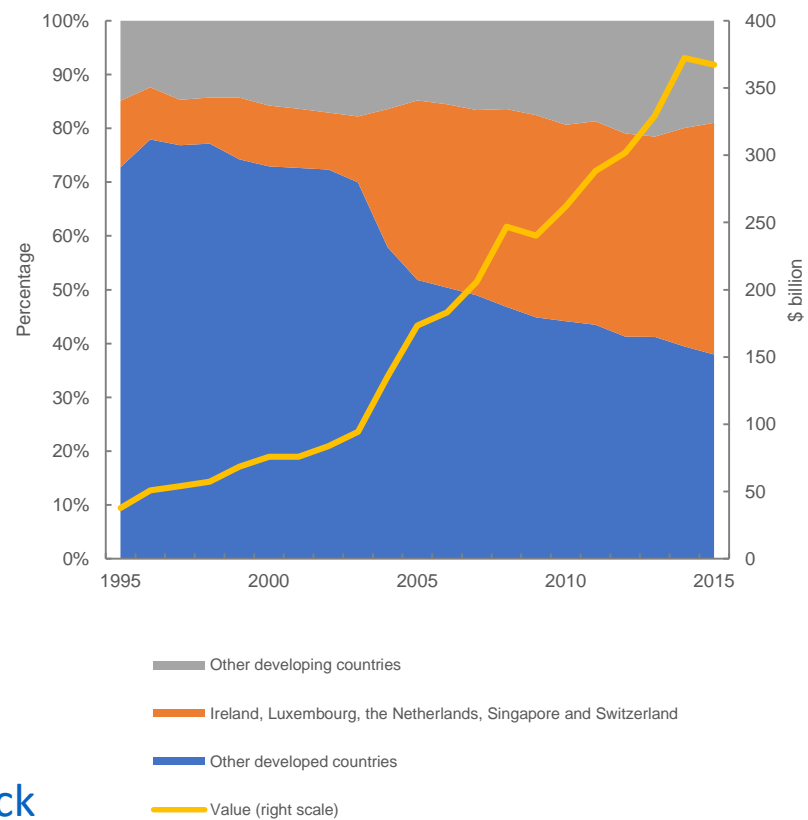
Top 2,000 TNCs profit and the global labour income share, 1995–2015 (Percentage of world gross product)



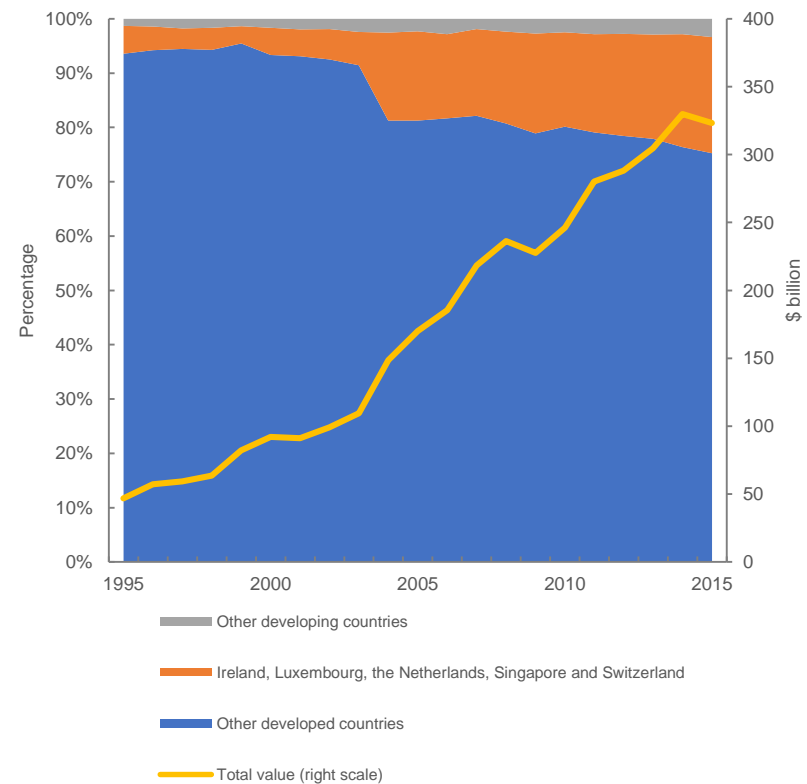
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Payments and receipts related to the use of foreign IPR, selected country groups, 1995–2015

A. Payments



B. Receipts

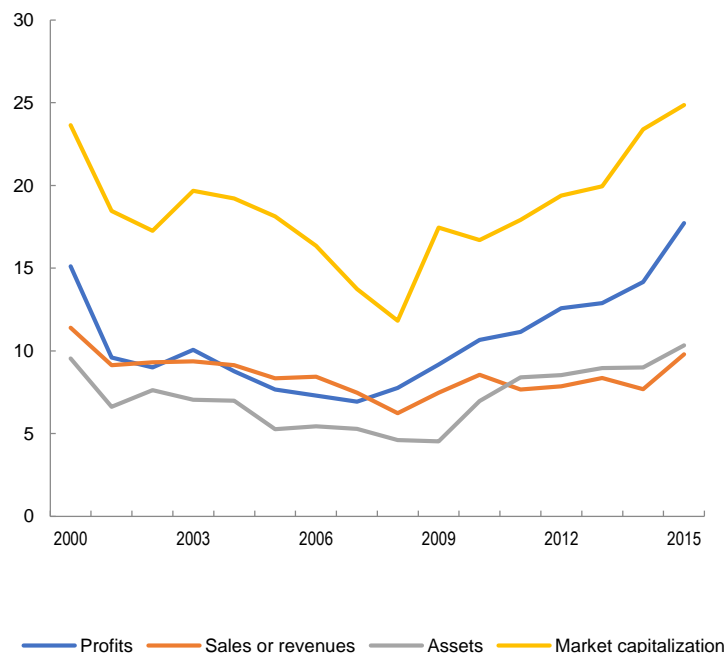


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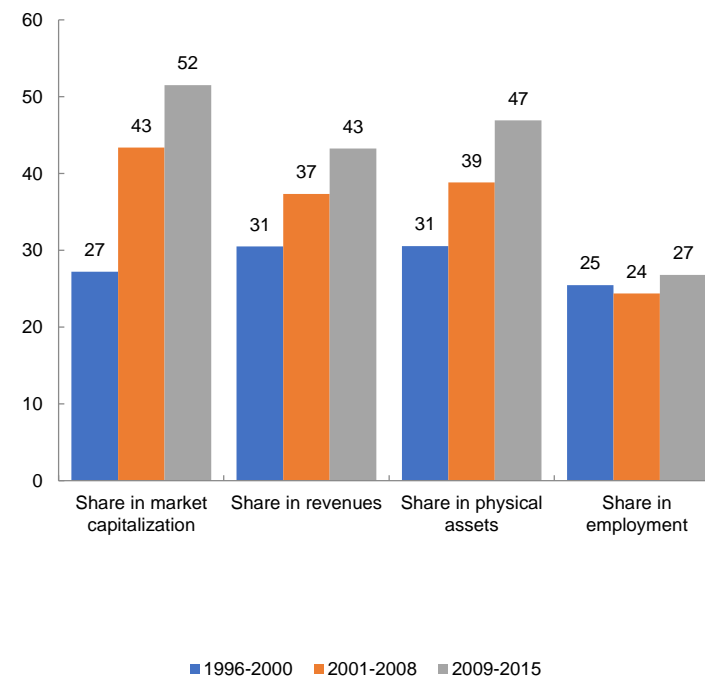


Digital vampires

Share of “big tech companies”
in top 100 non-financial corporations



Shares of top 1 per cent companies from technology,
software and IT-services sector, 1996–2015



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Opinion **The FT View**

An overdue look at the effects of monopoly distortion

US antitrust hearings must tackle the nefarious effects of unfettered capitalism

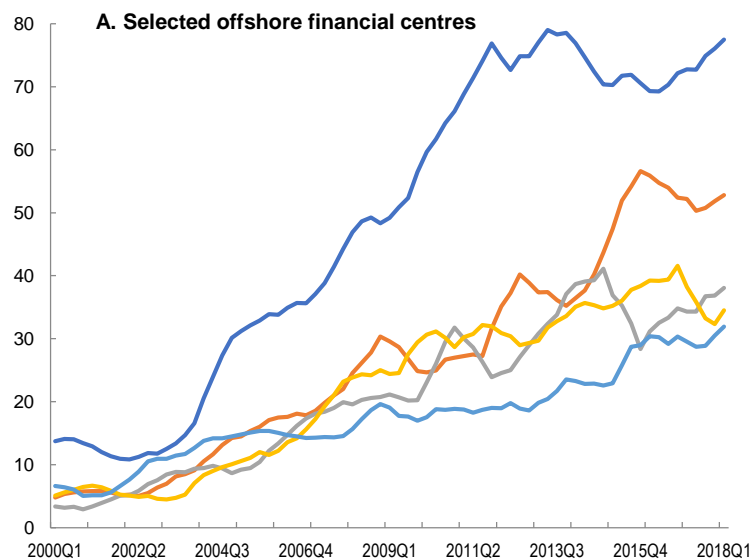
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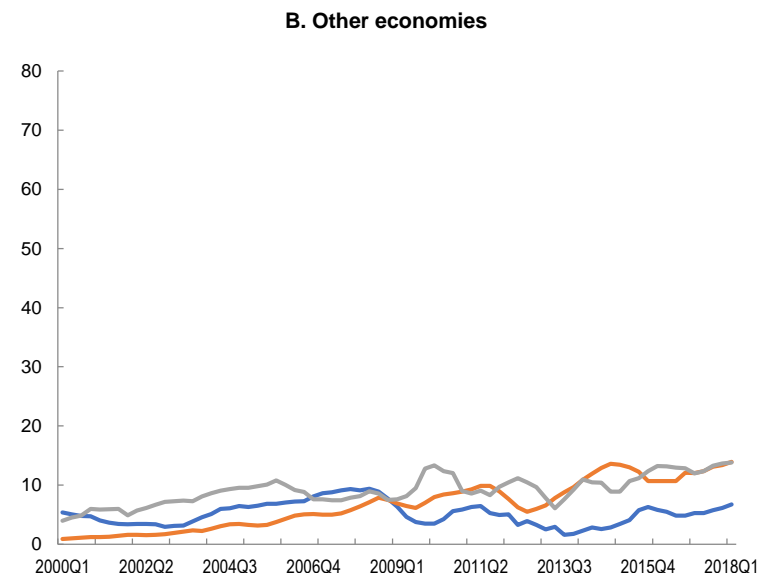
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The US Federal Trade Commission, where the technology sector will come under particular scrutiny during the hearings into competition and anti-trust law © Getty

Income of the United States on direct investment abroad, selected countries, first quarter 2000 to first quarter 2018 (billions of dollars)



— Netherlands — Ireland — Luxembourg
— Bermuda — Switzerland

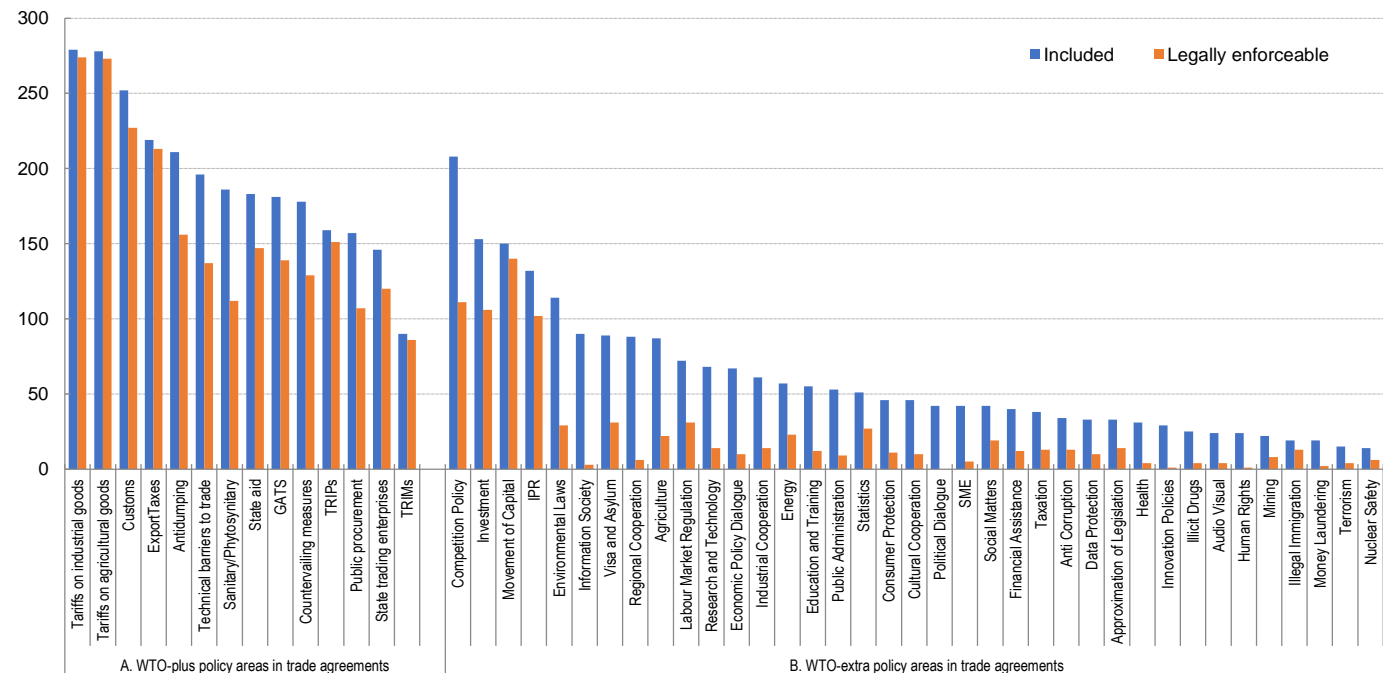


— Germany — China — Japan

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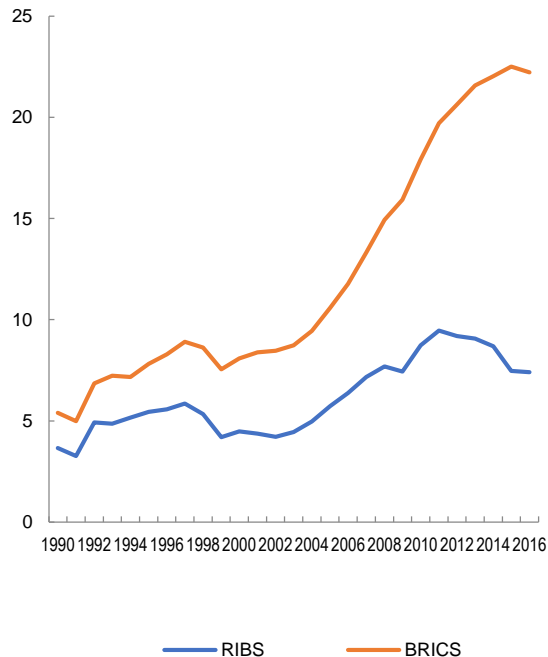
WTO-plus and WTO-extra policy areas included in trade agreements (number of treaties)



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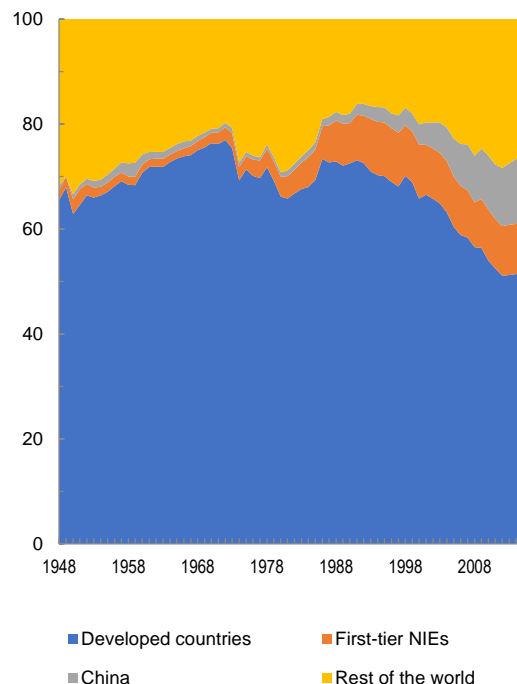
The Rise of the South?

Share of BRICS versus RIBS in world economy, 1990–2016

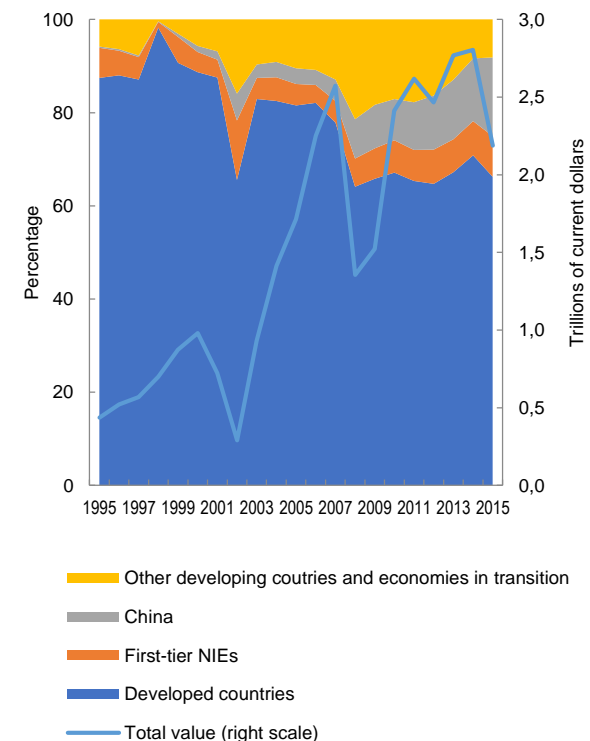


Total gross exports, selected country groups and China, 1948–2016

B. Percentage of world gross exports



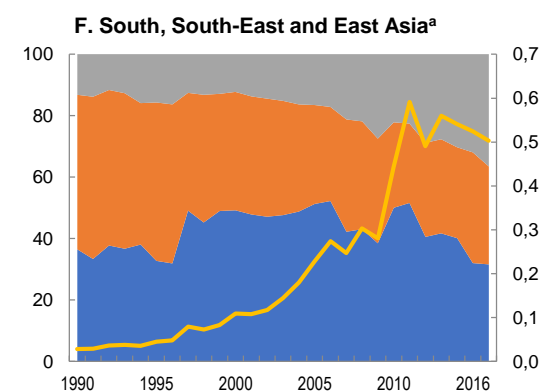
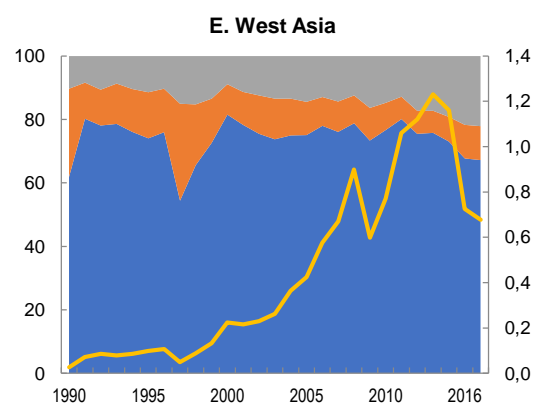
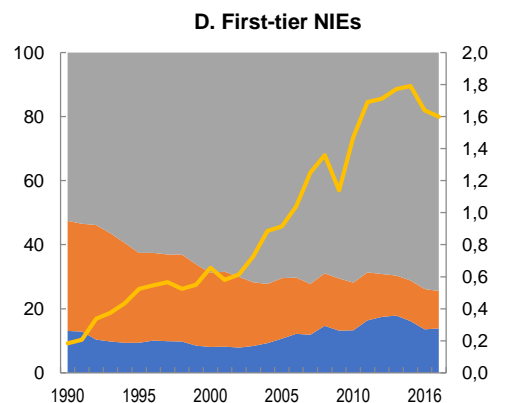
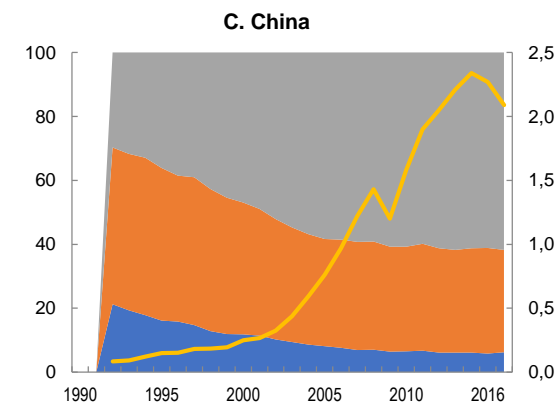
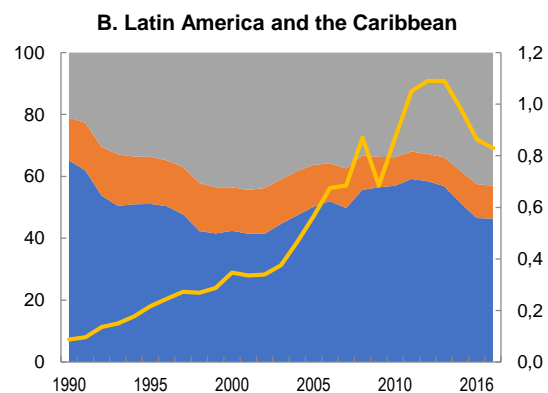
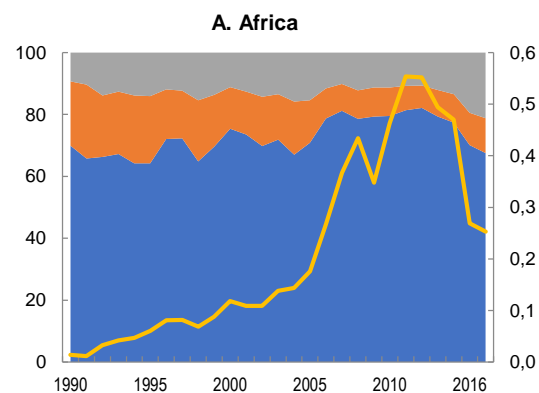
Shares in top 2,000 TNCs profits, selected countries and country groups, 1995-2015



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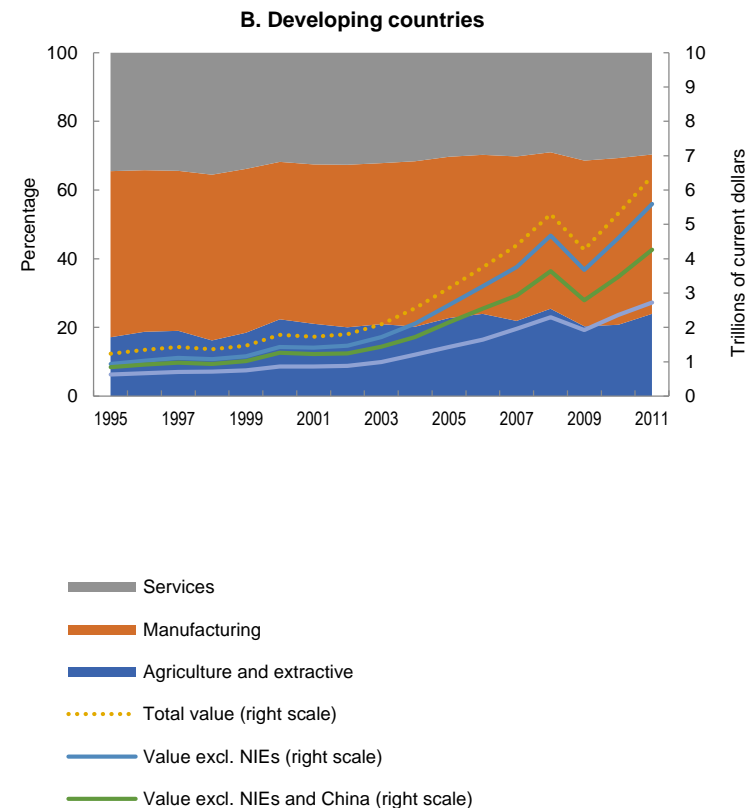
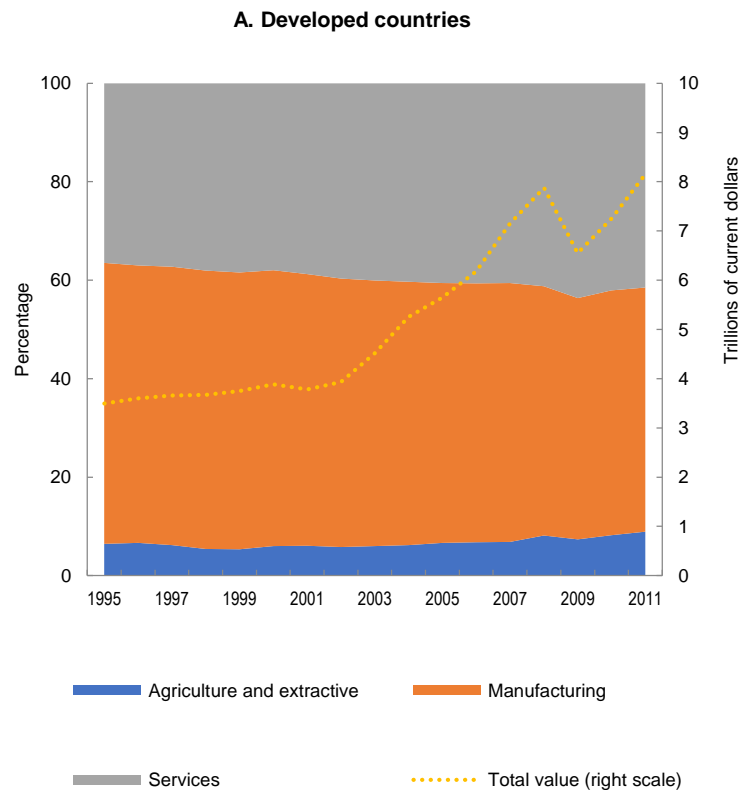
Export structure by technological levels, selected developing regions, 1990–2016 (percentage and trillions of dollars)



- Medium- and high-skill and technology-intensive manufactures (percentage)
- Processed commodities and low-skill manufactures (percentage)
- Unprocessed commodities (percentage)
- Value of total exports (trillions of current dollars, right scale)

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World trade in value added by sectors, selected country groups, 1995–2011



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