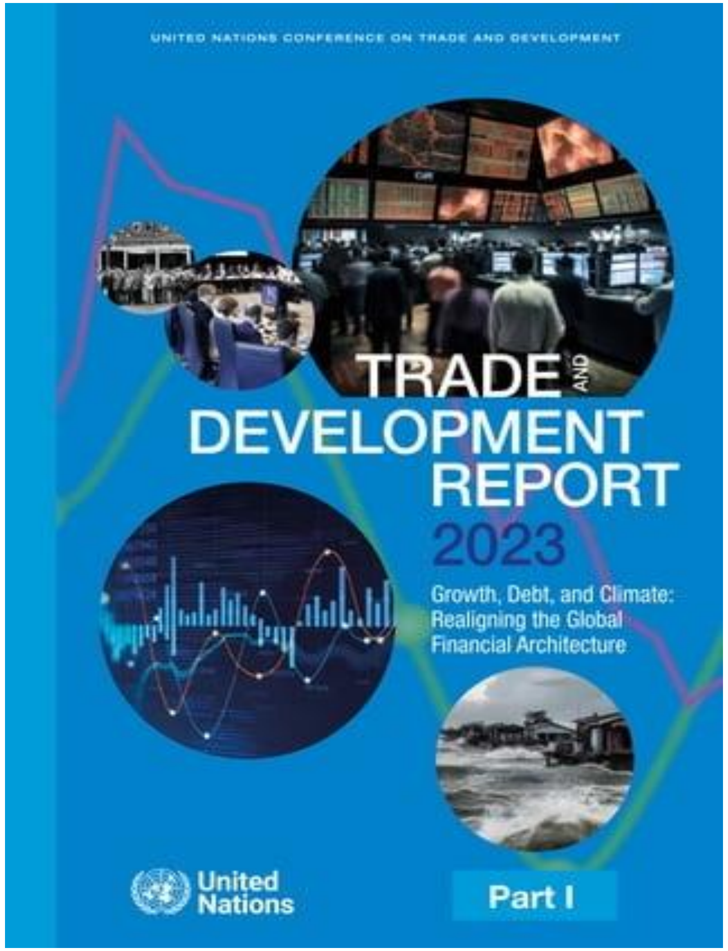

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
TRADE AND DEVELOPMENT REPORT 2023
Growth, Debt, and Climate: Realigning the Global Financial Architecture
United Nations
Part I

Growth, trade and financial flows in a fragile global economy

Trade and Development Report 2023

Richard Kozul-Wright

Future imperfect

- Global growth has stalled and is diverging
- The big 3 economies are not moving in synch
- AEs fighting inflation with the wrong tools, with downside risks
- Trade slowing; corporates gaining … policy debate in flux
- Threat of a “lost decade” a real one for many developing countries with debt troubles

Global growth is stalling

	2000-2009[a]	2020	2021	2022	2023[b]	2024[b]
World	3.3	-3.2	6.1	3.0	2.4	2.5
Africa	5.5	-2.4	4.5	3.1	2.7	3.0
South Africa	4.0	-6.0	4.7	2.0	0.0	1.0
America	2.5	-3.8	6.0	2.5	2.0	1.8
Latin America and the Caribbean	3.5	-7.1	6.7	3.9	2.3	1.8
North America	2.3	-3.0	5.9	2.2	1.9	1.8
United States	2.3	-2.8	6.0	2.1	2.0	1.9
Asia (excl. Cyprus)	5.6	-0.9	6.5	3.6	3.9	3.9
Central Asia	8.3	-1.2	5.3	4.5	4.5	3.8
East Asia	5.6	0.4	6.7	2.4	3.8	3.8
China	10.6	2.2	8.4	3.0	4.6	4.8
Japan	0.9	-4.3	2.2	1.0	2.3	0.9
Republic of Korea	4.9	-0.7	4.2	2.6	0.9	2.1
South Asia	6.3	-3.8	7.7	5.8	5.2	5.2
South-East Asia	5.4	-3.9	4.0	5.4	3.9	4.2
Indonesia	5.2	-2.1	3.7	5.2	4.2	4.1
Western Asia (excl. Cyprus)	5.0	-3.2	6.3	6.6	3.3	2.7
Türkiye	5.0	1.9	11.4	5.6	3.7	1.9
Europe (incl. Cyprus)	2.2	-6.0	5.8	2.9	0.6	1.2
European Union (EU 27)	1.8	-5.7	5.6	3.4	0.4	1.2
France	1.6	-7.8	6.8	2.5	0.9	1.2
Germany	1.0	-3.7	2.6	1.8	-0.6	1.1
Russian Federation	6.2	-2.7	5.6	-2.1	2.2	1.9
United Kingdom	2.0	-11.0	7.6	4.1	0.4	0.4
Oceania	3.2	-1.8	5.1	3.5	1.8	1.5
Memorandum items:						
Developed countries	2.2	-4.2	5.4	2.4	1.4	1.5
Developing countries	6.4	-1.6	7.1	3.9	3.9	4.0

The big economies not moving in sync

- The US has confounded predictions; a combination of mild fiscal expansion and intermittent quantitative easing (even as interest rates have risen and remain high) has kept unemployment low, equity and house prices have kept (most of) their Covid gains with robust consumer spending; investment has remained stable (but a boost in manufacturing plant); debt issues remain (commercial real estate, zombie firms) and fiscal tightening this year

- Europe is the most unbalanced of the three and facing the biggest policy challenges; all the major countries slowed sharply last year with Germany in recession. Inflationary pressures remain more pronounced than the US (energy); monetary tightening with policy rates at their peak since the euro's debut compounded by fiscal tightening, real wage contraction and weak consumer spending; investment (and productivity) growth a particular concern

- China saw growth accelerate last year (more than 10 times faster than the Eurozone!!) slightly more quickly than we expected but arguably not as fast as it should have; strong policy action was required in the final quarter to take it above 5 per cent target (policy and fiscal space); problem lies mainly with weak domestic demand, particularly consumer spending, but private investment also sluggish (housing market) with adverse impacts on job creation; deflationary pressures remain and shift in composition of demand ongoing

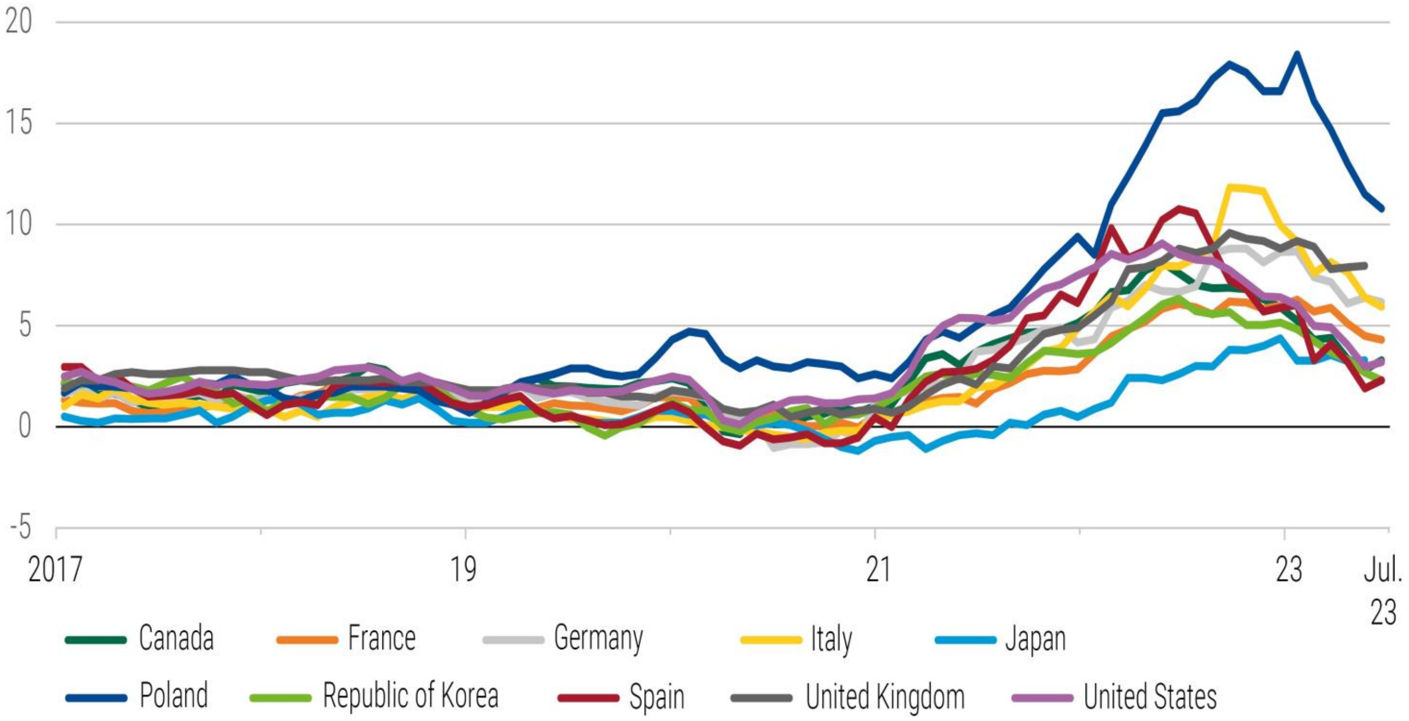
Inflation fixes and fixations

- Inflation has come down from its highs in mid to late 2022, largely due to easing of supply-side pressures but an uneven descent; still concerns about price shocks (energy). Meanwhile, the high cost of living and insufficient wage growth continue to squeeze household budgets even as real wages have increased for some working cohorts (as inflation falls)
- wage-price spiral vs “greedflation”
- Tighter monetary policy has so far contributed little to price easing and at a steep cost in terms of inequality and damaged investment prospects.
- 2 per cent target outdated, need a broader policy tool-kit

Figure I.9 Inflation rates are down in developed countries and some prices are falling

Monthly consumer price index growth, selected developed countries

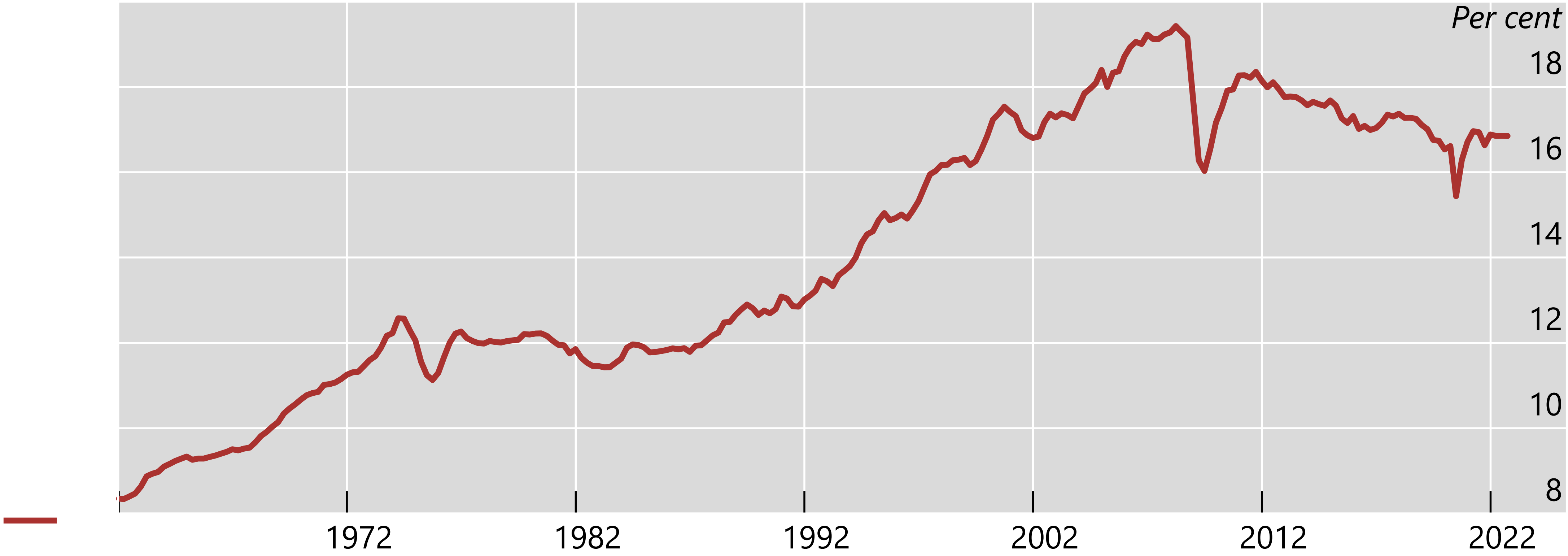
(Year-on-year percentage change)



Source: OECD Statistics and national sources.

Trade woes

as a proportion of world GDP, trade growth has stagnated since the Great Financial Crisis of 2008



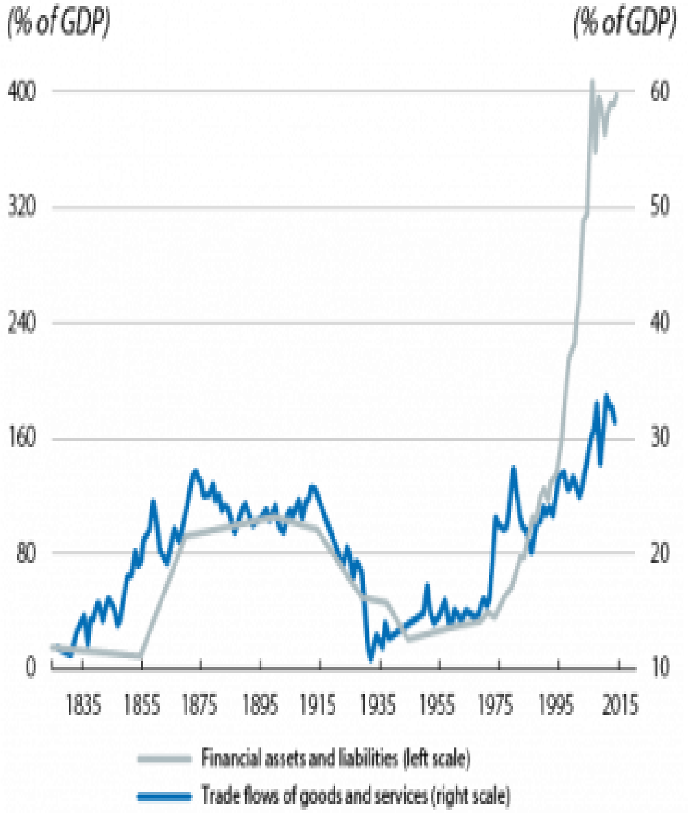
World goods exports (volume) / GDP (at constant prices)

Rethinking trade policy

- The United States, under President Biden, is pursuing a modern industrial and innovation strategy—both at home and with partners around the world.
- This strategy will build a fairer, more durable global economic order, for the benefit of ourselves and for people everywhere.
- The vision of public investment that had energized the American project in the postwar years—and indeed for much of our history—had faded. It had given way to a set of ideas that championed tax cutting and deregulation, privatization over public action, and trade liberalization as an end in itself.
- In the name of oversimplified market efficiency, entire supply chains of strategic goods—along with the industries and jobs that made them—moved overseas. And the postulate that deep trade liberalization would help America export goods, not jobs and capacity, was a promise made but not kept.
- Another embedded assumption was that the type of growth did not matter. All growth was good growth. So, various reforms combined and came together to privilege some sectors of the economy, like finance, while other essential sectors, like semiconductors and infrastructure, atrophied. Our industrial capacity—which is crucial to any country's ability to continue to innovate—took a real hit.
- The shocks of a global financial crisis and a global pandemic laid bare the limits of these prevailing assumptions.

Financialized capitalism: fragile and volatile

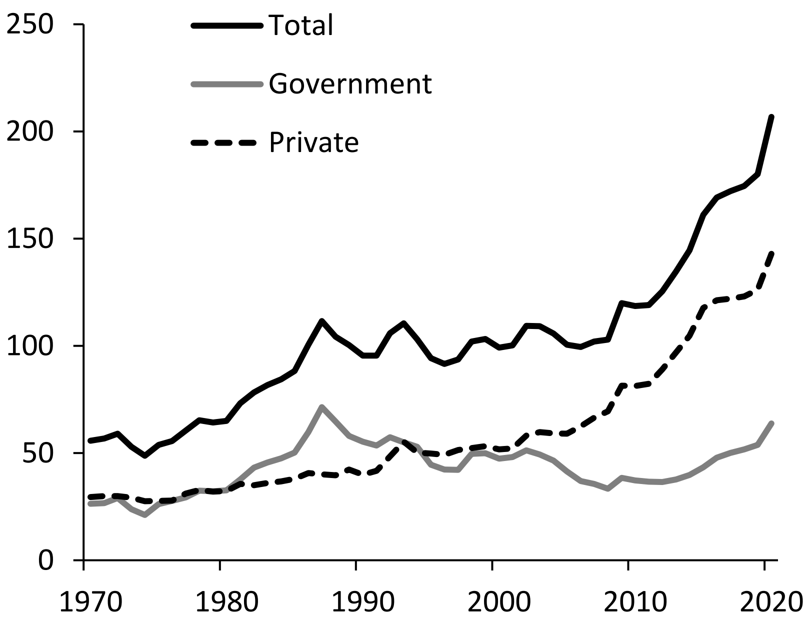
Commercial and financial globalisation



Note: *Trade flows do not cover all countries of the world, as they relate to a fixed sample of countries for which data is available dating back to 1825.*

Source: *CaixaBank Research, based on data from the Bank for International Settlements.*

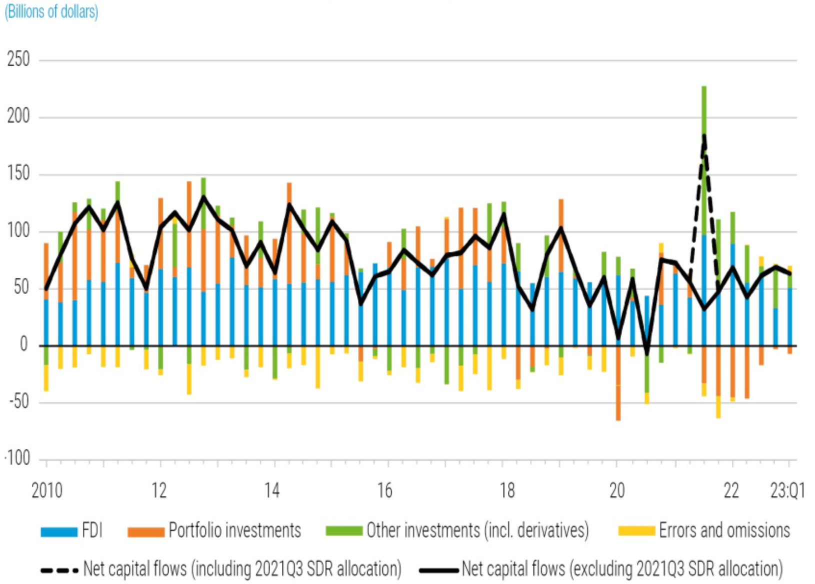
Debt in Emerging Market and Developing Economies (EMDEs) Per cent of GDP



Source: World Bank (2022), Figure SF1.5.A. *Note*: GDP-weighted averages based on a sample of up to 153 emerging market and developing economies.

Figure II.9 Capital flows to developing countries have been very volatile in recent years, with portfolio investments turning highly negative in late-2021 and early-2022

Net capital inflows to low- and middle-income developing countries, excluding China



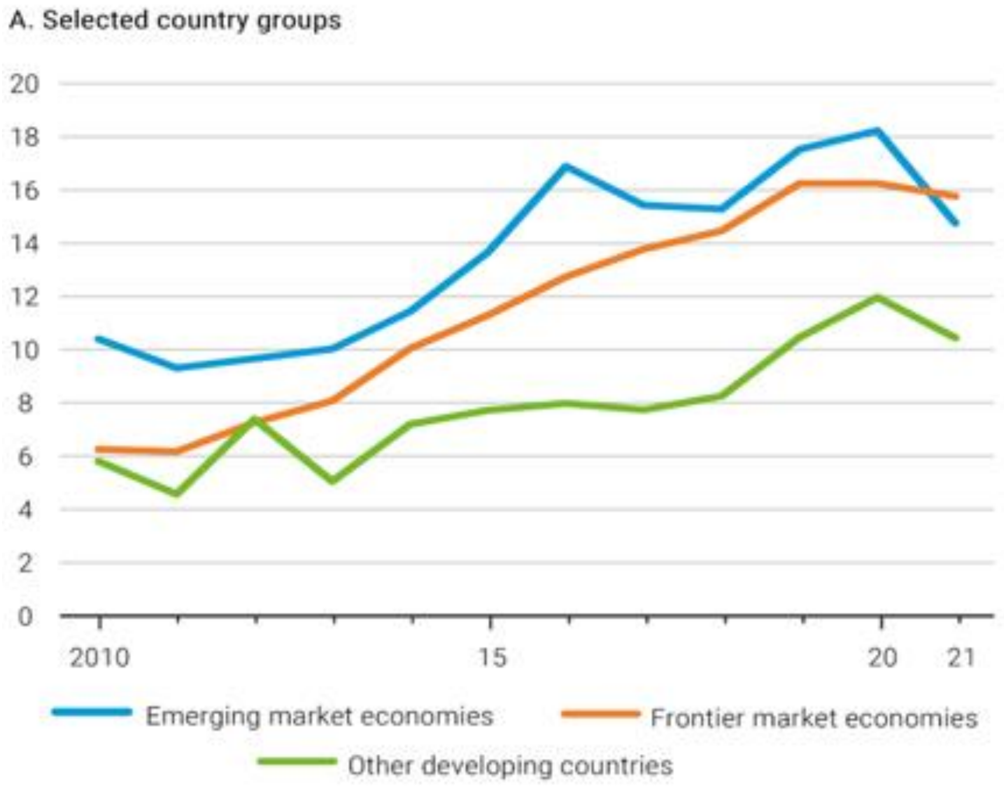
Source: UNCTAD calculations based on IMF Balance of Payments Statistics.

Notes: The two “net capital flows” series exclude the transactions of the monetary authorities registered under Reserves in the balance of payments statistics. Because SDR allocations (unlike SDR holdings, which are included in Reserves) are registered under “Other investments” in the financial account, the “Net capital flows (excluding 2021Q3 SDR allocation)” series aims at neutralizing the SDR allocation of the third quarter of 2021 worth about $650 billion, of which it is estimated that about 20 per cent was shared among the countries considered in this figure. All series refer to net non-resident inflows minus net resident outflows. Thus, positive values correspond to net inflows to this group of coutries. Each component reflects the aggregagation of the net figures of all available low-income and middle-income developing countries in the database. The balance of net derivatives, which is relatively small, was merged with other investments.

Debt distress

- In the light of COVID-19, loss of export revenues, and other cascading crisis it is disingenuous to see distress as due to the mistakes or culpability only of national states
- Differing degrees of stress among developing countries but with far too many countries cutting back on health and education to maintain debt servicing
- Over the past decade, external public and publicly guaranteed (PPG) debt in Frontier Markets tripled, reaching $651 billion in 2021.
- Frontier countries are paying on average over 16 per cent of their export revenues
- Face restricted access to markets – no bond issuances in 2022, 2023… limited return in 2024?

Public and publicly guaranteed external debt service relative to export revenues
(Percentage)



A. Selected country groups

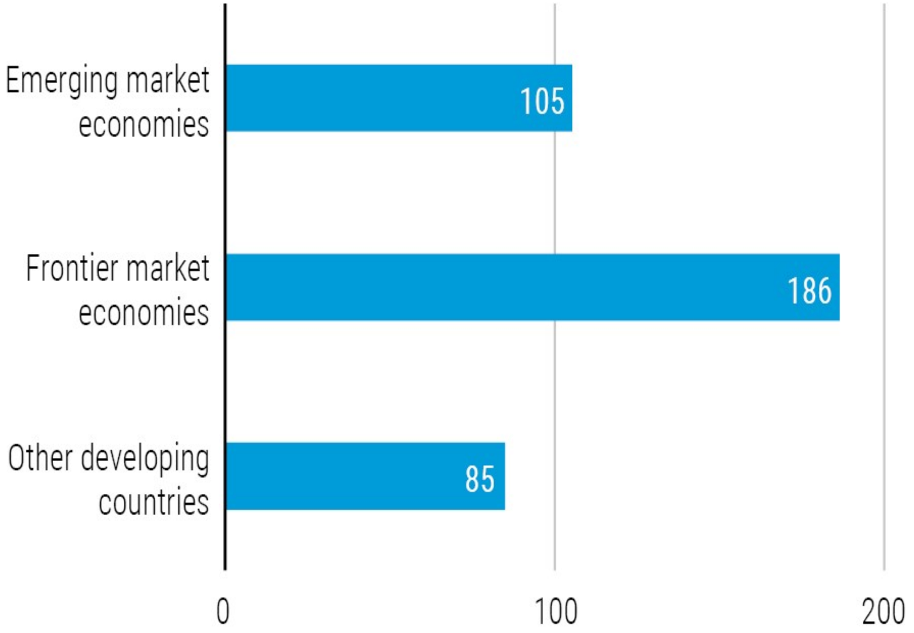
Debt distress

- Distress apparent before Covid shock: declining ODA and concessional finance; credit (mis)rating; inadequate GFSN; illicit financial flows
- Private flows; larger, cyclical and volatile; driven by debt instruments this was feasible in a cheap money environment
- The increasing debt service obligations have strained public finances significantly. Debt service on external public debt relative to government revenues surged from nearly 6% to 16% between 2010 and 2021; 29 (2010) to 50 (2022) spending more than 10 per cent on debt servicing

Figure II.17 External public debt of frontier markets has grown faster post-financial crisis

Growth of public and publicly guaranteed external debt, selected groups of developing countries, 2010–2021

(Percentage)



Source: UNCTAD calculations based on IMF World Economic Outlook.

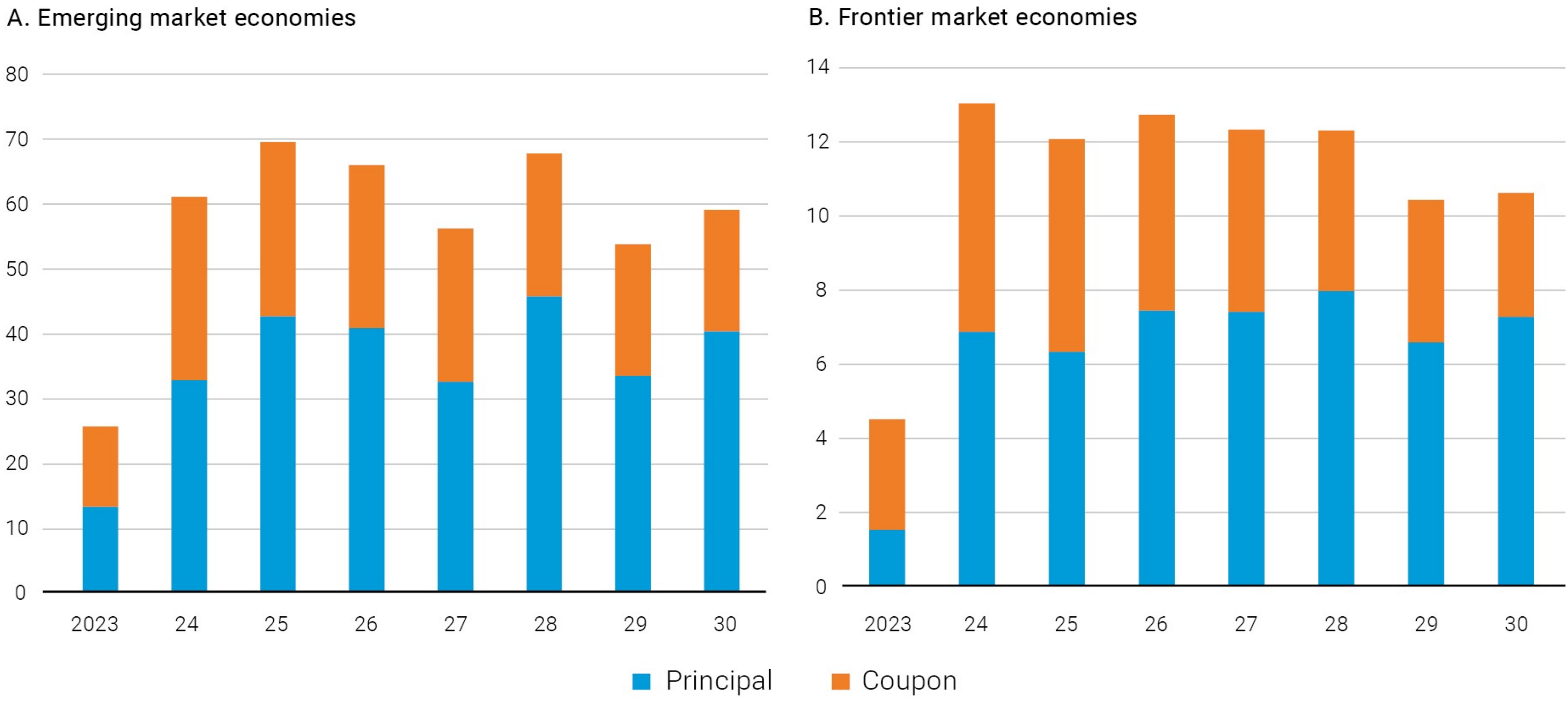
Debt distress

- Covid shock heightened debt distress
- Sri Lanka a classic example of the limits of the current architecture
- 2024 looking like a difficult year for debt servicing
- Covid response should be a wake-up call No mechanisms at international level to deal with sovereign debt problems (G20 hasn't helped DSSI; CF; SDRs)
- Are developed countries safe?

Figure II.23 Emerging and frontier markets face a wall of debt repayments from 2024 onwards

Bond repayment schedule from principals and coupons

(Billions of dollars)



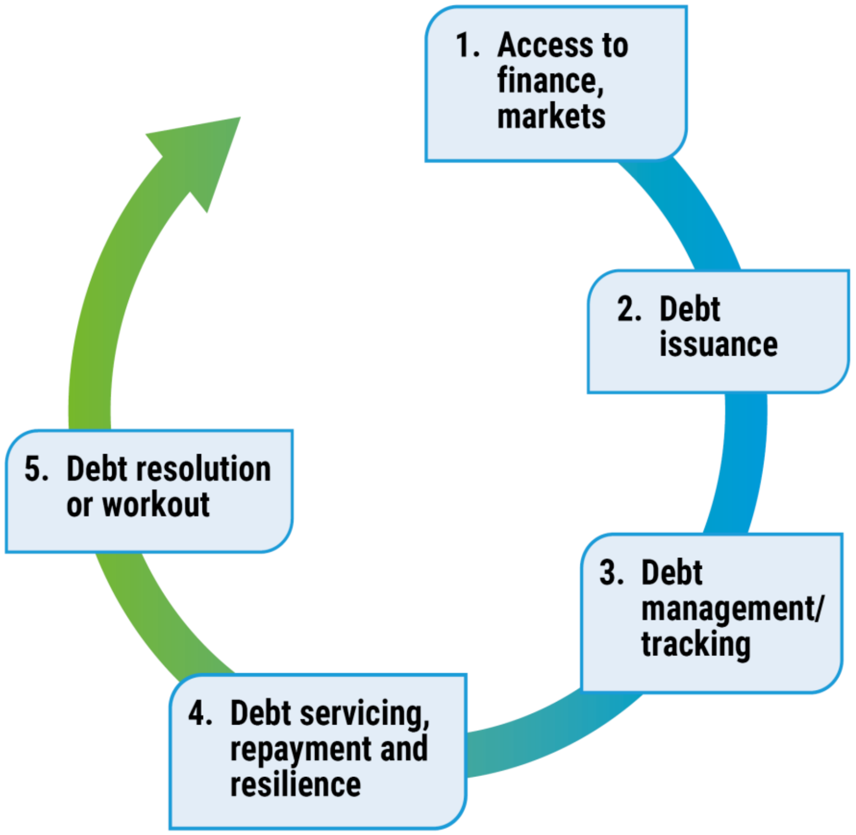
A. Emerging market economies

B. Frontier market economies

Source: UNCTAD calculations based on Refinitiv.

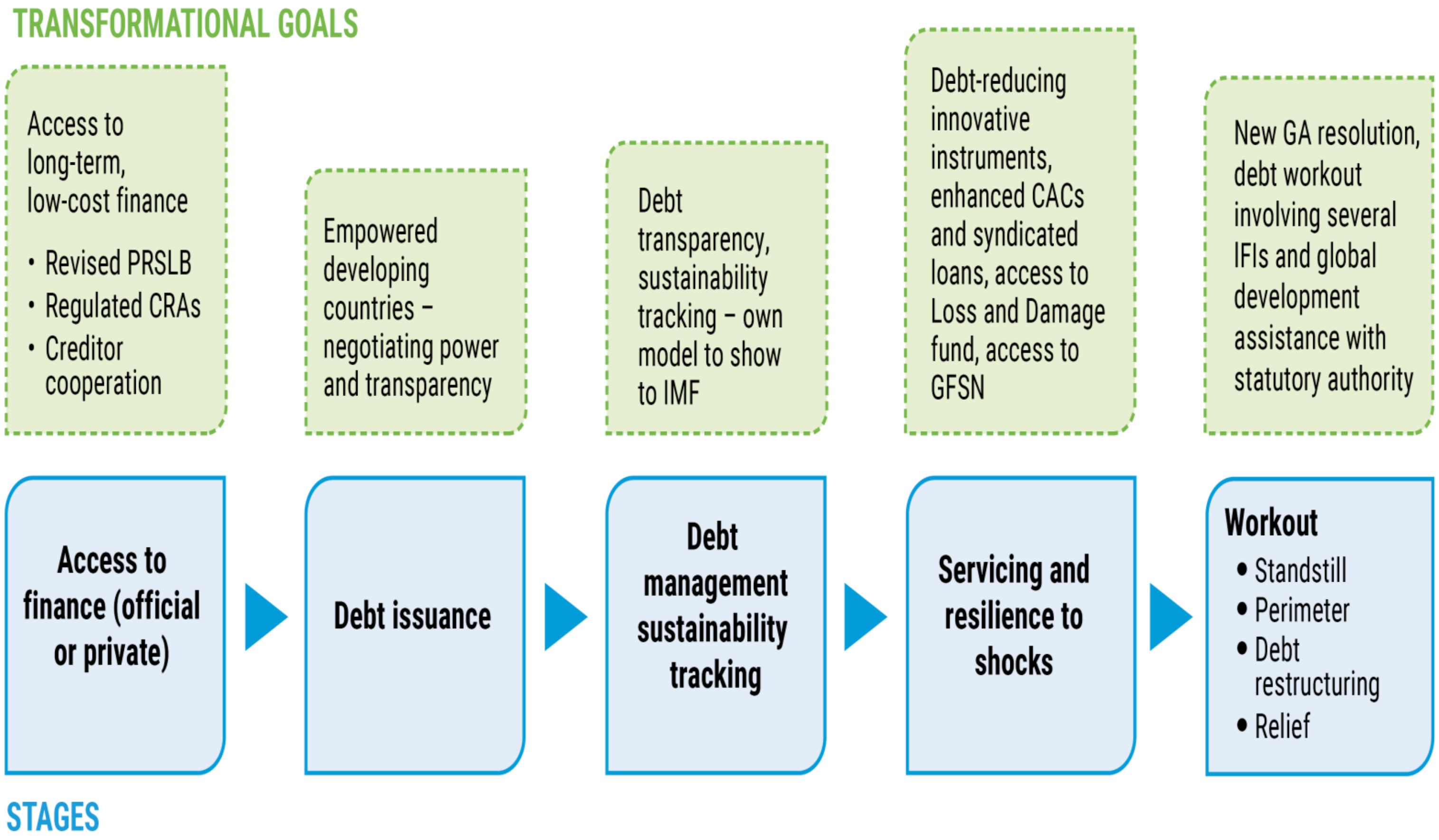
Note: This figure only considers bonds issued by governments denominated in dollars, euro and yen with a minimum face value equivalent to $500 million.

Life Stages of Sovereign Debt



1. Access to finance, markets
2. Debt issuance
3. Debt management/ tracking
4. Debt servicing, repayment and resilience
5. Debt resolution or workout

Source: UNCTAD.



TRANSFORMATIONAL GOALS
Access to long-term, low-cost finance
• Revised PRSLB
• Regulated CRAs
• Creditor cooperation
Empowered developing countries – negotiating power and transparency
Debt transparency, sustainability tracking – own model to show to IMF
Debt-reducing innovative instruments, enhanced CACs and syndicated loans, access to Loss and Damage fund, access to GFSN
New GA resolution, debt workout involving several IFIs and global development assistance with statutory authority
Access to finance (official or private)
Debt issuance
Debt management sustainability tracking
Servicing and resilience to shocks
Workout
• Standstill
• Perimeter
• Debt restructuring
• Relief
STAGES

Source: UNCTAD.

Abbreviations: CACs, collective action clauses; CRAs, credit rating agencies; GA, General Assembly; GFSN, global financial safety net; IFIs, international financial institutions; PRSLB, Principles on Responsible Sovereign Lending and Borrowing.

Sovereign debt authority

- Multiple investment challenges held back by debt servicing burden
- Steps since Covid-19 have been taken but insufficient
- Breaking the vicious cycle of "too little too late"
    - Standstill on debt servicing
    - Automatic stay on claims
    - Lending into arrears
    - Capital controls
    - A negotiated restructuring plan that allows debtor to meet financial obligations
- TDR `86 to Roadmap and Guide for Sovereign Debt Workouts highlighted institutional gap
    - An independent multilateral body with statutory authority over sovereign bankruptcy proceedings
    - Intra-debtor coordination