



# **TRADE AND DEVELOPMENT REPORT 2017**

**BEYOND AUSTERITY:  
TOWARDS A GLOBAL NEW DEAL**

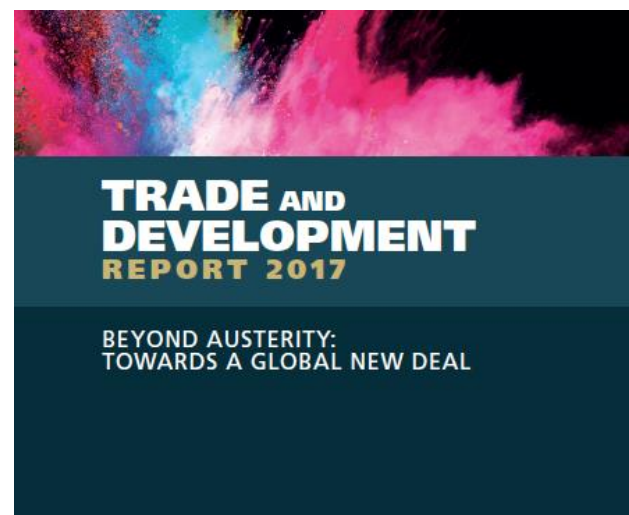
## **EMBARGO**

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## Overview

- I. The global economy: Ten years on
- II. Inclusive growth: Issues at stake
- III. Robots, industrialization and inclusive growth
- IV. The gender dynamics of inclusion and exclusion
- V. Inequality and financial instability
- VI. Market power and inequality
- VII. Towards a global new deal



## Key messages

- **Underwhelmed** by global recovery; picking up not lifting off
- **Overwhelmed** by “business as usual” post 2009 (aggregate demand; financial reform; income distribution)
- Increasingly **anxious** about the likelihood of building inclusive and sustainable economies (SDGs and Paris Agreement)
- Linked by the economic deadweight of **austerity**; the macroeconomic mood music for our **hyperglobalized** world
- Inclusive growth: Shifting the debate from trade vs technology (disrupt and adjust) to market power, rentiers and politics (winner takes most)
- TINA is yesterday’s political slogan; prosperity for all => GND

# Global economy: Picking up but not lifting off

**Table 1. World output growth: Annual percentage change<sup>a</sup>**

<i>Country or area</i>	<i>2001– 2008</i>	<i>2015</i>	<i>2016</i>	<i>2017<sup>b</sup></i>
<b>World</b>	<b>3.2</b>	<b>2.6</b>	<b>2.2</b>	<b>2.6</b>
<b>Developed countries</b>	<b>2.2</b>	<b>2.2</b>	<b>1.7</b>	<b>1.9</b>
Japan	1.2	1.2	1.0	1.2
United States	2.5	2.6	1.6	2.1
United Kingdom	2.5	2.2	1.8	1.5
Euro zone	1.9	2.1	1.7	1.8
Germany	1.3	1.7	1.9	1.9
<b>Developing countries</b>	<b>6.2</b>	<b>3.8</b>	<b>3.6</b>	<b>4.2</b>
Africa	5.7	3.0	1.5	2.7
South Africa	4.4	1.3	0.3	0.5
Latin America and the Caribbean	3.9	-0.3	-0.8	1.2
Brazil	3.7	-3.8	-3.6	0.1
Asia	7.3	5.2	5.1	5.2
China	10.9	6.9	6.7	6.7
India	7.6	7.2	7.0	6.7
<b>Transition economies</b>	<b>7.1</b>	<b>-2.2</b>	<b>0.4</b>	<b>1.8</b>
Russian Federation	6.8	-2.8	-0.2	1.5

Source: UNCTAD secretariat calculations.

<sup>a</sup> Calculations for country aggregates are based on GDP at constant 2005 dollars.

<sup>b</sup> Forecasts.

- Eurozone recovery remains weak (still slower than the US) and dependent on QE
- Policy uncertainty in the US is high
- Downside risks in emerging economies also remain high (not engines of global growth)
- Global shortage of demand continues to hamper growth
- Surplus economies need to do more (OROB vs MPA)



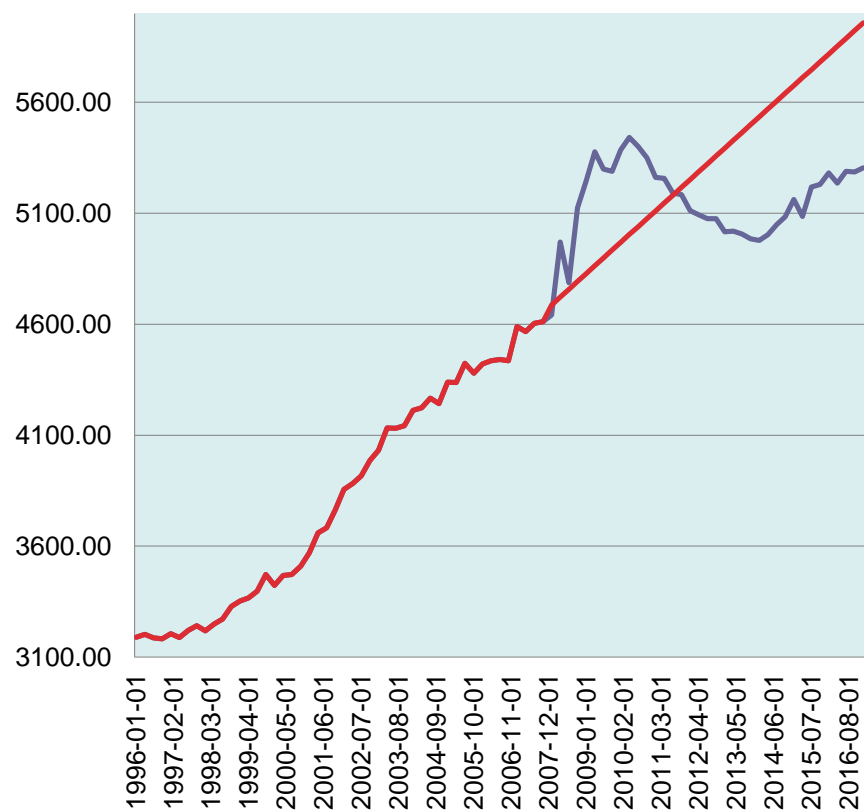
## Austerity: The new normal

Degree of austerity	Government spending (G), Pre-2007 trend less actual spending, 2011-2016	Countries
No austerity	$G \leq 0$	Brazil, China, Germany, India, South Africa
Limited austerity	$0 < G \leq 0.5$	Austria, France, Poland, United States
Medium austerity	$0.5 < G \leq 1$	Argentina, Bulgaria, Netherlands
Significant austerity	$1 < G \leq 2$	Czechia, Italy, Portugal, Spain, United Kingdom
Severe austerity	$2 < G$	Greece, Hungary

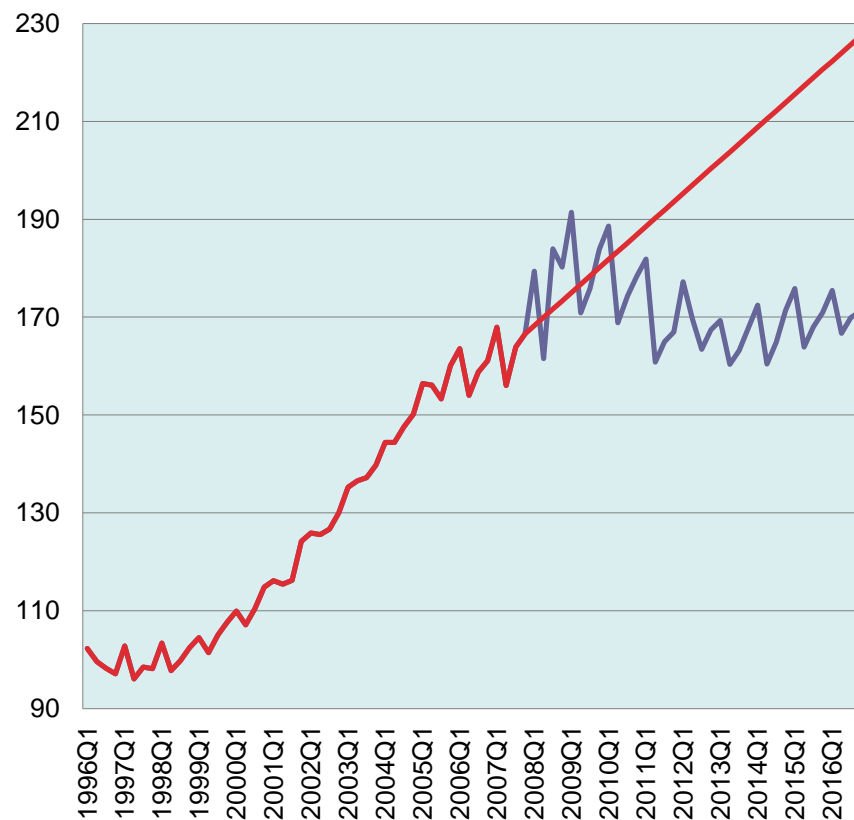


# Limited and significant austerity

**US: Real Government Expenditure-  
Actual and Forecast (\$ bn)**



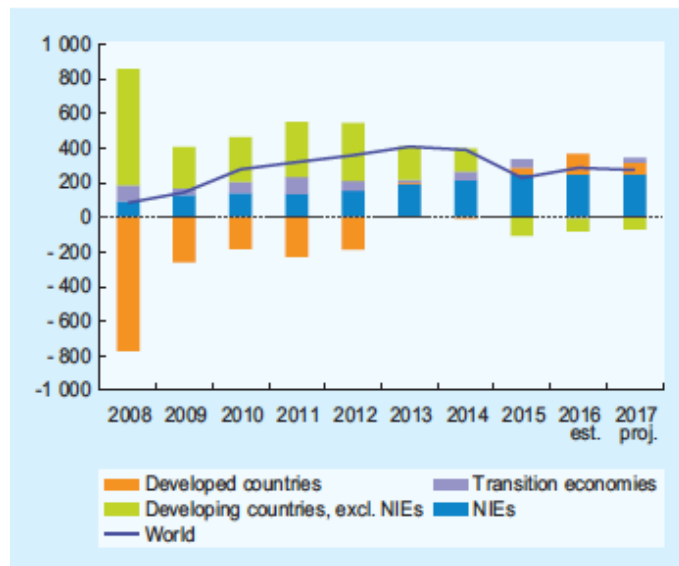
**UK: Real Government Expenditure-  
Actual and Forecast (£ bn)**



## Trade is still sluggish – where will global demand come from?

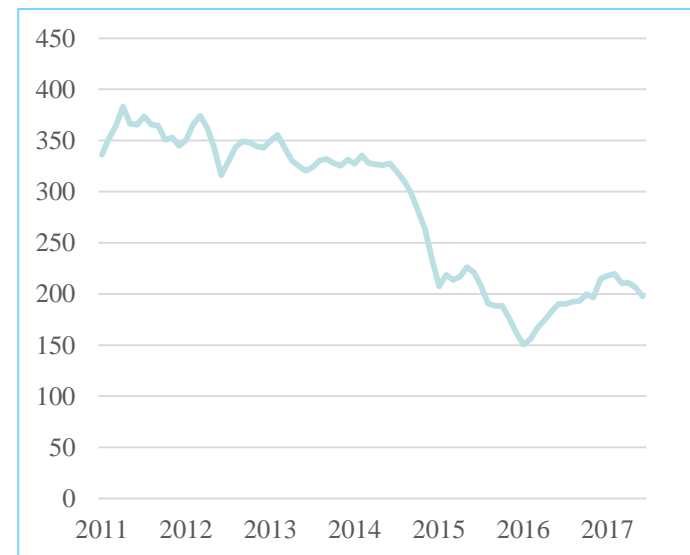
Developed countries no longer  
provide net demand stimulus  
to global economy

Current account balances  
(Billions of current dollars)

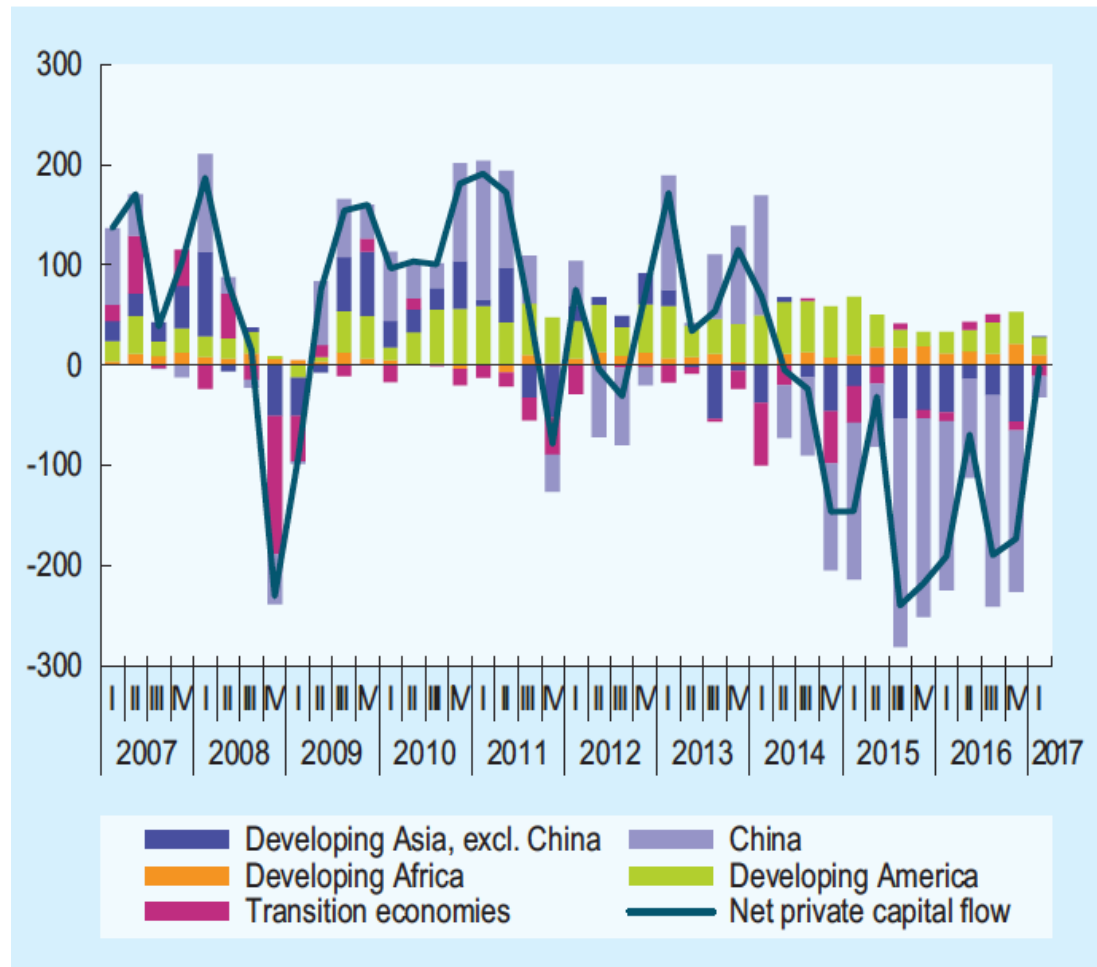


Commodity prices once again  
showing signs of weakness  
after a brief recovery

Monthly prices, all commodities  
(Index numbers, 2002=100)



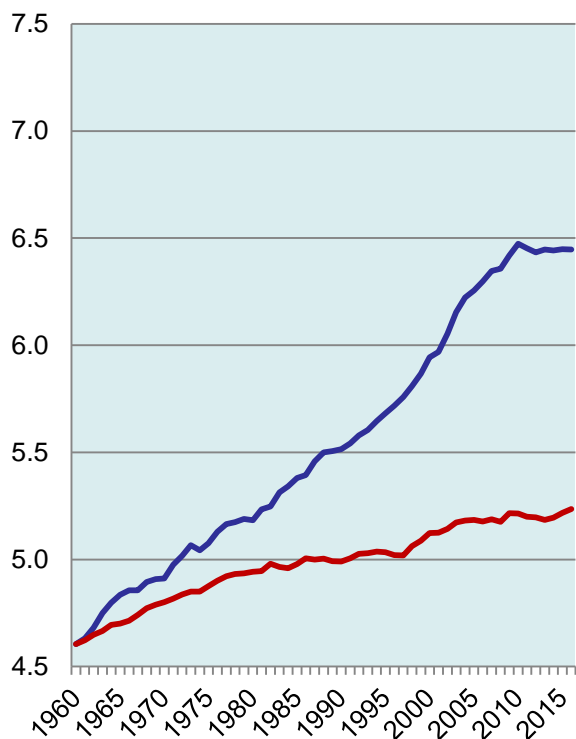
# Capital inflows to developing countries still negative



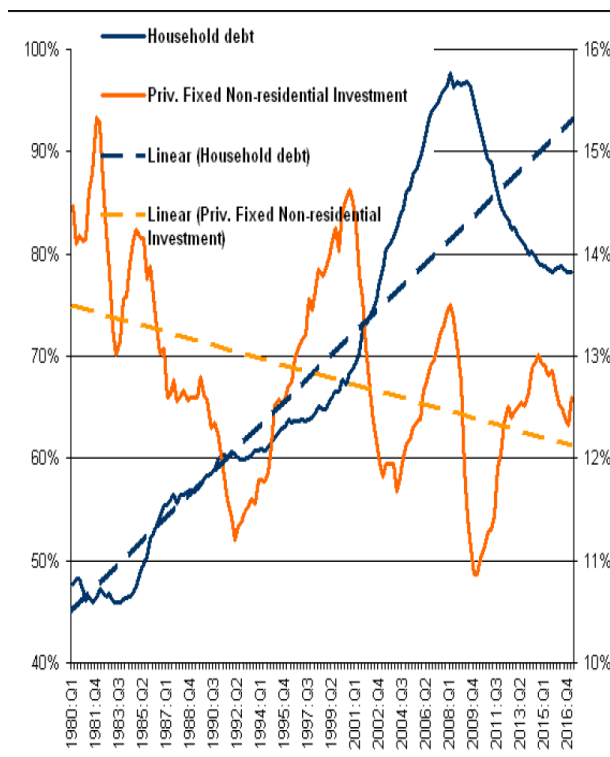


# Hyperglobalisation: Inequality, indebtedness, (insufficient) investment and insecurity

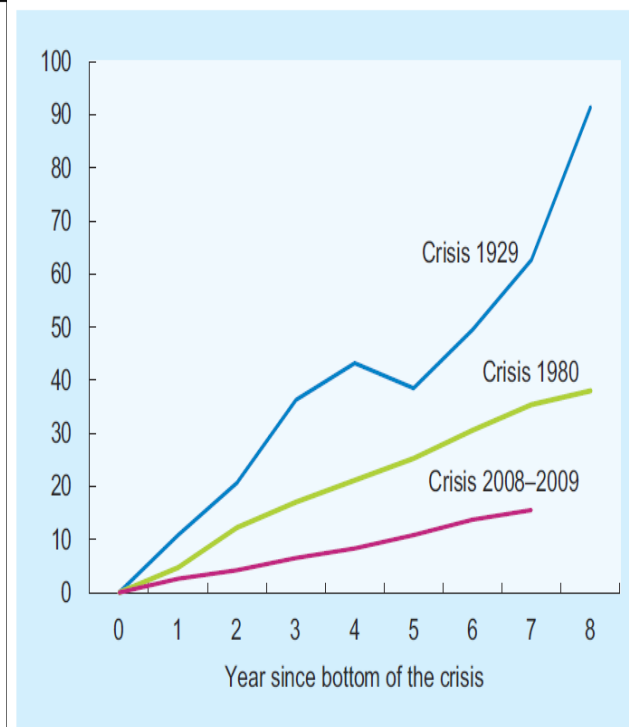
The widening gap between US productivity and wages, 1960 - 2016



Household debt and fixed, non-residential investment of the private sector  
United States of America, 1980-2017Q1; percent of GDP

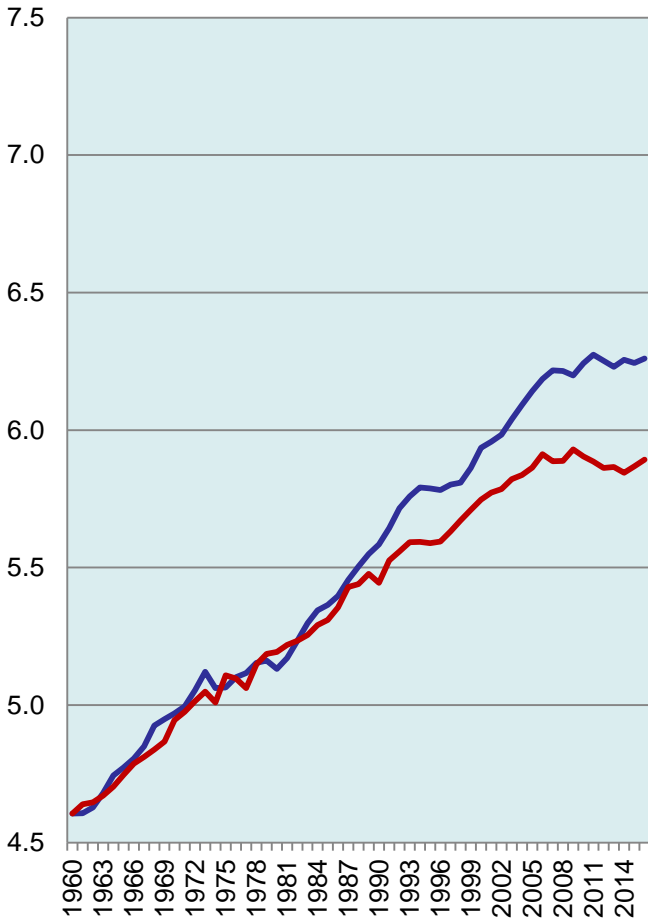


GDP Recovery in US after three crises (% change)

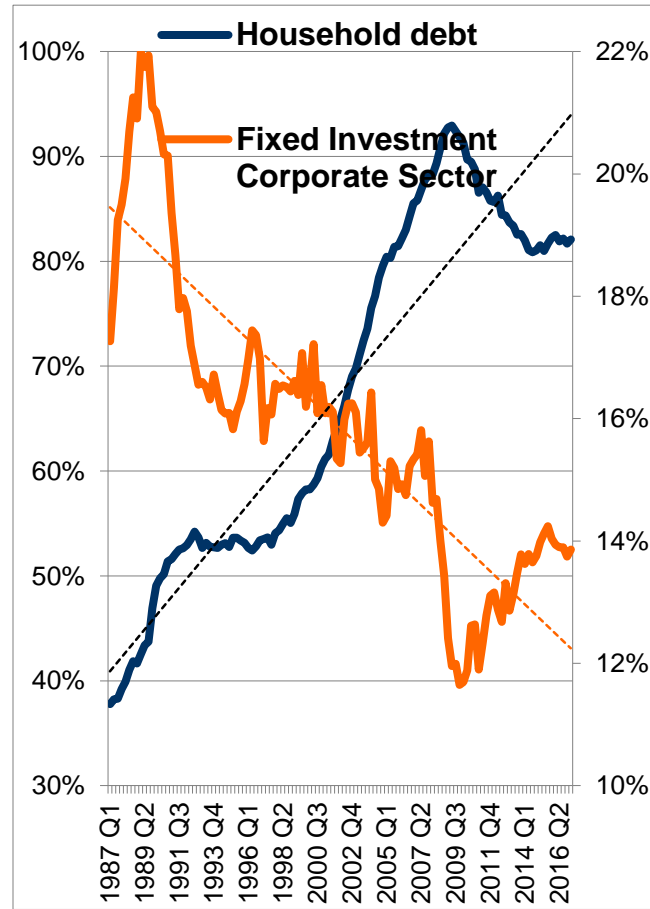


# Hyperglobalisation and the UK economy

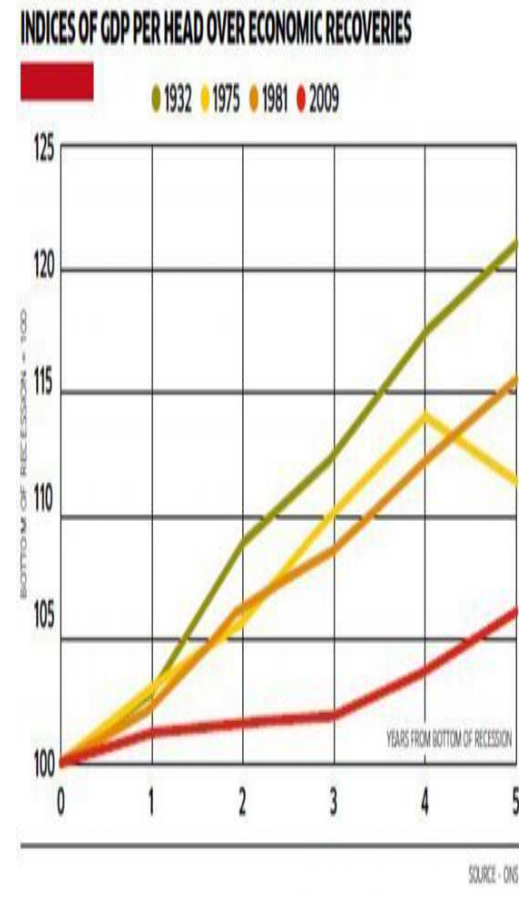
The widening gap between productivity and wages, 1960-2016



Rising debt falling investment, 1981-2017, per cent of GDP



Slowest recovery on record



# Financialization:

## Feedbacks between inequality and instability

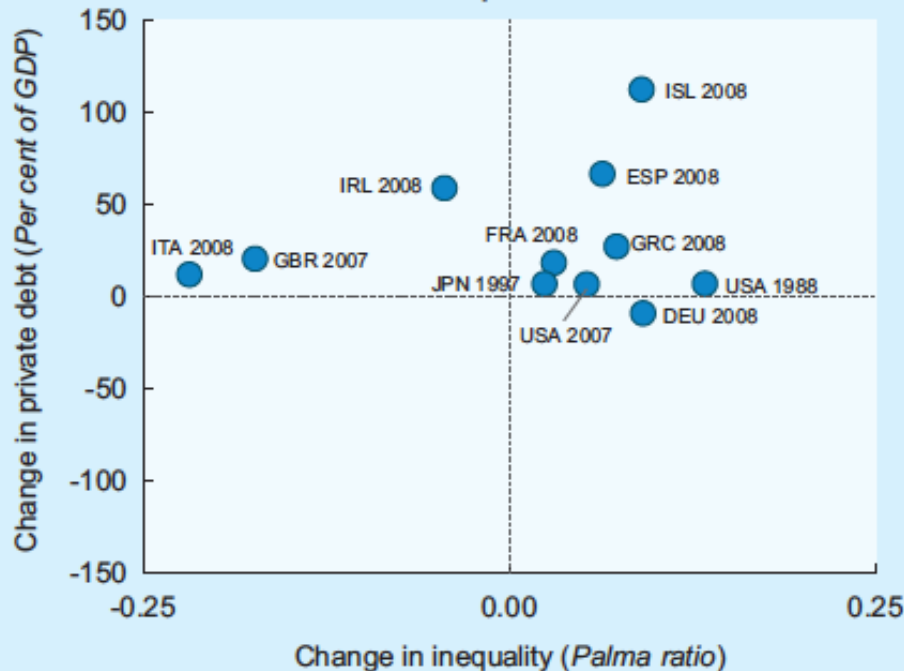
	Systemic banking crises	Rising inequality	
		<i>Before crises</i>	<i>After crises</i>
Percent of crisis episodes (number of crises)	100% (91)	81% (74)	66% (60)

- Financialization: value of total assets; cross border assets and liabilities; assets of top5 banks
- No strict causality between inequality and financial crises, and channels of transmission are complex and country-specific, but empirical evidence stresses the plausibility of positive feedbacks
- Common channels of transmission
  - **Before crises**
    - inequality → under-consumption, uncertainty about future sales, and diverts productive investment into speculative investment (Keynes) → credit booms and instability (Minsky)
  - **After crises**
    - instability and economic dislocation → bankruptcies, creditor bailouts, austerity policies, unemployment, declining wages and stagnation → further inequality

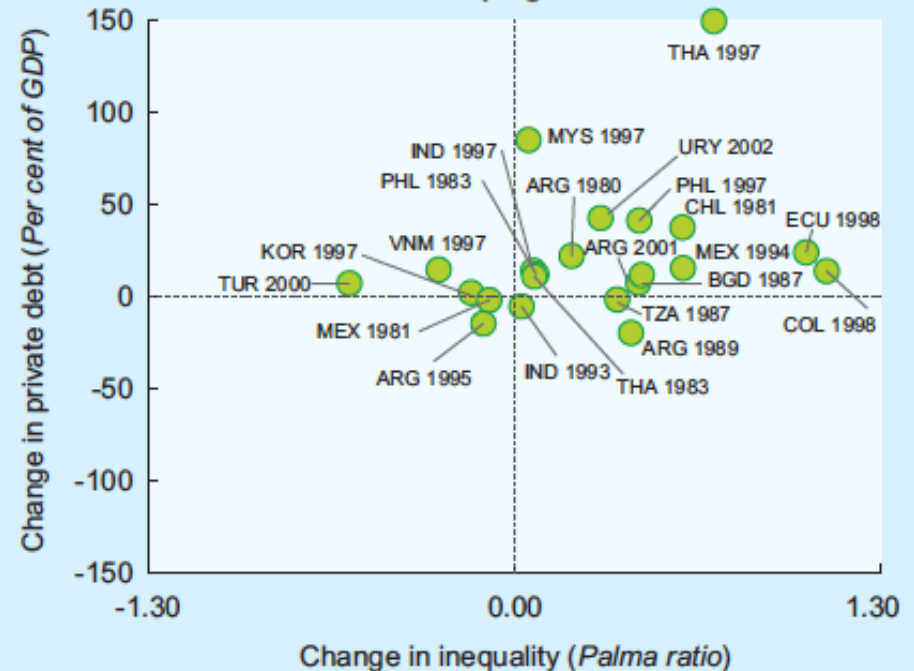


# Before financial crises: Who gains from financialization and private debt?

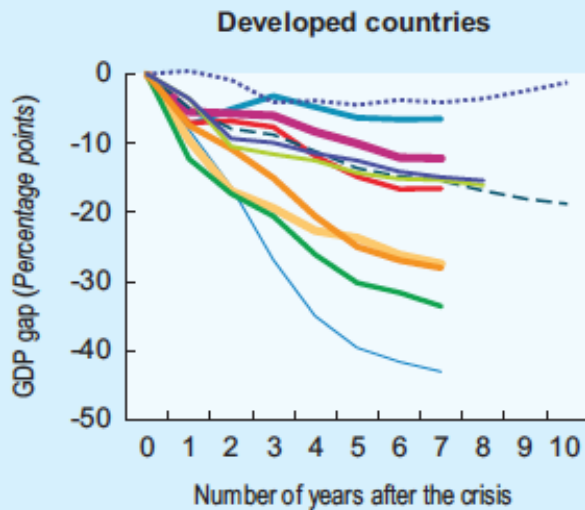
**A. Developed countries**



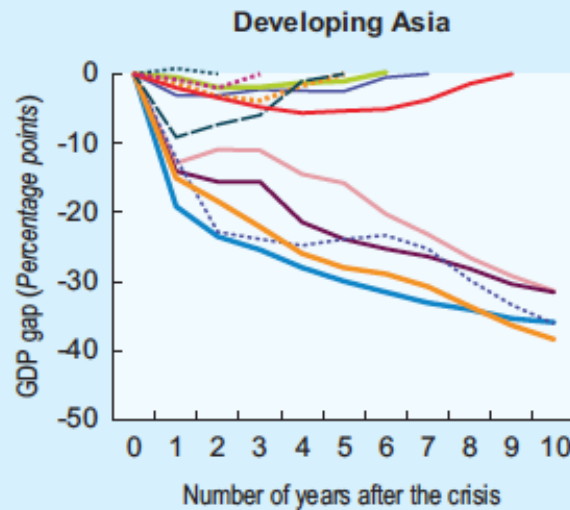
**B. Developing countries**



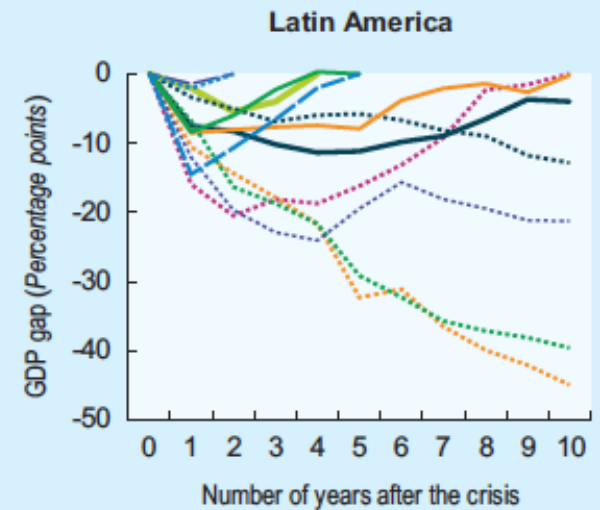
# After financial crises: Who pays for instability and economic dislocation?



— DEU 2008	— FRA 2008
— GRC 2008	— ISL 2008
— IRL 2008	— ITA 2008
- - - JPN 1997	— ESP 2008
— GBR 2007	· · · · · USA 1988
— USA 2007	




· · · · · BGD 1987	— IDN 1997
— KOR 1997	— MYS 1997
· · · · · PHL 1983	— PHL 1997
— VNM 1997	· · · · · THA 1983
— THA 1997	· · · · · TUR 1982
- - - TUR 2000	— CHN 1998



· · · · · ARG 1989	— ARG 2001
— BRA 1990	· · · · · CHL 1981
· · · · · COL 1982	— COL 1998
· · · · · ECU 1982	— ECU 1998
· · · · · MEX 1981	— MEX 1994
· · · · · URY 1981	— URY 2002

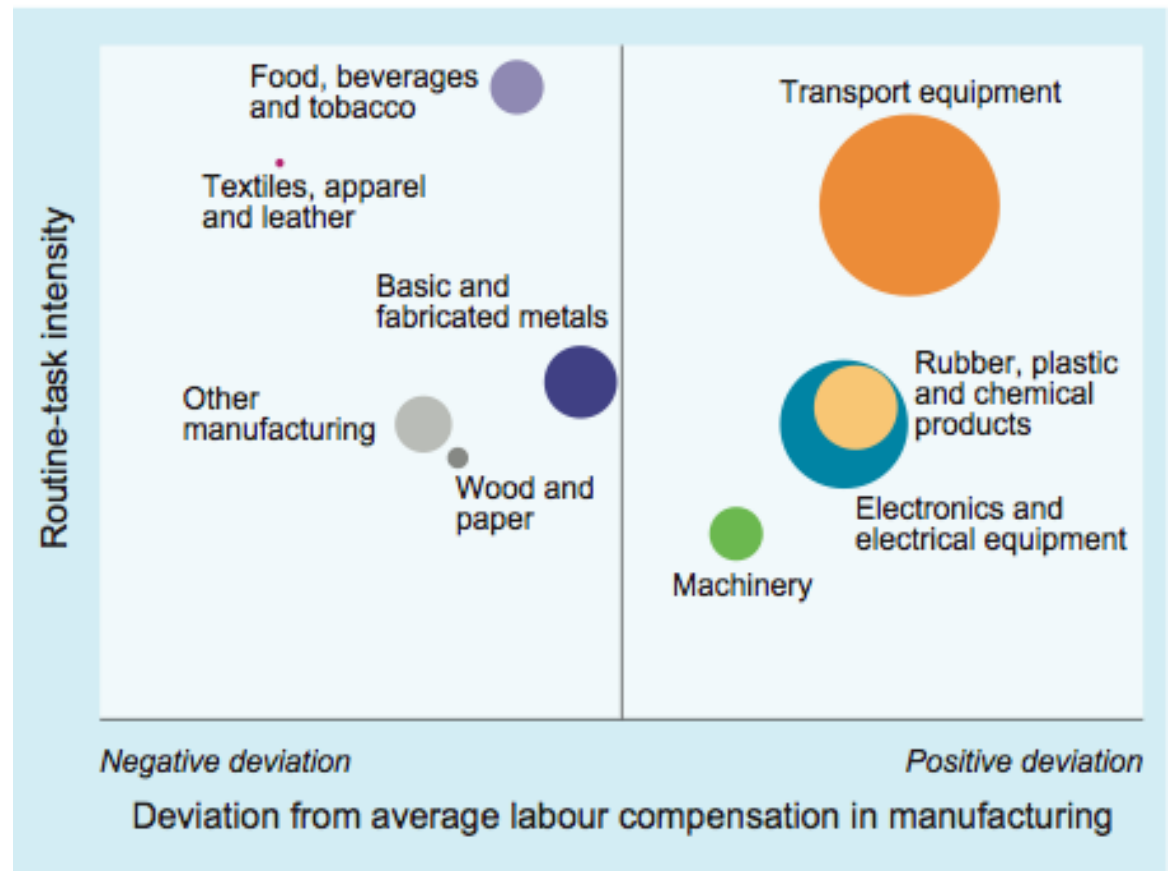


## The killer combination of austerity and automation

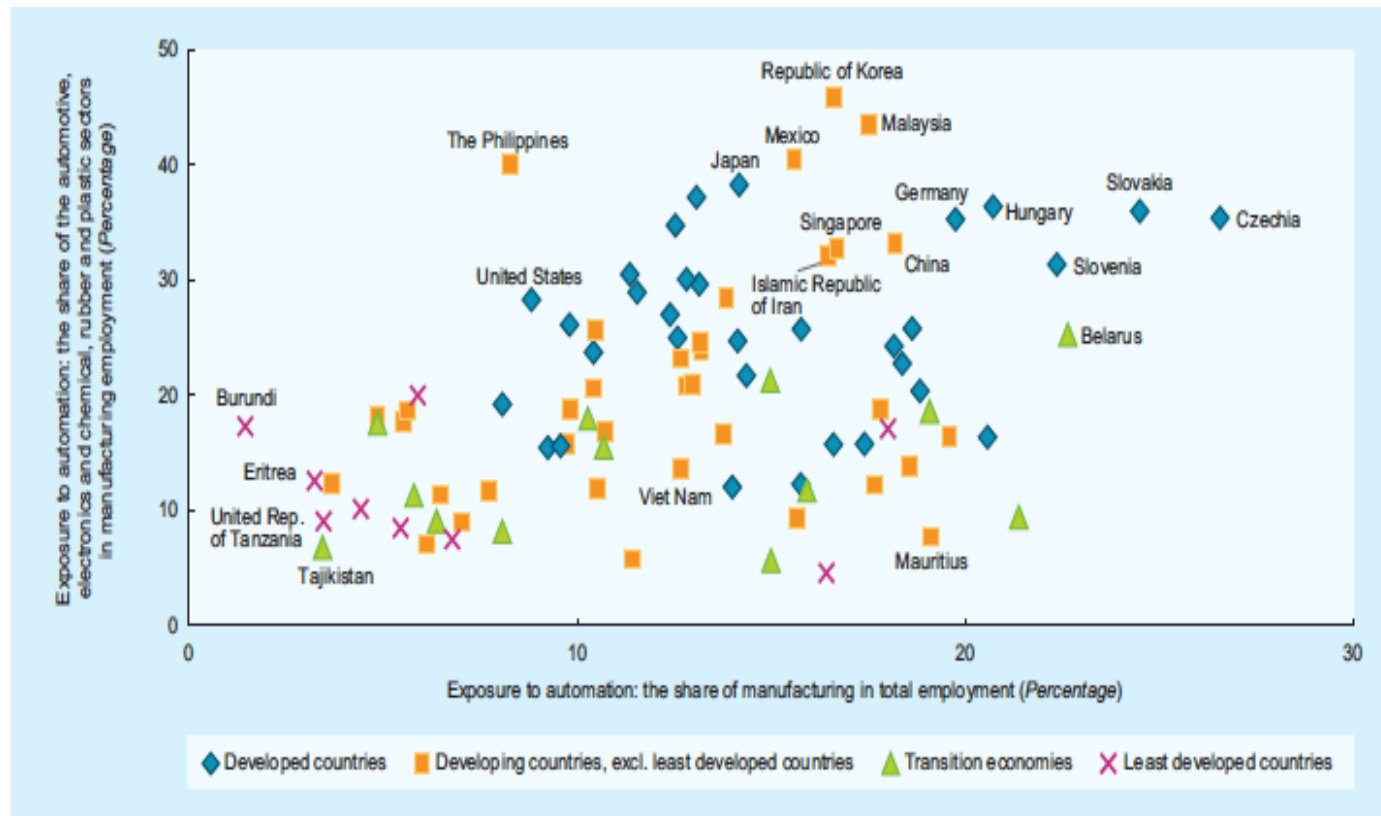
- Robots getting smarter, more dexterous and cheaper, threatening large-scale job displacement and wage erosion.
  - Do we tax them?; UBI?
  - Key development issue: Does emerging greater scope and speed of automation reduce effectiveness of industrialization as a development strategy?
  - The use of industrial robots remains low and concentrated in a few developed countries and relatively well-paying manufacturing sectors (e.g. auto & electronics).
  - Low investment in North and South is the real problem when it comes to
- 
- Premature deindustrialisation in the South an ongoing worry; particularly good jobs (TDR2016)
  - Reshoring?

## Alarmist account of world without work overdone

What is technically feasible to automate through robots is not necessarily also economically profitable.



## As of now, most developing countries are not overly threatened by robot-based automation



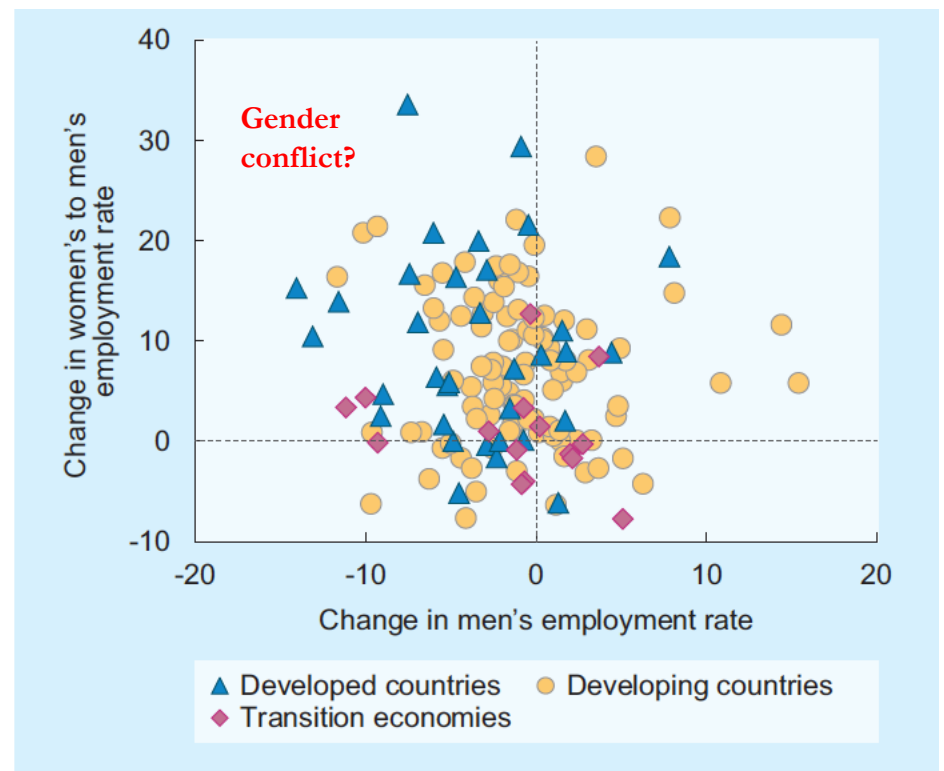
Countries with the most exposure to automation through robots: those with large manufacturing sectors concentrated in well-paying activities.



## Including women, excluding men?

- Conflict?
  - Women's employment rates rising in most countries
  - Men's employment rates declining
- Context
  - Boom and bust cycles
  - Austerity
  - Deindustrialisation
- Consequence
  - Limited availability of good jobs relative to labor supply

Changes in women's-to-men's employment rates versus men's employment rates, 1991-2014 (percentage points)



## Women's exclusion from “good” jobs

- Hollowing out of traditional factory jobs and manufacturing communities very visible feature of growing inequality in developed countries, and is taking a particularly heavy toll on middle-aged working-class men.
- But the number of industrial sector jobs is also declining in many developing countries that are facing premature deindustrialization and stalled industrialization, and the negative impact is much larger on women's industrial employment than on men's.
- In developing countries, the share of industrial employment in men's total employment declined by an average of 7.5% between 1991 and 2014, compared with a 39% average decline for women.



# Assessing gender-based exclusion in the context of structural change, globalization and growth in developing countries, 1991-2014

Factor	Impact on women's relative access to good jobs
<b>Structural transformation and the gender inclusivity of technological change</b>	
Industrial employment as a share of total employment	<b>Positive:</b> Industrial value added matters a lot less
Higher capital intensity of production	<b>Negative:</b> Given gender stereotypes and segregation, technological change may hurt women's access to better jobs
<b>Structural and policy consequences of globalization</b>	
Stronger fiscal policy stances	<b>Positive:</b> Austerity detracts from gender equality
Net (not total) exports of manufactures	<b>Positive:</b> Domestic value added in exports matter, FDI doesn't
<b>Economic growth</b>	
Per capita GDP growth	<b>No effect:</b> Failure of growth to produce sufficient employment also a failure for gender equality
<b>Women's involvement in markets</b>	
Increasing women's labor force participation	<b>Negative:</b> Given the limited supply of good jobs, associated with increased gender segregation and crowding into bad jobs

Implications for income inequality:

The lower women's access to good jobs, the lower the labor share of income.

## The return of rentier capitalism

- The rise of financial rents and the capture of political process
- Unproductive corporate rent-seeking and restrictive business practices have also soared over recent years in non-financial sectors, as a ‘new normal’ of corporate investment strategies and behaviour.
- A growing share of nonfinancial corporate profit is surplus profit associated with growing market and lobbying powers that drive rent-seeking.
- Winner-take-most strategies a source of polarisation

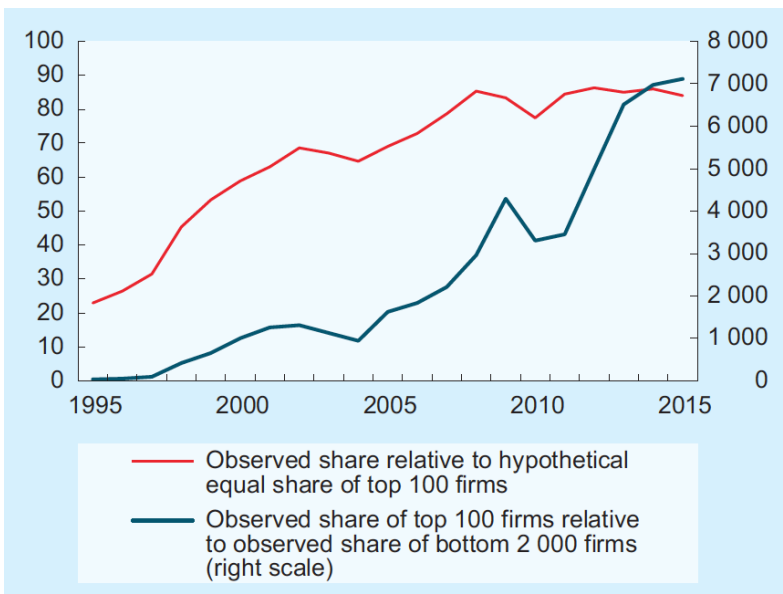
Share of surplus profits in total profits, 1995 – 2015 (Per cent)



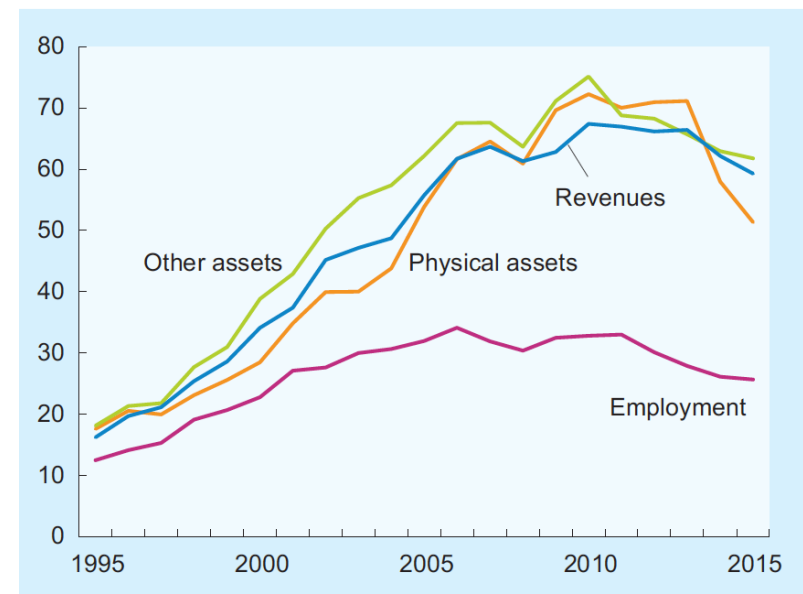
Surplus is anything above the median value of firms' ROA (calculated by sector)

# A core driver of corporate rentierism: Growing market concentration

Ratios of market capitalization,  
top 100 non-financial firms



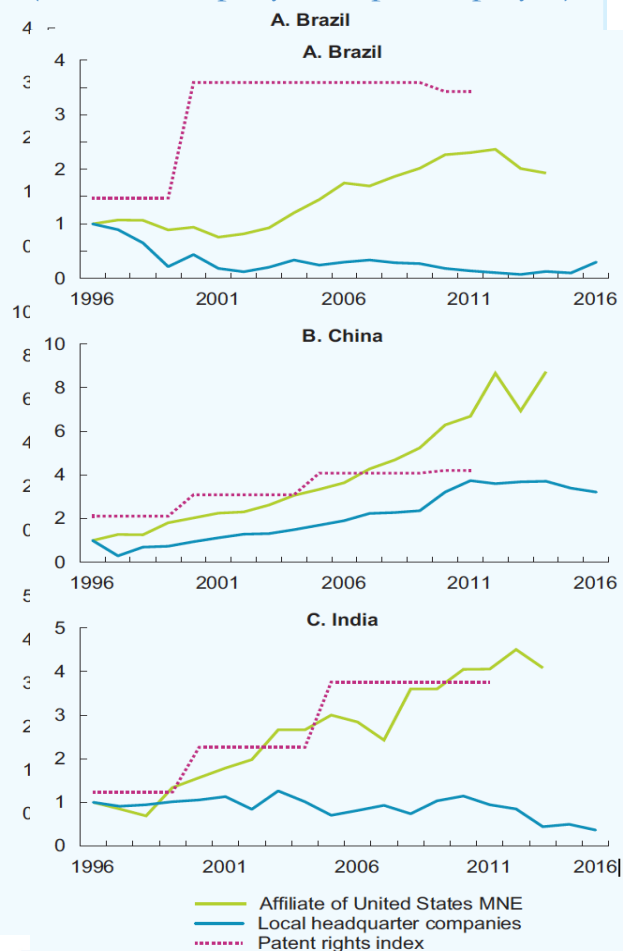
Concentration indices,  
top 100 non-financial firms



- Growing market concentration widely reported in leading economies
- Rising mark-ups also reported (de Loecker and Eackhout)
- Attributable to regulatory failures to rein in burgeoning corporate power, including for so-called “superstar firms”

# Examples of corporate rent-seeking strategies

Patent reforms and sales growth of US MNE affiliates & listed local companies  
(median company sales per employee)



- Aggressive use of patent rights to defend and increase market power rather than innovation
  - Facilitated by FTAs
- Large-scale privatization schemes of public services
- Public subsidies to large corporations across non-financial sectors without clear economic or efficiency justifications
- MNE tax avoidance via base erosion and profit shifting practices
- Stock market manipulation to boost CEO compensation



## Back to the future

- Guiding principles from the New Deal, Marshall Plan, and Havana Charter
  - **Speed, scale and generosity** – slow and incremental changes are less inspiring and transformative.
  - **Voice and counter-balancing power** – one of the most important elements for a developmental State
  - **Cooperation and coordination** – experimental and integrated approach to State intervention in domestic and international spheres
- Build on initiatives such as the SDGs and Paris Climate Agreement
- Unlock the creative impulses of markets but control their more destructive tendencies ... crowding-in not hollowing out should be the aim
- Engaged States that are also more accountable
- Today, recovery, regulation and redistribution will require more international coordination - to support national policy efforts, avoid beggar-thy-neighbour approaches and share benefits of inclusive growth.



# Elements for a Global New Deal

## 1. Inclusive recovery

- Replace austerity with full and decent employment (pragmatic macro plus more policy instruments)
- Enhancing public investment with a strong caring dimension
  - Physical and social infrastructure spending for regeneration
  - Seizing environmental opportunities

## 2. Expand fiscal space

- Progressive taxes; stop the slide in corporate taxes; strengthen international monitoring of wealth and income flows, stop tax havens.
- 5% tax hike on top decile – yields \$1 trillion!

## 3. Regulating rentier capitalism

- A financial system that supports capital formation (specialised public banks; regulating shadow banking, sovereign debt restructuring)
- Clamp down on corporate rent-seeking (anti-trust with teeth; oversight on restrictive business practices extending to global level)

## 4. Redistribution

- Must be universal & structural to be transformative (voice)
- UBI that is with – not instead of – public services





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