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

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

Memorandum items:

<table>
<thead>
<tr>
<th>Region</th>
<th>2000-2009*</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023*</th>
<th>2024*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed countries</td>
<td>2.2</td>
<td>-4.2</td>
<td>5.4</td>
<td>2.4</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Developing countries</td>
<td>6.4</td>
<td>-1.6</td>
<td>7.1</td>
<td>3.9</td>
<td>3.9</td>
<td>4.0</td>
</tr>
</tbody>
</table>
Figure I.2  Real GDP levels recovering separately
(Index numbers, third quarter of 2019=100)

A. G7 countries

B. Selected developing countries

Source: UNCTAD calculations based on Refinitiv data.
Note: Data is seasonally-adjusted.
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
Investment troubles

Figure 1.1 Private investment is slowing down sharply again
Growth of private investment (Percentage change)


Note: GDP at constant 2015 prices, PPP.
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](chart.png)

*Source:* OECD Statistics and national sources.
Trade woes

- Trade growth slowed in 2023 led by weak goods trade; covid disruptions have dissipated …
- but the concentration of markets, the financialization of corporate strategy and the squeezing of policy space has meant the gains from trade since 2010 have dropped and skewed towards a small number of firms and within those firms, to capital rather than labour
Trade woes

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

Figure II.7 Increasing asymmetries of trade benefits: After the COVID-19 shock, profits of top 2,000 multinational enterprises further increased while the global labour income share continued to shrink

A. Global functional income distribution

B. Evolution compared to 2002


Notes: The selection of the top 2,000 firms is based on their market capitalization. Thus, it excludes non-listed firms. In panel A, the net income of the top 2,000 MNEs (derived from the financial statement of listed firms) and the capital income excluding net income of top 2,000 MNEs add up to the world capital income (derived from national accounts data) even though methodologies differ in several regards across both sets of accounts.
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.
Trade policy worries

- The “weaponization” of trade policy by some countries and regions is compounding existing challenges around supply chains resilience:
  - local content
  - technology disputes
- Industrial policy redux but
  - under a national security umbrella (Chips Act)
  - a climate umbrella (CBAM)
- South-South trade (expanding BRICS agenda)
- WTO reform … policy space for all
Financialized capitalism: fragile and volatile

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.
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?
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
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)

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.

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
Alternatives

Cumulative and cascading crises ... predate the Covid shock (indebtedness, inequality, investment, insecurity)

Promise of building back better together is broken; without a change in policy direction and accompanying institutional reforms a lost decade of low and uneven growth likely; SDGs and Paris targets will be missed.

- A balanced policy mix of fiscal, monetary and supply-side measures to achieve financial stability, boost productive investment and create better jobs. Central bankers should relax their 2 per cent inflation target and assume a wider stabilizing role.

- Reducing inequality should be a policy priority in both developed and developing countries, keeping a close eye on the labour share of income. Real wages should increase in line with productivity growth, with concrete commitments on progressive taxation structure and comprehensive social protection.

- Meaningful reform of the rules and practices of the international architecture are needed to ensure a stable financial environment in which reliable access to long-term finance can extend investment horizons and contribute to reinforcing industrial capacity, investment in clean energy and job creation.

- Regulatory action to deal with predatory corporate practices and active industrial policy to boost productivity and target key sectors ... both require reforms to trading rules.