UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
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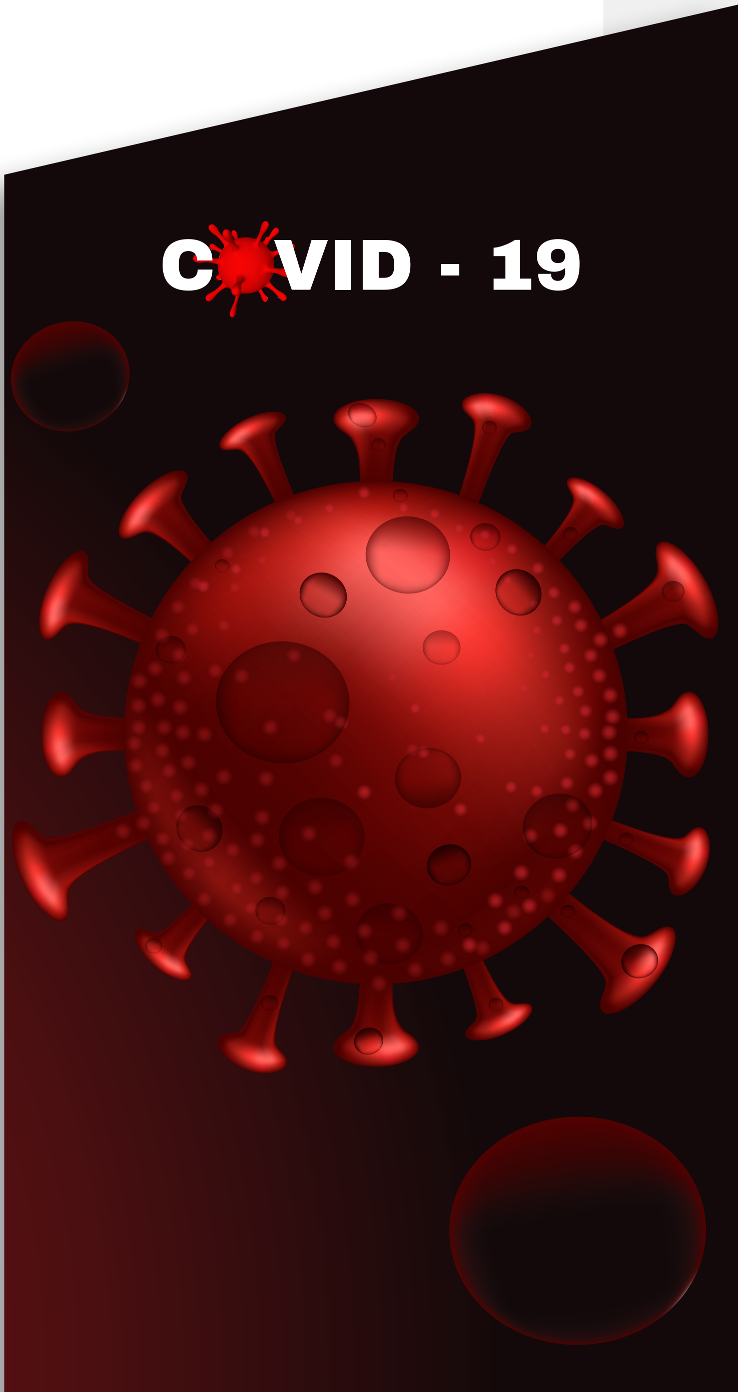
TRADE AND DEVELOPMENT REPORT UPDATE

Out of the frying pan ... Into the fire?

MARCH 2021



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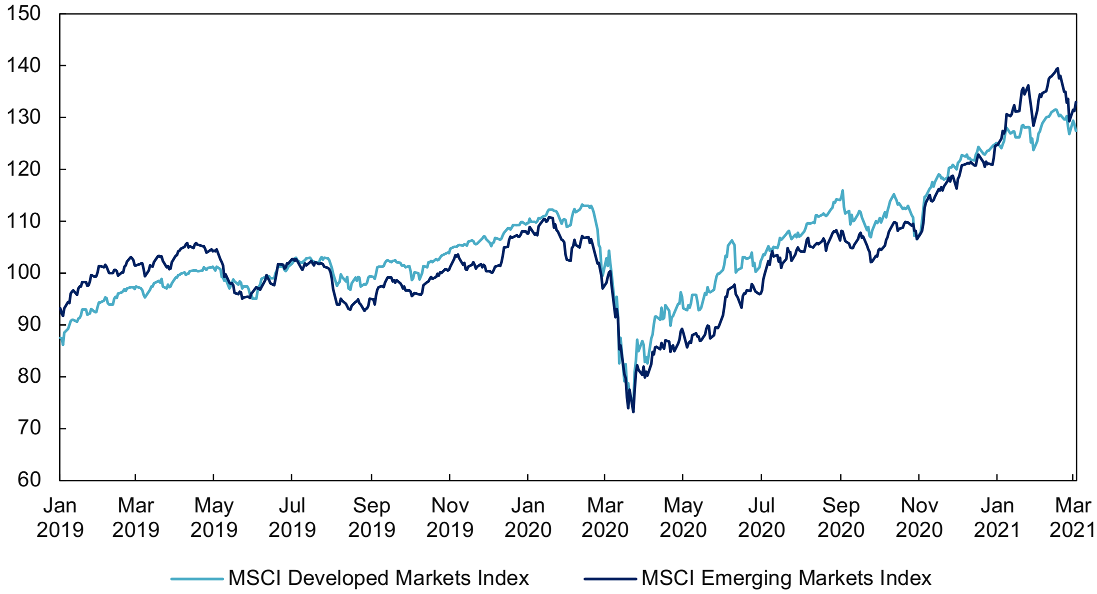
A. 2020: Annus horribilis

Although warnings about the spread of viruses have become more frequent in recent years (Davis, 2020), nobody anticipated the arrival of Covid-19 or its dramatic global impact. However, since the coronavirus' initial spread in the first two months of 2020, and the great lockdown in the second quarter, the global economy has exhibited a more predictable trajectory, albeit one marked by variability at the country and regional levels.

In March 2020, an initial threat of a financial meltdown was quickly averted by massive monetary injections from leading Central Banks following a pattern already witnessed after the dot com crisis in the early 2000s and the 2008 global financial crisis, but on an even larger scale (BIS, 2020; *TDR 2020*). Their willingness to keep the monetary spigot open saw financial markets bounce back quickly from the lows of March/April with many ending the year at an all-time high (figure 1). Outside of the financial sector, lockdowns – mostly in advanced economies – had a dramatic impact on output and employment through combined supply and demand-side effects that spilled over across the global economy (see figure A1 in Annex).

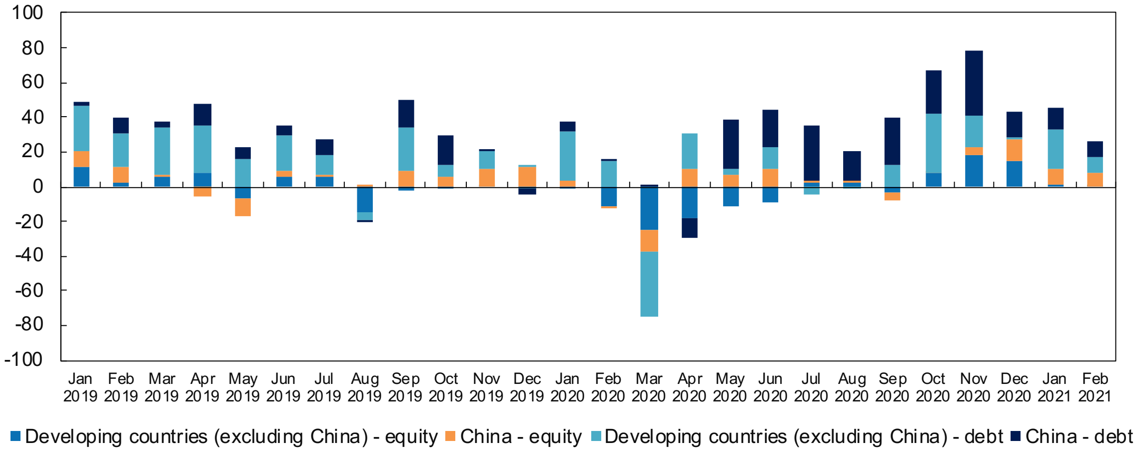
Figure 1 MSCI equity market indices, 1 January 2019–3 March 2021
(Index numbers, average 2019 = 100)



Source: UNCTAD secretariat calculations, based on Refinitiv *Eikon* data.
***Note**:* MSCI Developed Markets Index, officially referred as MSCI Global Market Index, comprises 23 economies: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong (SAR, China), Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. MSCI Emerging Markets Index comprises 27 economies: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Kuwait, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Republic of Korea, Russian Federation, Saudi Arabia, South Africa, Taiwan (Province of China), Thailand, Turkey and United Arab Emirates.

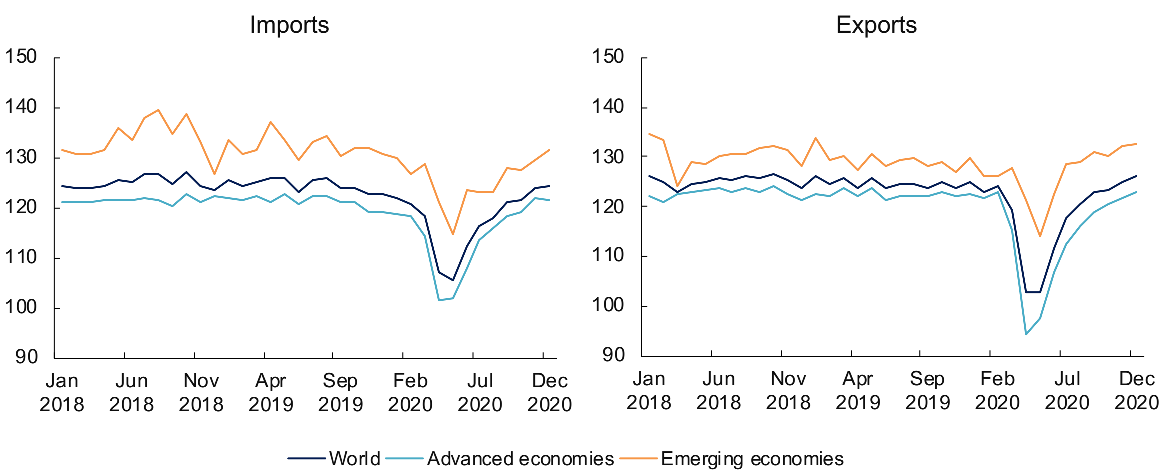
Investor anxieties, transmitted through pronounced capital flight, did have an immediate impact on emerging markets during the first half of 2020 (*TDR 2020*). The surge in net non-residential outflows was short-lived but brought lasting damage and the subsequent reflux of funds has been dominated by a few larger markets such as Brazil, China and India (figure 2). Elsewhere flows have been volatile, particularly in the case of portfolio flows with a number – including Chile, Mexico, South Africa, Thailand and Turkey – experiencing episodes of negative net flows (see figure A2 in Annex). Scarcity of foreign exchange in many developing countries, necessary to make debt and import payments, including for medical supplies, was compounded by a sharp fall in export earnings following the lockdowns, the rupture of supply chains and, for commodity exporters, the collapse of commodity prices. International trade dropped, quarter-on-quarter, by around 12 per cent in the second quarter of 2020 but has had an immediate V-shaped recovery (figure 3) with variations across developing countries and regions.

Figure 2 Net non-resident purchases of emerging market stocks, equity and debt, January 2019–February 2021
(Billions of dollars)



Source: UNCTAD secretariat calculations based on IFF *Monthly Emerging Market Portfolio* database.

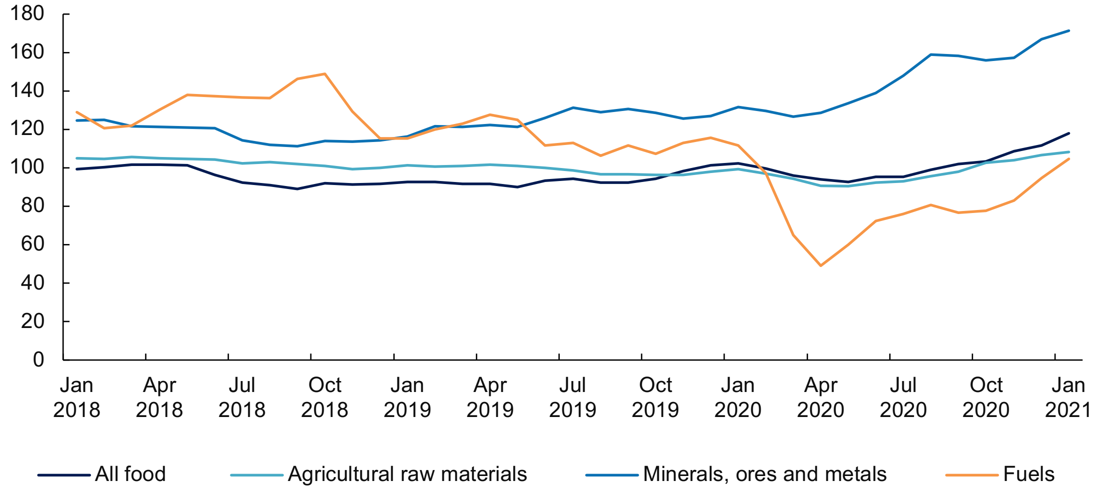
Figure 3 World trade volumes, January 2018–December 2020
(Index numbers, 2010 = 100)



Source: CPB Netherlands Bureau for Economic Policy Analysis, *World Trade Monitor* (Release on 25 February 2021).

The recovery in commodity prices in the second half of 2020 (figure 4) has helped a number of developing countries manage the crisis better than might otherwise have been expected. However, there are concerns that more volatility may be emerging, particularly in markets of some agricultural commodities, with a threat to food security in several countries (see box 1).

Figure 4 Monthly commodity price indices, selected commodity groups, January 2018–January 2021
(Index numbers, 2015 = 100)



Source: UNCTADstat.

Overall, the global economy posted its sharpest annual drop in output since statistics on aggregate economic activity were introduced in the early 1940s, with no region spared. ILO (2021) has estimated that the crisis triggered an effective loss of 255 million full-time jobs worldwide. While the bounce back in the third quarter, as countries started to lift restrictions, was sharp and in line with expectations, a second wave of the virus hit earlier than expected in the final quarter of 2020 dampening the recovery, most notably in Western Europe. However, an earlier than expected breakthrough with vaccines and improved management of lockdown measures have been offsetting factors in terms of Covid-19's overall economic impact.

The forecasts made by the *Trade and Development Report* (TDR) for 2020 proved generally correct, with East Asia and Latin America doing a little better than expected but Europe, India and South Africa doing worse. The positive surprises have been Brazil, Turkey and the United States, where larger than expected relief measures attenuated the recession and rising commodity and asset prices had a beneficial impact on growth. Several African economies also benefited from the rebound in commodity prices and the region as a whole experienced lower-than-expected pressures on public health systems. Table 1 presents the revised numbers for the world and the G20 economies.

Table 1 World output growth, 2016–2021
(Per cent)

	2016	2017	2018	2019	2020[a]	2021[b]	Rev. from TDR 2020: 2020	Rev. from TDR 2020: 2021
World	**2.7**	**3.3**	**3.2**	**2.5**	**-3.9**	**4.7**	**+0.4**	**+0.6**
Developed countries	**1.7**	**2.4**	**2.3**	**1.7**	**-5.2**	**4.0**	**+0.6**	**+0.9**
of which:								
Japan	0.8	1.7	0.6	0.3	-4.8	2.1	**-0.3**	**+0.2**
United States	1.7	2.3	3.0	2.2	-3.5	4.5	**+1.9**	**+1.7**
Europe (incl. EU and non-EU european countries)	2.0	2.8	2.1	1.5	-7.4	4.0	**-0.1**	**+0.4**
of which:								
Euro area	1.9	2.6	1.9	1.3	-7.3	4.0	**-0.3**	**+0.6**
France	1.1	2.3	1.8	1.5	-8.3	5.3	**-0.2**	**+1.9**
Germany	2.2	2.6	1.3	0.6	-5.3	3.3	**-0.4**	**+0.4**
Italy	1.3	1.7	0.9	0.3	-8.9	4.1	**-0.3**	**+0.9**
New EU member States after 2004	3.2	4.9	4.5	3.8	-5.1	3.6	**+0.1**	**-0.3**
United Kingdom	1.7	1.7	1.3	1.4	-9.9	4.4	**-0.0**	**0.0**
South-East Europe and CIS	**0.8**	**2.4**	**3.2**	**2.6**	**-2.9**	**3.3**	**+1.4**	**-0.2**
South-East Europe[c]	3.2	2.6	4.1	3.5	-3.8	4.5	**-0.6**	**+0.9**
CIS incl. Georgia	0.7	2.4	3.2	2.6	-2.9	3.2	**+1.4**	**-0.2**
of which:								
Russian Federation	0.2	1.8	2.8	2.0	-3.1	3.0	**+1.2**	**-0.4**
Developing countries	**4.3**	**4.8**	**4.4**	**3.6**	**-2.1**	**5.8**	**-0.0**	**+0.1**
Africa	1.7	3.4	3.3	2.8	-3.8	3.1	**-0.9**	**-0.4**
North Africa (incl. South Sudan)	2.8	5.0	4.1	3.1	-5.8	4.2	**-2.4**	**+0.5**
South Africa	0.4	1.4	0.8	0.2	-7.0	3.0	**-1.0**	**+0.0**
Sub-Saharan Africa (excl. South Africa and South Sudan)	1.4	3.0	3.4	3.3	-1.9	2.5	**+0.1**	**-1.1**
Latin America and the Caribbean	-1.2	1.0	0.8	-0.2	-7.4	3.8	**+0.2**	**+0.8**
Caribbean	2.1	2.2	3.6	1.9	-8.3	4.1	**-2.0**	**+1.9**
Central America	3.8	4.0	2.8	2.5	-6.4	3.8	**-1.2**	**+1.3**
Mexico	2.9	2.1	2.1	-0.1	-8.5	4.0	**+1.5**	**+1.0**
South America	-3.0	0.4	0.0	-0.6	-7.1	3.7	**+0.0**	**+0.6**
of which:								
Argentina	-2.1	2.8	-2.6	-2.1	-10.0	4.7	**+0.4**	**-0.0**
Brazil	-3.3	1.3	1.8	1.4	-4.1	3.1	**+1.6**	**-0.0**
Asia	6.0	5.8	5.4	4.5	-0.9	6.4	**+0.0**	**+0.1**
East Asia	6.1	6.3	6.1	5.4	1.6	7.5	**+0.5**	**+0.0**
of which:								
China	6.8	6.9	6.7	6.1	2.3	8.1	**+1.0**	**0.0**
Republic of Korea	2.9	3.2	2.9	2.0	-1.0	4.0	**-1.1**	**-0.3**
South Asia	8.6	6.5	5.1	3.2	-6.2	5.0	**-1.4**	**+1.1**
of which:								
India	9.0	6.6	6.8	4.9	-6.9	5.0	**-1.0**	**+1.1**
South-East Asia	4.8	5.3	5.1	4.4	-3.9	5.1	**-1.7**	**+0.8**
of which:								
Indonesia	5.0	5.1	5.2	5.0	-2.1	4.5	**-2.1**	**+0.0**
Western Asia	3.2	2.3	2.0	0.9	-5.0	3.0	**-0.5**	**-0.6**
of which:								
Saudi Arabia	1.7	-0.7	2.4	0.3	-4.1	3.2	**+0.7**	**-0.0**
Turkey	3.3	7.5	3.0	0.9	-3.0	4.0	**+1.6**	**-0.0**
Oceania	3.2	3.2	0.9	3.6	-4.0	3.2	**-0.5**	**+0.4**

Source: UNCTAD secretariat calculations based on official data and estimates generated by United Nations Global Policy Model.
Note: Calculations for country aggregates are based on GDP at constant 2015 dollars.
a Actual data for Argentina, Brazil, China, France, Germany, Indonesia, Italy, Japan, Mexico, Republic of Korea, South Africa, United Kingdom and United States. Estimates for India, Russian Federation, Saudi Arabia and Turkey.
b Forecasts.
c Albania, Bosnia and Herzegovina, Montenegro, Serbia and the Republic of North Macedonia.

For the global economy the overall cost of the crisis has been exorbitant. Gross domestic product (GDP) growth does not begin to measure it, but the estimated 3.9 per cent drop in output (0.4 percentage points better than what we expected in mid-2020 largely due to the stronger performances in China and the United States) reflects the widespread nature of the shock. The loss of global output in 2020 with respect to the pre-pandemic trend meant destruction of income on an unprecedented scale, an estimated 5.8 trillion dollars, and with already vulnerable parts of the population bearing the brunt, at a time when better income distribution had become most urgent. This loss will persist as even the most optimistic projections for the bounce back of growth will not cover the shortfall of income for several years.

For 2021, we now expect a 4.7 per cent expansion, 0.6 percentage points better than our previous forecast. However, this more optimistic scenario hinges on three assumptions:

(i) improved vaccination and disease containment in advanced and middle-income countries;

(ii) a speedy transition from economic relief policies to recovery-policies in the largest economies of the world; and

(iii) no financial crash of global significance.

Public pronouncements suggest a determination of policymakers to ensure all three conditions. But while crisis response has been more pragmatic than in the past, resistance to continued expansionary fiscal policy is already beginning to surface in some countries, based on talk of a possible return of inflation and concerns over sovereign debts.

Prospects for vaccinations are also uncertain, particularly for developing countries. After rapid progress in research and clinical trials, thanks to strong public funding support in some countries, roll out has to date been surprisingly uneven including across advanced economies despite their widespread use of advanced purchase agreements. In developing economies access to vaccines has been limited, and despite concerns over scaling up production capacity in advanced countries, calls at the WTO to waive intellectual property rights on Covid-19 vaccines, to speed up production in some emerging economies, have been resisted.[1] The experience has revealed serious shortcomings in the international health architecture and more generally a reticence to treat the pandemic as a truly global public health and economic challenge.

The swift response of Central Banks to the financial shock at the start of the pandemic and the subsequent willingness of the United States Federal Reserve to extend swap lines, including to select developing countries, have helped ease liquidity constraints and investor anxieties since the outbreak of the crisis. However, dramatic increases in private financial leverage in some countries, especially in the United States over the past 12 months (where price/earnings ratios have soared and the Buffet Indicator is at an all-time high), suggest an inflating "Covid bubble" and the risk of a financial crash if growth prospects do not sufficiently improve, if inflation accelerates or if investor confidence is pricked in other ways (for example by vaccine-resistant virus variants).

[1] *Financial Times* (2021). Most adults in rich countries face long wait for vaccine, distributor warns. 8 March; *The Guardian* (2021). A global vaccine apartheid is unfolding. People's lives must come before profit. 29 January.

B. Regional trends in GDP growth

i. THE AMERICAS

The economy of the United States experienced a less brutal contraction than was expected in mid-2020. On the fiscal side, the relief packages were larger than anticipated and succeeded in attenuating income losses. Monetary policy remained expansionary and, more importantly, the Fed ruled out any early increases of interest rates, even if inflation goes above its 2-per cent target. Together with the early breakthrough in vaccine approval and the stock-market boom (fuelled by lose monetary policy and driven by the strong earnings of large tech companies), these actions resulted in a quick recovery of aggregate income in the second half of 2020, although unevenly and more to the benefit of the wealthy, giving rise to concerns of a K-shaped recovery, including by the newly appointed Secretary of the Treasury (Yellen, 2021).

For this year, we expect the expansion to continue, on the assumption that the $1.9 trillion package of the new Administration will engineer strong job creation, improved consumer confidence and a significant investment in productive capacity. More specifically, cash transfers, extended unemployment benefits and deferrals in tax and mortgage payments will help sustain the momentum of consumption expenditure. Investment and employment programmes will increase both capacity and demand. But the Administration's approach to reducing economic inequalities will be critical to achieving a broad-based recovery. Income inequality has seen a dramatic acceleration last year due to record financial earnings and the significant job losses in low-wage sectors. A federal minimum wage increase would be an important step to reverse this setback and the preceding four decades of increased inequality. Capital spending was fuelled by residential construction later in 2020 and should also see some pick up in 2021 as inventory stocks are replenished.

We expect this expansion to partially spill over to its North American neighbours, with Canada and Mexico growing almost at the same pace as the United States in 2021. In Canada, where the Covid-19 recession was deeper than in the United States because of stricter lockdowns, the downside risk for 2021 is slow vaccination. The Canadian Government ordered enough vaccines for its population, but a slow rollout may hamper the recovery. In Mexico, which contracted slightly less than we expected in 2020 thanks to a milder shock in the United States, the downside risk is an even more stringent fiscal stance than that of last year. In fact, in 2020, the Mexican Government adopted a neutral budgetary response to Covid-19, and it now seems poised to tighten fiscal policy in 2021. Mexico's income growth will therefore depend more on a lasting recovery in the United States and on oil prices not falling.

Moving to other large Latin American economies, our mid-2020 forecast for Argentina was confirmed: a 10-per cent recession because of adverse pre-Covid trends and difficult debt negotiations, aside from the virus' economic effects. In 2021 we continue to expect the Argentine economy to recover only 50 per cent of the income loss. Rising inflation reduces room for compensatory domestic policy in 2021, while scarcity of foreign exchange without proper international assistance risks leading to a currency crisis. The IMF can provide the necessary assistance if it transforms its pro-growth rhetoric into concrete actions.

Brazil did much better than we expected due to a massive fiscal stimulus and monetary accommodation. The latter happened despite the rise in inflation at the end of 2020, and the two things temporarily reduced the Brazilian Treasury's financial cost. As proof that expansionary fiscal policy works, the budget deficit and public debt grew less than initially expected, leaving room for more relief or reconstruction policies in 2021. So far, the Brazilian Authorities do not seem willing to use their fiscal space, preaching, instead, a quick return to austerity. Because of the latter and the gradual monetary tightening to fight the recent rise in inflation, we maintain our initial growth forecast for 2021. The "upside risk" is a more gradual fiscal consolidation and a stronger pull from the United States and East Asia in the second half of 2021.

As we foresaw in mid-2020, the Andean economies were hard hit by Covid-19, with a double-digit recession in Peru and large falls in Chile and Colombia. However, we continue to expect these economies to recover faster than Brazil, Argentina, and Mexico in 2021, due to the impact of high commodity prices and, in the case of Chile, faster vaccination and lifting of social distancing rules.

ii. EUROPE, RUSSIAN FEDERATION and TURKEY

European countries experienced the largest output contractions among developed economies in 2020. The euro area contracted of 7.3 per cent in 2020 as its largest economies went into lockdown in the first and second quarters, reopened in the third and went back into partial lockdowns in the fourth. The impact on livelihoods was highly unequal. For example, in the second quarter of 2020, wages fell 15 per cent in Spain, 14 per cent in Italy, 10 per cent in France and 4.5 per cent in Germany, compared to the same quarter of 2019. Overall, reality proved slightly worse than our forecast, mostly as a result of unanticipated second lockdowns which were not fully offset by private consumption expenditure. France, Germany and Italy, the bloc's three largest economies experienced a rebound of economic activity in the second half of the year, though Italy registered again negative growth in the fourth quarter. These differences in economic outcomes were due to the unequal impacts of the pandemic but also to weak fiscal responses. Relative to 2019, in 2020 government consumption expenditure increased in Germany and Italy but fell in France. In the European Union it increased on average 1 per cent. In the second quarter of 2020 subsidies fell in France, increased 8 per cent in Italy and more than 300 per cent in Germany, compared to the same quarter of 2019.

Early in 2021, the European Union does not show signs of solid recovery and may experience another quarter of negative growth with prospects for the rest of the year largely depending on how fiscal responses and vaccination programmes evolve. At the moment there is no timeline for universal access to vaccines. Meanwhile, the European Union's fiscal response –centred on the Multiannual Financial Framework, –has not provided, or planned on, the necessary investment and demand support. The centrepiece 'Next Generation EU', a package of spending measures, including goods and services up to €390 billion over 6 years[2], is approximately 0.5 per cent annually of the bloc's GDP, tying the recovery to member countries' unequal spending (and borrowing) capacities. Based on these considerations we forecast growth in the euro area to reach 4 per cent in 2021.

The United Kingdom – which ended its transition out of the European Union at the end of 2020 – experienced a record output contraction of almost 20 per cent in the second quarter, driven by all components of domestic demand. As restrictive measures eased afterwards and the Government made cash transfers to households and businesses, activity resumed, partly offsetting the drop in output, which eventually registered negative 9.9 per cent on an annual basis. The second wave of Covid-19 infections and lockdowns, along with ongoing disruption linked to its

[2] The time horizon for the bulk of these spending measures (312.5 billion euros) is from 2021 to 2023, the remaining outlays (77.5 billion euros) are to be be committed by 31 December 2026.

departure from the European Union, has been harsh on its economy with adverse consequences for the recovery in 2021. The vaccine roll-out has, however, been relatively rapid which should allow for an easing of restrictions in the second half of the year. Overall, we estimate the economy to grow 4.4 per cent in 2021.

The Russian Federation experienced three consecutive quarters of negative growth between April and December 2020. But the recovery of oil prices has provided support to the country's export and fiscal revenues. However, prospects for 2021 are shrouded in a good deal of uncertainty.

Turkey also experienced a deep contraction in the second quarter, followed by recovery. Record growth in the third quarter was driven by strong fiscal stimulus as lockdowns eased. The Government's fiscal space benefited from a stabilization of the Lira, although a recent increase in policy interest rates has compounded financial challenges.

iii. CHINA

The Chinese economy outperformed our mid-2020 expectations to register 2.3 per cent growth in 2020. The implementation of stringent lockdown restrictions during the first quarter of 2020 proved successful in suppressing the virus' spread within the country, thus enabling the lifting of restrictions and a recovery in economic activity during the second half of the year. Moreover, subsequent outbreaks of the virus have been successfully contained by way of mass testing and tracing programmes and, when necessary, the imposition of localized restrictions whose disruption to economic activities has been limited. For its part, the Authorities' boost to public investment aided in stimulating job creation, while substantial liquidity support from the Central Bank also spurred the rebound in the second semester of 2020.

Likewise, the recovery in the export sector in the latter part of 2020 was stronger than expected. Despite the disruptions to global trade flows during the first months of the year, initial estimates point to a growth in the volume of China's goods exports of approximately 4 per cent in 2020, with a particularly strong performance during the Western holiday season in December. More broadly, the recovery in goods outflows in the second half of the year is explained in part by the positive performance of a selection of sectors that experienced a surge in international demand as a result of the pandemic. These include sectors focused on medical products and personal protective equipment, as well the electronics and communications goods sectors as the confinement of households to their homes and the rapid increase in remote working requirements boosted global demand for these products.

Policymakers in China have set a growth target of at least 6 per cent this year and our own projection of 8 per cent remains unchanged. We expect continued success in containing future outbreaks of the virus and the acceleration of vaccination programs to help propel a recovery in private consumption. Moreover, support from the Government for new infrastructure projects will likely be maintained, ensuring a healthy expansion in public expenditures. Similarly, we expect a strong rebound in private investment as demand both at home and abroad picks up from the downturn last year. Nevertheless, despite the smaller than expected growth deceleration in 2020 and strong rebound projected for 2021, the Chinese economy will still be more than 2 per cent below its pre-pandemic GDP trend level at the end of this year.

iv. JAPAN, REPUBLIC OF KOREA and AUSTRALIA

Japan experienced the full force of the Covid-19 shock in the second quarter of 2020 on the heels of a recession that started in the fourth quarter of 2019, triggered by increases in value added taxes. The recovery in the second half of the year was moderate and year-on-year the economy contracted by 4.8 per cent. Notably, the only component of aggregate demand to show positive growth was government spending, thanks to the Covid-19 fiscal stimulus. A projected recovery to annual growth of 2.1 per cent in 2021 is explained by two opposite forces. On the one hand, a rebound will result from the lifting of economic lockdowns and uncertainties. On the other hand, negative forces will remain. The economy is likely contracting in the first quarter, following a third wave of the pandemic which is eroding activity and industrial production, and a reversal in the current account (where both trade in goods and services, and net receipts from abroad show weaknesses). Further ahead, a rebound from the second quarter onwards is likely to be weakened by the expected policy response of the new Government to the first signs of growth: a U-turn in the fiscal stance and a deepening of structural reforms, both hitting aggregate demand.

The impact of the pandemic on the economic performance of the Republic of Korea was more pronounced than we had foreseen in mid-2020. The country's success in containing the virus during the first wave of infections across Asia, through widespread testing, tracing and targeted quarantining, was seen as an example to follow, particularly as it was implemented without imposing the lockdowns and severe restrictions seen in other countries.

Despite this success, the impact of the pandemic on consumer confidence and subsequent consumer spending was heavier than anticipated. Moreover, the expected recovery in private consumption during the latter part of the year was stymied by an unanticipated rise in infections in the last two months of the year, which were met with tighter restrictions and social distancing rules. These restrictions have had an outsized impact on employment, with job creation in the third quarter wiped out by fourth quarter job losses, and private consumption, which dropped 5 per cent in 2020. Tempering this downturn in consumption was the positive performance of the export sector which, much like in China, registered an increase in demand for electronic and communications products.

The expected recovery in economic activity in 2021 is broadly in line with what we had envisaged in mid-2020. The impact of the surge in virus cases in late 2020 has spilled over into the early months of this year, with available data for January indicating that the weakness in the job markets and private consumption might persist. Nevertheless, we expect strong growth in both investment and the export sector to propel the recovery in 2021.

Australia is expected to recover the loss from the Covid-19 shock in 2021, getting back to its pre-Covid output level by the end of the year. Fiscal policy tends to remain expansionary in 2021, but with a smaller impulse than in 2020. Given the low-inflation scenario, monetary policy is expected to remain accommodative, with an interest rate close to zero. More importantly, growth in East Asia will continue to help Australia recover but trade tensions with China pose a downside risk.

v. INDIA, INDONESIA AND SOUTH EAST ASIA

India's growth performance in 2020 fell below our mid-2020 expectations. Actual fiscal stimulus fell short of initial announcements that suggested a large increase of public spending for pandemic relief. The relief measures adopted were not only much smaller in scale, but also centred on easing supply-side constraints and providing liquidity support rather than aggregate demand support. Moreover, restrictions to people's movement not only severely affected incomes and consumption, they also proved largely unsuccessful in containing the spread of the virus. As a result, the fall in economic activity proved to be larger than we had envisaged in mid-2020.

The deeper than expected downturn in 2020 explains in part the stronger recovery now projected for 2021. The budget for the fiscal year from April 2021 to March 2022 also points to a shift towards demand-side stimulus, with an uptick in public investment (particularly in transport infrastructure) for the coming fiscal year. An anticipated recovery in global demand will also help buoy the export sector through 2021.

Indonesia's growth performance in 2020 was below our mid-2020 expectations, as the size of the fiscal stimulus turned out to be significantly smaller than our estimates based on initial indications of the Government's response to the pandemic. In fact, efforts which had begun before the onset of the Covid-19 outbreak to curtail public expenditures by reducing the size of the civil service were pushed forward despite the pandemic. The resulting fiscal restraint, which we had not anticipated, held back economic activity. Moreover, the export sector did not contribute as expected due to sharp reductions in the international prices of the country's principal commodity exports. Our projection of a fairly moderate recovery in 2021 (relative to the country's growth rate in the years prior to the pandemic) remains unchanged.

The growth rate of the Southeast Asian region as a whole was similarly below our mid-2020 expectations, as other large economies in the region (namely Malaysia and the Philippines) also underperformed vis-à-vis our expectations. Both countries struggled with elevated and persistent infection rates, which were met with restrictions on population movements. The economic fallout of these restrictions has been predictably severe, with substantial output contractions in both countries, although in Malaysia active fiscal policies partially offset the fall in private consumption spending. In Thailand, the sharp output contraction was consistent with our mid-2020 expectations, as the country's reliance on tourism proved a key vulnerability in a year of widespread travel restrictions. The only significant positive surprise in the region has been Viet Nam, whose growth in 2020 exceeded our expectations. The country's success in containing the virus' spread helped to ensure a quick bounce back in activity, while the export sector continued to perform well despite the shortfall in global demand.

We have revised upward our projection for the region's economic growth in 2021. This is largely due to the greater than anticipated contraction in 2020, which should engender a steeper recovery in 2021. We foresee an upturn in private consumption and exports throughout the region which will drive the rebound in growth this year.

vi. SOUTH AFRICA AND SUBSAHARAN AFRICA

Africa was severely hit in 2020 by the pandemic, which led to the worst economic performance in decades as economic output shrank 3.8 per cent, compared with a trend growth of 3.2 per cent over the last few years. The two main economies in sub-Saharan Africa were not exempted from the crisis.

South Africa's real GDP increased at an annualised rate of 6.3 per cent in the fourth quarter of 2020. This followed growth rates of 67.3 per cent in the third quarter and -51.7 per cent in the second quarter. According to the latest preliminary indicators, the overall growth for 2020 was -7.0 per cent, representing the biggest annual fall in economic activity the country has registered since at least 1946. Given the very slow growth in the past years, such a shock brought back the annual GDP level to where it was in real terms seven years ago. Despite the impact of the pandemic on economic growth, agriculture production was strong in 2020 growing 13 per cent. Government spending grew marginally (by less than 1 per cent) in 2020, which may have helped mitigate the sharp contraction in other parts of the economy. The construction sector, already in deep trouble before the pandemic, registered the largest contraction (20 per cent), marking the industry's fourth consecutive year of economic decline. Higher frequency indicators point to a moderate improvement of the situation in early 2021, amid robust terms of trade and stronger exports. Yet, the South African Reserve Bank does not expect the economy to get back to pre-pandemic output levels soon, owing to the second wave of Covid-19 infections. Moreover, lower public and private investment in 2020, together with continued weakness in 2021, will weigh on growth prospects. In this context, the economy is expected to grow by 3.0 per cent in 2021.

The growth of Nigeria's output has been subdued for several years, often falling below population growth. In 2020, economic output declined by 1.9 per cent, the second annual decline in five years. The sharp contraction of oil production was a major driver and continuing uncertainty in the oil market poses some downside risks to the forecast. Overall, the Nigerian economy is expected to grow by 1.5 per cent in 2021. In Egypt, GDP growth recorded a preliminary figure of 0.7 per cent during the third quarter of 2020, up from -1.7 per cent during the second quarter. Meanwhile, the unemployment rate decreased to 7.3 per cent in 2020 Q3 from 9.6 per cent in 2020 Q2. Select demand-side leading indicators continue to display signs of recovery in during the fourth quarter of 2020. Overall, we expect Egypt to register growth of 0.2 per cent in 2020 and 2.5 per cent in 2021.

In the rest of the continent, tourism dependent economies were severely hit, with sharp GDP contractions during the second quarter of 2020. Other oil-exporting countries, including Algeria, Angola, Cameroon, Equatorial Guinea and Gabon, also registered significant GDP decline. Though economic prospects look brighter as commodity prices rise, many African countries will continue to be seriously affected by the socioeconomic consequences of the global economic slowdown triggered by the pandemic. Even before Covid-19 hit, an increasing number of African countries were heavily indebted and financially stressed. In 2021, debt will become a greater concern for many African States, as government-debt-to-GDP exceed 100 per cent in several countries, including Zambia, which already defaulted in October 2020, Angola and the Republic of Congo. Meanwhile, Ethiopia announced in February 2021 that it was looking to make use of the G20 *Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative* (DSSI), which explicitly raises the risk of a default event.

C. 2021: "V" for vulnerable

The global recovery that began in the third quarter of 2020 is expected to continue through 2021 albeit with a good deal of unevenness and unpredictability reflecting epidemiological, policy and coordination uncertainties.

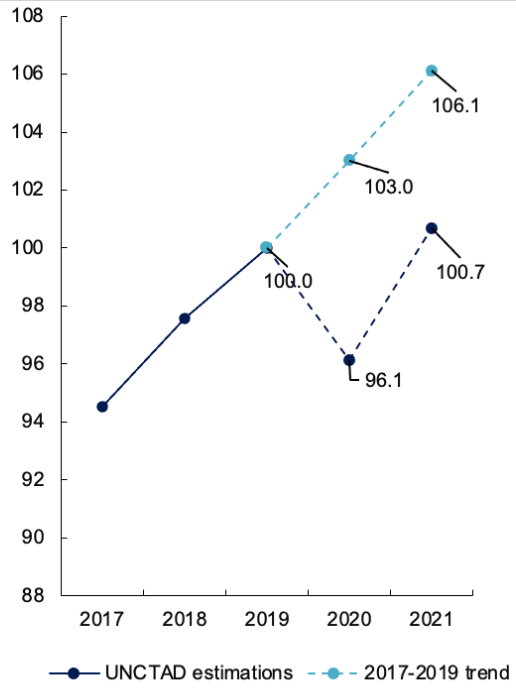
A misguided return to austerity after a deep and destructive recession is the main risk to our global outlook, especially in the context of fractured labour markets and deregulated financial markets. Together with the erosion of states' institutional capacity and policy space, these trends undermine the resilience of the global economy to all shocks.

Even barring an immediate return of austerity, it will take more than one year for output and employment to return to their pre-Covid-19 levels in most countries, leaving the world economy of early 2022 well below where it would be if pre-Covid-19 trends had continued. From a more qualitative perspective, the pandemic's implications for employment, income inequality, and public welfare over the medium term will continue to depend on the evolution of macroeconomic conditions.

Specifically, in our optimistic scenario for 2021, as global growth accelerates to 4.7 per cent the world economy will still be 5 per cent below its pre-Covid-19 trend by the end of this year with significant hits to all countries (figure 5a). Assuming that trend had been maintained in 2020 and 2021, the pandemic will carry a 10 trillion dollars price tag by the end of this year (figure 5b), pushing the global economy even further off course than in 2019 for achieving the Sustainable Development Goals (SDGs) (figure 5b).

Figure 5A World output level, 2017—2021 *(Index numbers, 2019=100)*

5B Accumulated real income loss relative to pre-Covid-19 trend, 2020–2021 *(Per cent of GDP)*



Source: UNCTAD secretariat calculations, based on official data and estimates generated by United Nations Global Policy Model.

Under these circumstances the challenge is less one of policy uncertainty as it is one of policy complacency setting in as the recovery advances. Aiming at the world economy in 2019 as the target for job completion runs the serious risk of a slackening of policy ambition before any of the underlying conditions that contributed to a decade of weak and fragile recovery after the global financial crisis are properly addressed. This would have particularly damaging consequences for the recovery in developing and emerging economies.

Already the emerging growth patterns post Covid-19 are cause for concern:

1. The strong growth recovery in East Asia reflects a robust export-investment link and increased intra-regional trade. However, this regime runs the risk of accumulating large trade surpluses with possible trade tensions if all countries try to follow suit (a fallacy of

composition). China's ongoing efforts to turn to domestic consumer demand and increased public spending on social services will be key to moving from a robust recovery to a more balanced and transformative growth path.

2. The European Union also appears committed to an export-led recovery reflecting its aversion to a coordinated and sufficiently strong fiscal expansion, while it expects that an accommodative ECB takes charge of stimulating the economy. This will likely lead to replicating the imbalances behind the slowdown in growth that was already apparent prior to Covid-19. The fiscal package adopted in July did point in a new direction but its size is too small to make a real difference and roll out problems have already become apparent.

3. The recovery in the United States will depend in no small part on the ambition of the new Administration. The $1.9 trillion stimulus package is grounds for encouragement. However, the growth regime in place prior to the pandemic was heavily consumption-driven, dependent on rising household debt (in the absence of robust wage growth) and strong wealth effects (from buoyant financial markets). It is worth noting that the massive tax cuts (amounting to around $1.5 trillion) passed in December 2017, while heavily skewed in favour of the wealthy, had a fairly weak impact on growth. Loose monetary policy has certainly helped the recovery in consumption spending, but without a strong push in government spending, including a strong public investment drive, and measures to raise the share of labour in total income, its impact on private investment spending remains uncertain, particularly under the threat of rising corporate bankruptcies which will increase as monetary policy is tempered. The current stimulus package contains large cash transfers but little direct spending on consumption and investment, which would offer the safest route to aggregate demand expansion and a green transition.

4. Across many countries in Latin America and Africa, commodity dependence, heavy reliance on capital inflows, and low rates of capital formation continue to make for a fragile growth trajectory. Diversification is essential for building resilience but this in turn requires strong investment in the public and private sectors. In both regions large debt overhangs acquired during the recovery from the global financial crisis have grown even larger over the past 9 months posing a potentially very serious constraint on sustained recovery, in the absence of appropriate multilateral support.

In light of the persistent vulnerabilities across the global economy, a number of lessons can be drawn from what has happened to date.

First, austerity undermines resilience and fiscal space. In the aftermath of the great financial crisis, fiscal measures (especially cash transfers) have assumed a prominent role in relief packages alongside financial measures (loans, guarantees, etc). But the effort has been unevenly distributed among countries, even within the group of developed economies. For heavily indebted developing countries multilateral debt relief was a step in the right direction but was negligible in scale.

Second, in an interdependent global economy, international cooperation is key to both recovery and resilience. So far it has fallen well short of what is required to address a global challenge. Sputtering vaccine roll-out in most countries is a clear indication of insufficient international policy coordination. Developed countries have cornered supply through advanced purchasing agreements, while getting vaccines to developing countries has been treated more as a matter of charity than global public policy. As noted earlier, developed countries have so far resisted calls for a TRIPs waiver in the WTO that would help them increase vaccine production. The delay in economic recovery and further damage to overstretched health systems in the developing world will be devastating but prolonging the pandemic anywhere will have consequences everywhere, and a recent study has found that this will ultimately have the gravest impacts on advanced economies (Çakmaklı et al., 2020).

The reluctance to issue SDRs earlier in the crisis is another case in point. There is now a growing belief that the new Administration in the United States will endorse a $500 billion issuance at the upcoming G20 meeting. As discussed in the *TDR 2020* this would be a welcome move though still short of what is needed, particularly for developing countries. Much the same goes for the Debt Service Suspension Initiative which, to date, has released around $11 billion to eligible developing countries compared to an increase in their annual debt servicing in the decade following the global financial crisis of $60 billion (to $80 billion in 2019). The limited coverage of the suspension, its short-term nature, as well as the conditionalities attached, have made countries hesitant to apply, for fear of feeding negative effects on market ratings in exchange for a limited financial advantage.

Growing food insecurity in the face of a continued upward trend in prices into 2021 is a third area of inadequate international cooperation (see box 1) with urgently needed reforms to the rules on agricultural trade stymied by the impasse at the WTO.

Third, the disconnect between financial markets and the real economy remains of systemic concern for future stability and resilience. There was a V-shaped recovery in many financial markets, which saw sharp losses followed by unprecedented gains, by the year’s end. This not only contrasts with the weaker recovery in terms of output, employment, investment, wages, etc it has also contributed to what was referred to above as a K-shaped recovery in many countries as the owners of assets (and certain types of knowledge capital) have successfully managed the crisis, while the situation facing many other workers has been one of job loss and precarity.

Box 1 Increasing international cereal prices could exacerbate domestic difficulties in several large developing economies

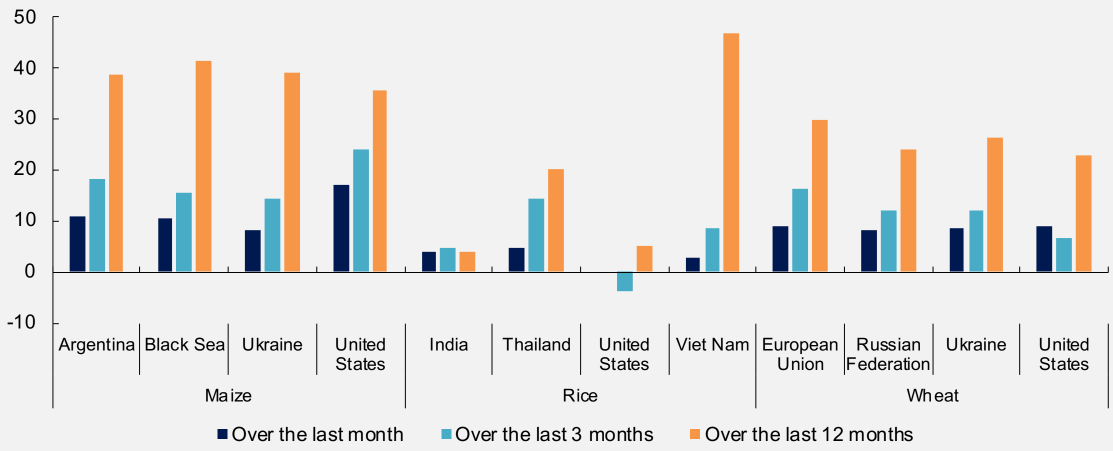
The FAO 'Food Price Index' rose 4.3 per cent from December 2020. This marked the eighth month of consecutive rise and its highest monthly average since July 2014, amid rapid price increase in cereals, vegetable oils and sugar.

The international prices of cereals have registered sharp price increases, on the back of significant price increases in maize and wheat, which amount to roughly one-third and one-quarter, respectively, since August 2020. Meanwhile, rice prices have followed mixed trends, though the FAO 'All Rice Price' index was about one tenth above its year-earlier level in January 2021, while in South-East Asia they stood way above this average (figure B.1).

In many developing regions, such price surges, together with other idiosyncratic shocks, have spilled over to several other basic staple foods. These have triggered several domestic price warnings, i.e. domestic situations where prices of one or more basic food commodity are at abnormal high levels, plausibly harming the access to food, especially for the poorer households. Large economies such as Argentina, Bangladesh, Brazil, and Nigeria counted among the nine cases identified by the *Food Price Monitoring and Analysis Bulletin* of the Food and Agriculture Organization in February 2021.

The Agricultural Market Information System (AMIS) stresses in its *Market Monitor* of February 2021 that after decades of progress, hunger has been on the rise over the last years. The rise in the number of conflicts, accelerating climate change and economic slowdowns had already pushed the number of chronically undernourished in the world to almost 690 million in 2019, 10 per cent more than five years before, of which 135 million faced acute hunger – compared to 80 million in 2015. The Covid-19 pandemic has exacerbated this already alarming situation owing to its induced income losses and the logistical bottlenecks it created. AMIS estimates a doubling of people acutely hungry to 270 million by late 2020, which poses significant barriers to income-generation and food security in the years ahead.

Figure B.1 Changes in international cereal prices, selected benchmarks and time spans until January 2021
(Per cent)



Source: Food and Agriculture Organization, *Food Price Monitoring and Analysis Bulletin*, February 2021.
Note: Consult the source for details about the characteristics of each benchmark.

D. Long Covid, Lost Decade?

Looking beyond this year, our main concern remains a misplaced optimism in the rules, practices and policies of the hyperglobalized economy. This has, if anything, only been reinforced by the lack of progress in strengthening international cooperation during a year of widespread economic collapse. Pressures for a return to austerity over the medium term have already surfaced. Austerity, inflation targeting, trade and investment liberalization, innovative finance and labour-market flexibility, amongst a litany of hackneyed economic ideas, retain a loyal following in policy circles and provide a default narrative for charting a well-trodden path for the global economy. This path led to a world of growing economic inequalities, arrested development, financial fragility, and unsustainable use of natural resources before the pandemic hit.

Barring any serious setbacks to economic growth and public health, following this path will still require several years to recover the employment, wages and output lost to the Covid-19 shock. Indeed, since global output growth is expected to slow down after 2021, particularly in the advanced economies, it seems reasonable to assume that, unless there is a determined shift in policy direction, the world economy will take more than a decade to catch up with its pre-pandemic trend. In this context, a likely continuation of the weak investment performance since the global financial crisis will make it almost impossible to hit climate and development goals by 2030. For the moment, the fiscal responses (whether implemented or planned) in developed economies contain no tangible increase in public investment.

There is, moreover, growing evidence that Covid-19 can have lasting effects on human health requiring dedicated medical and mental health resources, as well as increased income support. Epidemiologists and public health experts are also warning that Covid-19 may prove a trial run for far more serious pandemics. Just as importantly, longer-term scarring is also appearing in the economy. Persistent difficulties in the service sector are one possible indicator but long-lasting difficulties from Covid-19 have also been identified in the commercial real estate market, with shrunken supply chains and through weaker consumer demand if households increase their savings rate in anticipation of difficult times ahead. Such effects would likely impede any lasting recovery.

Moreover, the underlying conditions exposed by the global financial crisis, and not addressed since, have in some respects worsened as a result of the Covid-19 crisis.

One clearly worsening condition is income inequality. The number of people in extreme poverty is expected to increase by up to an estimated 124 million by the end of this year (and by 228 million for those living on less than $3.20 per day) while the wealth of those in the top one per cent has risen to staggering heights (Lakner et al., 2021; Oxfam, 2021). More generally, low-income earners, especially young people and women, concentrated in the service sector or with precarious work contracts, have experienced worsening financial conditions (albeit temporarily offset in some countries by government support schemes) while high-income professionals, have been able to continue working from home and in some countries this may have contributed to a rise in the savings rate. In the United States, total wages and salaries, which include stock option earnings, grew above the 2019 level, while the number in employment is still 9.5 million below where it was a year ago (United States Bureau of Labor Statistics, 2021).

Rising debt levels were another growing source of stress for low-income countries, low-income households and small and medium enterprises prior to the crisis (*TDR 2019*). Public debt levels have inevitably risen as a result of the crisis, in absolute terms and as percentages of GDP. While the unprecedented debt levels may be manageable in countries that issue reserve currencies,[3] in developing countries, rising external debt levels have resulted in increased incidences of sovereign defaults and high debt distress. Of the 69 low-income PRGT-eligible countries just over half (36) were in debt distress or at high risk of debt distress as of 28 February 2021, compared to only 16 countries in 2013, the lowest point of IMF reporting on this data. For a larger group of 99 lower-income developing countries, the number of countries assessed to be in debt distress or at high risk of debt distress rose from 23 in 2013 to 54 in 2020 (FSDR, 2021: 165). This does not include sovereign defaults in 2020 in other developing countries, such as Argentina, Ecuador, Lebanon and Suriname.

So far, the G20's DSSI has negotiated a standstill worth an estimated $12 billion between May 2020 and June 2021. This compares to DSSI-eligible countries' burden of serving external debt obligations to the tune of around $80 billion in 2019 alone.

Efforts to address the problem of unsustainable debt burdens in developing countries through market-based changes to bond and loan contracts and through increased debt data transparency have so far failed to alleviate the stress on developing countries. More ambitious reforms are urgently required to avoid the current mountain of debt crushing any hopes of these countries fulfilling the SDGs (UNCTAD, forthcoming).

Growing market concentration became a pronounced trend after the 2009 crisis including in the banking and shadow banking sectors but more spectacularly in the emerging digital economy. There is little evidence that financial regulators will take the "crisis opportunity" this time around and impose much needed regulation on the financial industry, which increasingly produces financial outcomes, disconnected from growth and development needs. Moreover, the short-term pressures of a financialized economy combined with the search for global market dominance produced a rash of mergers and acquisitions peaking in 2017 across many sectors and remaining high until the pandemic hit (figure 6). The post-pandemic period could see another pick up with many firms, but the biggest, threatened by insolvency. The adverse consequences of rising concentration have been further highlighted during the pandemic with the protection of intellectual property rights against the rights of citizens to *"the highest attainable standard of health conducive to living a life in dignity"*. As important for building future resilience in the developing world is the high level of corporate concentration at different points in the global food chain (Lee et al., 2019).

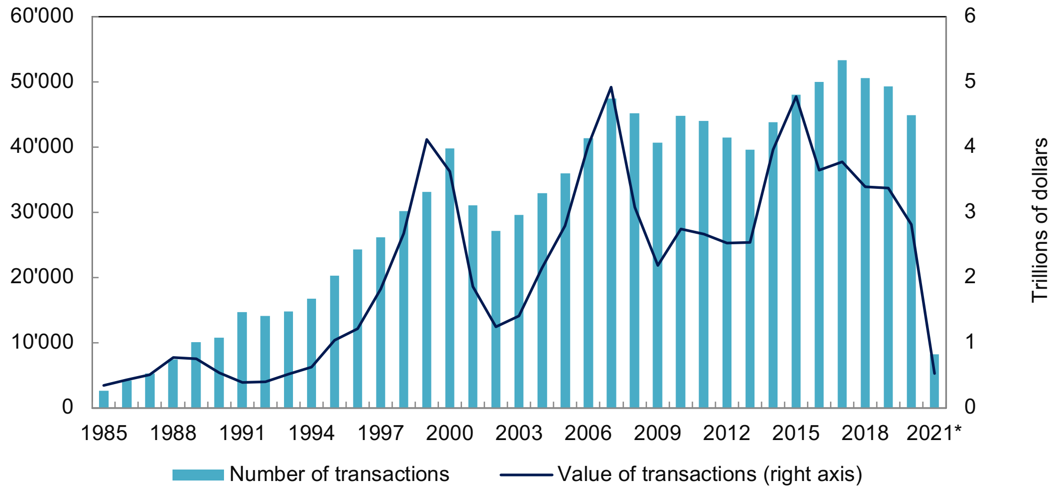
TDR 2020 warned that if left unaddressed, these underlying conditions threaten a lost decade, particularly for many developing countries. That threat has not subsided. The solution lies, in part, in reviving and renewing the policies and reforms that helped establish an inclusive recovery from the Great Depression in the United States and laid the basis for a more resilient future by returning finance to its ancillary role in the economy, reversing wage repression, boosting investment in high productivity sectors and expanding the middle class.

Some 80 years ago, President Roosevelt laid out "the simple, basic things that must never be lost sight of in the turmoil and unbelievable complexity of our modern world: equality of opportunity for youth and for others, jobs for those who can work, security for those who need it, the ending of special privilege for the few, the preservation of civil liberties for all, the enjoyment of the

[3] In the United States, for example, Government debt in 2020 reached the all-time high of $26.8 trillion, equivalent to 128 per cent of GDP, according to the Federal Reserve of the United States.

fruits of scientific progress in a wider and constantly rising standard of living." There are encouraging signs that the new Administration in the United States is moving on these fronts.

Figure 6 Mergers and acquisitions worldwide, number and value of transactions, 1985–2021



Source: Institute for Mergers, Acquisitions and Alliances (IMAA).
Note: Data for 2021 are only until early March.

But today's interdependent world, inhibited by sluggish investment and slowing productivity growth, suffering from an enduring pandemic and threatened by a fast-deteriorating climate crisis, is only as resilient as its weakest participants and for many developing countries, with large informal economies, carrying huge debt burdens and lacking the requisite policy and fiscal space to accelerate structural transformation, vulnerability is hard-wired into their economic prospects. Increasing everyone's resilience in the face of health, food, environmental and economic shocks requires a global response. As outlined in previous Trade and Development Reports, a Global Green New Deal can help immunize the global economy against future downturns and establish the framework for building a future of prosperity and security for all (*TDR 2017*; *TDR 2019*; Gallagher and Kozul-Wright, 2019).

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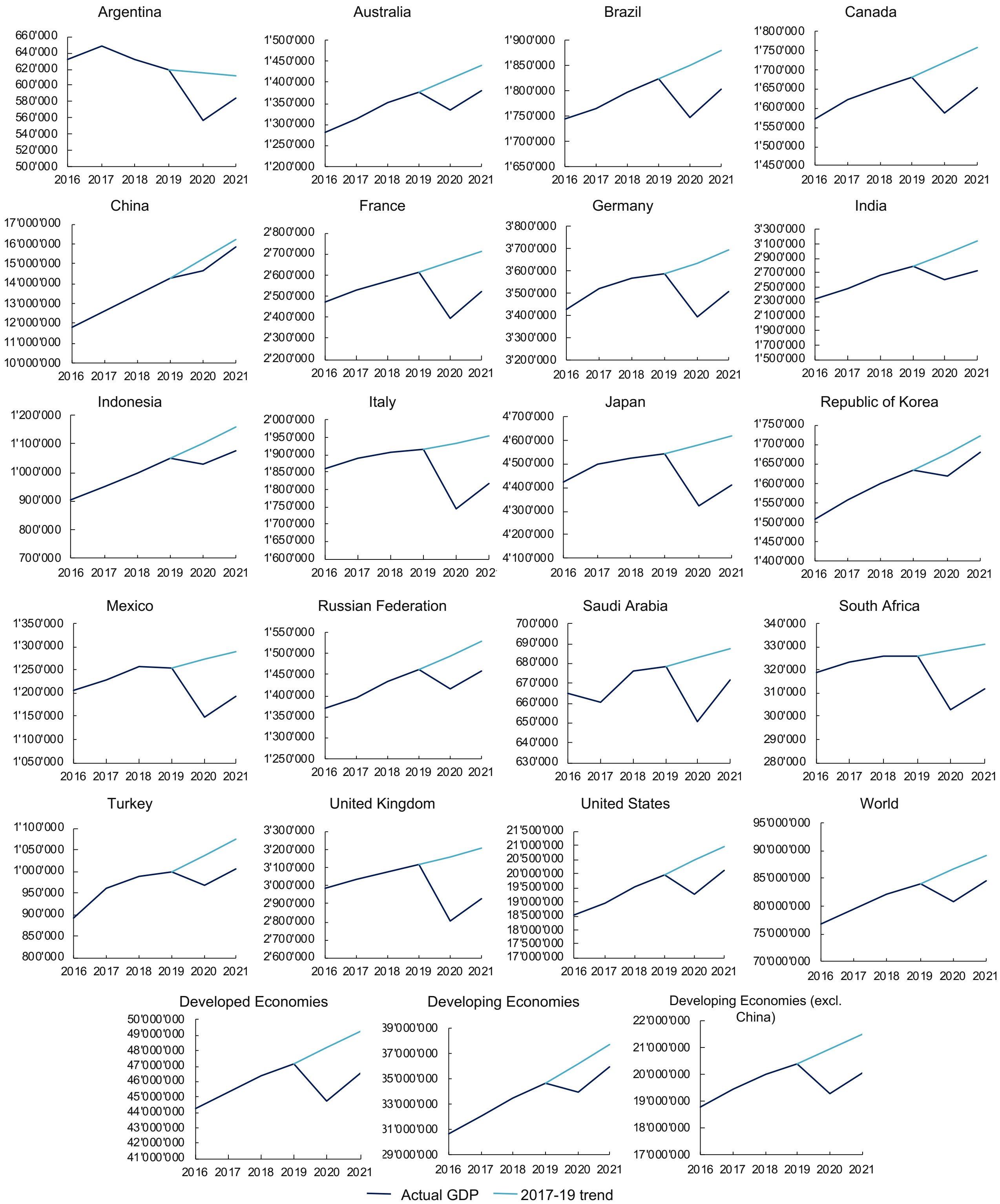
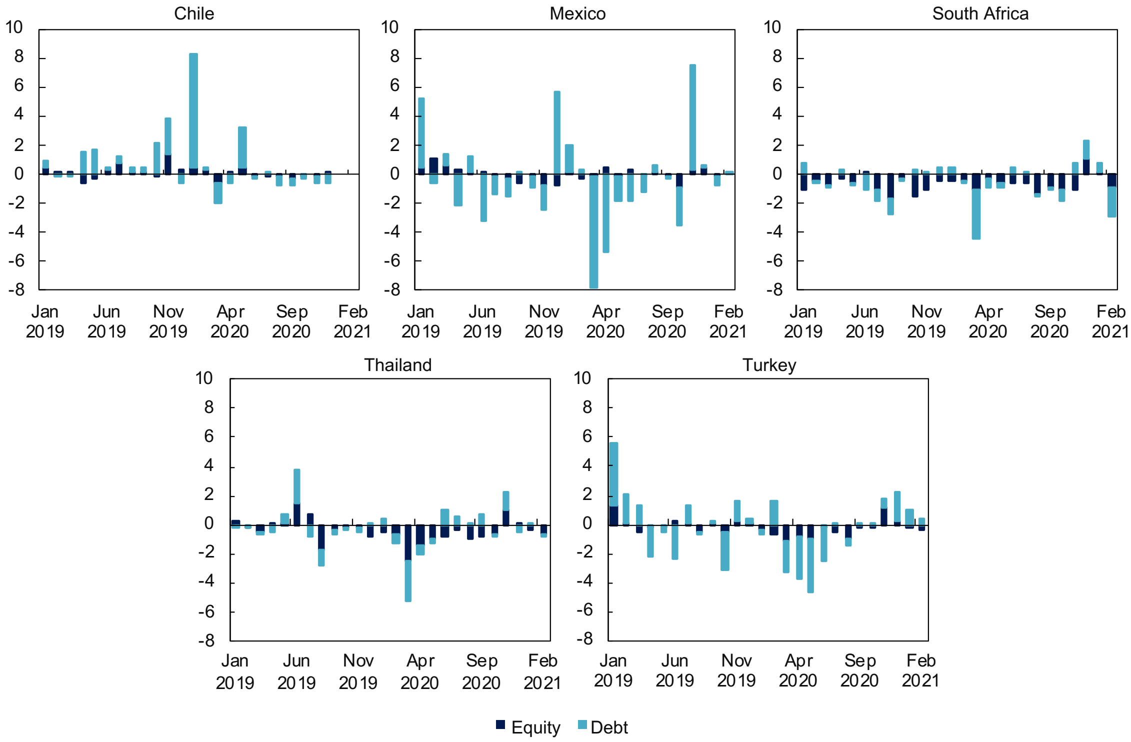
Annex

Figure A1 Real GDP, selected countries and groups of countries, 2016–2021
(2015 constant millions of dollars)



Source: UNCTAD secretariat calculations, based on official data and estimates generated by United Nations Global Policy Model.
Note: Official Data from 2016 to 2019. For 2020: Official data for Argentina, Australia, Brazil, Canada, China, France, Germany, Indonesia, Italy, Japan, Mexico, Nigeria, Republic of Korea, South Africa, United Kingdom, United States; UNCTAD estimates for India, Russian Federation, Saudi Arabia and Turkey. For 2021: UNCTAD estimates.

Figure A2 Net non-resident purchases of emerging market stocks of selected developing countries, equity and debt, January 2019–February 2021
(Billions of dollars)



Source: IFF *Monthly Emerging Market Portfolio* database.