I. A fractured global economic landscape scarred by the COVID-19 pandemic

17. The aspirational targets of the 2030 Agenda for Sustainable Development cannot be met without a dynamic and inclusive global economy and sustained efforts at global cooperation. But the global economic landscape has become increasingly fractured. The casualties of this fracturing have included not only the conventional view that globalization can deliver inclusive prosperity, but also the common belief that multilateralism provides the means for delivering such prosperity.

A. Unfulfilled trade and development promises prior to the pandemic

18. Globalization is a policy-driven process that can hinder or nurture economic development dependent on the policy choices of States. Policies fostering economic development must be considered from a global perspective, including national as well as international measures. A major objective of the latter is to cushion the international impact of disturbances, which may arise in one part of the world but have negative repercussions elsewhere. UNCTAD has come to play an essential role in this area with its focus on the special vulnerability of developing countries to economic fluctuations arising outside their borders and its integrated approach to how policies can ensure that international trade and finance deliver their full developmental potential.

19. This developmentalist vision sees the State as a legitimate and purposeful contributor to development objectives at both the national and international levels. At the national level, each country is given prime responsibility in designing development strategies and implementing appropriate policies that take account of the possibilities offered by the global economy and interdependence in a proactive manner, complemented and supported by an enabling global environment. At the international level, the State, legitimized by popular support and economic and social advances at home, brings its voice to multilateral processes to agree on avoiding national policies that imply purposely beggar-thy-neighbour policies and to harness cross-border effects to attain global common goods.

20. This developmentalist vision – which has been underemphasized for the last four decades – relies on policy settings beyond the mere provision of essential framework conditions, such as education or good governance. It calls for active policies beyond mere deep integration into the global economy as the only rational way to sustainable growth and prosperity.

It calls for public and private actors to work together concertedly in a spirit of mutual respect and collective benefit.

21. The liberalization of trade, finance and investment regimes, combined with regulatory harmonization and advances in information and communications technologies, have guided the integration of developing countries into the world economy, as reflected in intensified international trade and financial flows, foreign direct investment and other forms of transborder linkages. Over the past quarter century, globalization progressed to unprecedented levels in many of these areas. Underpinned by buoyant global credit growth, a boom in commodity prices and often more developmental domestic policies in developing countries, global integration facilitated the steady and significant decline in the share of the world's population living in extreme poverty over the past few decades and helped turn a prevalence of divergence between the global North and the global South into convergence.

22. The widely held expectation that this combination of globalization and the optimism that privileging the pursuit of private sector interests would offer an inclusive and sustained path towards prosperity has, however, not been borne out. Ever increasing globalization and ever deeper economic integration has delivered the expected benefits only to a few developing countries, which arguably may not even have followed the policy script, and to a limited number of people that had the right skills and initial conditions that allowed them to seize the opportunities that globalization has offered. Economic catch-up that many other developing countries recorded over shorter periods could not be sustained, partly because their integration processes have proven to be crisis-prone, deflationary and to exacerbate vulnerabilities of the most disadvantaged. As such, the dominant policy paradigms of the past 40 years have unleashed a dual process of integration and exclusion, as reflected by widening fractures between and within nations.

1. An unbalanced global economy and deteriorating global economic conditions

23. As a result of these uneven globalization processes, the multiple shocks of the COVID-19 crisis hit a global economy characterized by slow growth, sluggish trade and investment, historically high levels of debt, increased inequality and rampant environmental degradation. Even before the pandemic drove the global economy into recession, a sustained recovery from the global economic and financial crisis of 2008/09 remained a work in progress. In 2019, the global economy registered its slowest growth in a decade, with the downturn in economic activity highly synchronized across regions and risks strongly bent towards the downside. Much of

the sluggishness of the recovery from the global economic and financial crisis may be attributed to low investment in the real economy, which also prolonged the decade-long decline in global productivity growth.

24. Sustaining the little global economic growth that existed had become dependent on ever higher debt levels. Growth performance in the developing world had too often become closely related to volatile international capital flows, and many developing countries were no longer narrowing the gap in living standards but instead falling behind. The dangerous economic vulnerability of most developing countries was compounded by disruptions from the rapid spread of digital technologies and mounting vulnerabilities to climate change, which particularly afflicts small island developing States, not least Barbados, the host country of the fifteenth session of the United Nations Conference on Trade and Development.

25. The little income growth that has been registered on average has been distributed unevenly, and progress towards higher living standards has stalled for many. Slow recovery from the global economic and financial crisis and policy choices, combined with forces from globalization and technological change, have been accompanied almost everywhere by a deterioration in the distribution of income and wealth, making inequality one of the burning economic, social and policy issues of our time. Inequality has created social and political tensions across developed countries, where income and wealth inequality has risen strongly since the 1980s and led to a polarization between prosperous, educated city dwellers and the rest of the population. Income and wealth polarization have been accompanied by generational tensions, with the aspirations of younger cohorts to achieve higher living standards than their parents becoming less likely to be realized. Inequality has also risen in many developing countries, especially those that have enjoyed high growth performance. Inequality remains stubbornly high even in those cases where policies have helped reduce inequalities in developing countries over this time period, such as in Latin America.

2. Changing global production structures amidst slowing trade and foreign direct investment flows

26. Heightened global economic fractures and increased vulnerability of developing countries are also the result of changes in international production that have become increasingly apparent since the beginning of the implementation of the triple promises and the Nairobi Maafikiano.

27. Slowing investment and global output growth, compounded by protracted trade tensions, have exacerbated the slump in global trade that had prevailed since the global trade slowdown in the aftermath of the global

economic and financial crisis in 2008/09. Global trade in goods and services had registered an annual rate of growth of 7 per cent between 2000 and the global economic and financial crisis. Since then, trade has ebbed and flowed around a significantly lower average figure of 3 per cent and, in 2019, growth in the volume of global trade in goods and services decelerated sharply to a post-crisis low.[3] Slow trade growth has caused concern that the world economy has run into a peak trade constraint, i.e. that the ratio of global trade to global output has reached a limit, also as the rate of global trade growth slowed relative to global income growth.

28. This pre-pandemic trade slowdown may well have been a structural phenomenon of a longer-term dimension that operated in addition to the cyclical drivers of slowing global income growth and current trade tensions. Looked at from a historic perspective, the ratio between trade and output varies over time, and the period between the early-1990s and 2008 was a major outlier on the upside, driven by the reintegration of Central and Eastern Europe and China into the global economy, the creation of the North American Free Trade Area and the expansion of global value chains as the dominant mode of organizing production processes at a global scale.[4]

> The pre-pandemic trade slowdown was a structural phenomenon operating in addition to cyclically slowing global growth and ongoing trade tensions

29. Global value chains promise beneficial trade and development effects in that they allow more countries, firms and workers to participate in trade as they organize global production around narrow slivers of comparative advantage. Global value chains can make significant contributions to development. An accurate quantification of the gains from global value chains must account for a wide range of issues, including their governance structure and contribution to industrialization, through input–output linkages and increasing shares of domestic value added in total exports, as well as enhanced knowledge spillovers and value-creating competition effects.

30. But the integration of developing countries into global value chains also poses challenges. Developing countries face the risk of remaining locked into activities with relatively little domestic value added, for example, by providing low-cost labour while proprietary technology remains in developed countries. This has left only few channels of transmission of technology between foreign and indigenous firms and hampered the potential to

[3] For further discussion, see UNCTAD, 2020c, *Key Statistics and Trends in International Trade 2019: International Trade Slump* (United Nations publication, Sales No. E.20.II.D.8, Geneva).

[4] Irwin DA, 2015, World trade and production: a long-run view, in Hoekman B, ed., *The Global Trade Slowdown: A New Normal?* Centre for Economic Policy Research, London: 21–30.

move up the value chain and exploit new economic opportunities, beyond existing comparative advantage, by leveraging technology and foreign direct investment (FDI) to build transformative productive capacities.

31. Nevertheless, the expansion of global value chains was a game changer for trade policy. Firms can assemble intermediate inputs from various destinations and firms that respect the same standards. As a result, trade policy became increasingly concerned about non-tariff measures and engaged in behind-the-border liberalization and the harmonization of regulations and standards, often codified in bilateral or regional trade agreements.

32. Business decisions to shorten and regionalize supply chains or to ”reshore” production suggest an apparent de-globalization of trade. Notably, there has been a move away from highly fragmented, globe-spanning supply chains towards a greater reliance on regional and local production networks. Such decisions result from a re-evaluation of the economic benefits of offshoring, for example, caused by the increase in unit labour costs in some large developing countries and the costs related to global supply-chain management in the face of major supply disruptions caused by earthquakes or extreme climate events, which had already been observed prior to the pandemic, as well as the temporary shutdown of production sites in China related to the COVID-19 pandemic. These decisions also stem from heightened consumer concerns about socially and environmentally responsible production.[5] Disruptions stemming from the rapid spread of digital technologies and associated opportunities to reshore production through automation have further spurred a re-evaluation of global production sharing. Taken together, much of what appears to be a de-globalization of trade may well simply reflect a reconfiguration of supply chains.

33. The evolution of FDI prior to the COVID-19 pandemic indicated that reconfigurations to existing supply chains were indeed under way. Global FDI flows rose only modestly in 2019, following the sizable declines registered in 2017 and 2018, but remained below the average of the previous 10 years and at some 25 per cent of the peak value of 2015. Greenfield FDI (the establishment of new productive capacity) in developing countries had not increased significantly for more than a decade and remains largely concentrated in extractive industries. This has important implications, as greenfield investments are far more beneficial for building transformative productive capacities than flows related to mergers and acquisitions.

[5] For further discussion, see UNCTAD, 2020d, *World Investment Report 2020: International Production beyond the Pandemic* (United Nations publication, Sales No. E.20.II.D.23, Geneva).

3. Rising financial vulnerabilities: Volatile capital flows, rising indebtedness and illicit financial flows

34. While the pre-pandemic evolution of trade and FDI suggested a retreat from unsustainable highs of globalization, net capital flows to developing countries continued unabated. However, especially in economies with more open capital markets, their extent was highly volatile and largely determined by an abundance of global liquidity and the appetite for risk of global financial investors. Peaks in 2010 and 2013 were followed by the so-called taper tantrum (the sudden capital withdrawal following the announcement in May 2013 by the Federal Reserve of the United States of America that it would eventually taper off its expansionary monetary policy), a rebound in 2017 and 2018 and broad stability in 2019.

35. Net capital flows to developing countries can be a valuable source of external financing. The volatility and procyclical nature of these flows, however, complicates macroeconomic management and increases financial vulnerabilities and indebtedness. These risks are particularly large in developing countries as they are exposed to global financial cycles – the co-movement in global and domestic financial conditions across countries – to a considerably greater extent than developed countries. A global financial cycle implies that capital flows to developing countries are generally driven more by factors external to the receiving country – such as low interest rates and monetary expansion in developed economies, combined with low global risk aversion – rather than by local factors – such as capital-account openness and strong economic growth – that may pull international capital flows towards their economies. Most developing countries do not have the multiple policy instruments, without preconditions for their use, that would be required to stem these pressures.

> The disconnect between deteriorating real economic outcomes and continued financial exuberance left the global economy particularly vulnerable to the COVID-19 shock

36. Financial globalization has been boosted further, as high indebtedness has become a key feature of the global economy. The global debt-to-output ratio hit what was then an all-time high of over 322 per cent in the third quarter of 2019, with total debt reaching close to $253 trillion.[6] Debt expansion has been most pronounced in the non-financial corporate sectors and to a lesser extent in government sectors. For developing countries, the pre-pandemic level of total debt was about double their combined gross domestic product (GDP) – the highest level on record. The indebtedness of higher- and middle-income

[6] Wheatley J, 2020, Pandemic fuels global “debt tsunami”, *Financial Times*, 18 November.

developing countries is at unprecedented levels and dominated by private sector debt. At the onset of the COVID-19 pandemic, the indebtedness of low-income countries had not exceeded the levels prior to the debt cancellation programmes for heavily indebted poor countries of the early 2000s, but private sector indebtedness had also increased markedly in these countries. Amid slowing global growth, rising trade tensions and, in some cases, heightened political uncertainty, high corporate debt in emerging economies represents a major source of financial vulnerability, as forcefully exposed by the COVID-19 pandemic. Since the global economic and financial crisis, claims on government debt have shifted towards private, foreign and non-bank ownership, which has further heightened vulnerabilities. In some countries, these vulnerabilities are aggravated by rising dollar-denominated debt. In addition, investment indicators show that a significant part of this corporate debt has been channelled neither to productive investments nor to high productivity sectors.[7] This trend has adversely impacted medium-term growth and has also raised concerns over debt sustainability.

37. While international capital flows have played a crucial role in the expansion of private debt, public debt has often increased because of insufficient fiscal revenues. The drop in fiscal revenues is in part the result of conscious choices, as policymakers embraced a notion according to which taxes are a hindrance to economic growth and should be reduced as much as possible. Meanwhile, tax evasion by high-wealth individuals and an increase in tax-motivated illicit financial flows (IFFs) by multinational enterprises have added further downward pressure. Currently available aggregate estimates on tax-motivated IFFs vary due to their hidden nature and differing measurement methodologies. But recent estimates on revenue losses caused by tax-motivated IFFs from developing countries as a group point to a range of $49–$193 billion, with estimates of the proceeds from trade underinvoicing and other IFFs pointing to an average of $88.6 billion per year for Africa alone.[8]

38. Tax-motivated IFFs mainly occur when multinational enterprises reduce their corporate income tax liabilities by shifting their profits to affiliates in offshore financial centres or tax havens. The existing international corporate tax norms facilitate these practices as they leave decisions where to record profits to the multinational enterprises themselves, regardless of where the profit-making activity took place. This system dates from the 1920s and was designed at a time when most trade in manufactures concerned final goods and took place between separate firms. It is ill equipped to deal with

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[7] UNCTAD, *Trade and Development Report 2019: Financing a Global Green New Deal* (United Nations publication, Sales No. E.19.II.D.15, Geneva).

[8] Ibid. and UNCTAD, 2020e, *Economic Development in Africa Report 2020: Tackling Illicit Financial Flows for Sustainable Development in Africa* (United Nations publication, Sales No. E.20.II.D.21, Geneva).

current characteristics of trade mostly concerning intermediate goods and, increasingly, services and taking place between subsidiaries of multinational enterprises. While attempts at resolving these issues are under way at the United Nations and under the base erosion and profit shifting project of the Group of 20 (with proposals in this area also provided by the Independent Commission for the Reform of International Corporate Taxation, as well as specialized non-governmental organizations), no agreed solution has been found so far.

39. Closely related to tax-motivated IFFs is the observation that an increasing share of FDI passes through holding companies or investment vehicles, which may in fact be just empty corporate shells, rather than being invested in productive activities in the receiving economies.[9] This type of FDI can be used for intra-company financing or to hold intellectual property and other assets. For tax-optimization purposes, it is concentrated in a few offshore financial centres or tax havens.

40. Trade-related IFFs concern illegal wildlife trade, logging and fishing, but above all underinvoicing of commodity exports, especially from the extractive sector. It has been estimated, for example, that about half of illicit financial outflows from Africa are generated via trade mispricing and more than half of trade-related IFFs stem from the extractive sector. The lack of data makes comparisons over time difficult. But country-specific evidence based on the partner-country trade gap method suggests that the revenues lost from trade mispricing have been much larger over the past 15 years than during the period 1990–2005.[10]

41. The simultaneous occurrence of deteriorating global economic prospects, slowing trade and greenfield FDI, on the one hand, and unabatedly rising international capital flows, asset market valuations, trade-related and tax-motivated IFFs, on the other, illustrates the disconnect between financial markets and real economic activity. Combined with increasing inequality, this disconnect left the global economy particularly vulnerable to a shock as drastic and widespread as COVID-19.

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[9] Damgaard J, Elkjaer T and Johannesen N, 2019, The rise of phantom investments. Empty corporate shells in tax havens undermine tax collection in advanced, emerging market and developing economies, *Finance and Development*, 56(3).

[10] UNCTAD, 2020e.

B. The pandemic exposes and deepens the multiple fractures in the global economy

42. The COVID-19 pandemic has already caused more than 1.5 million deaths and made nearly half of the world's population endure lockdown measures. The ensuing slump in consumer spending and factory closures led to the deepest and most synchronized global economic collapse on record. In 2020, the global economy is expected to contract by 4–5 per cent, merchandise trade to shrink by 7–9 per cent and FDI by up to 40 per cent, and remittances are set to drop by over $100 billion.[11] Global debt has surged since 2019. By the end of 2020, it is expected to hit $277 trillion, or 365 per cent of global output, up from 320 per cent at the end of 2019.[12] The pandemic also caused the disappearance of almost 500 million jobs globally during the second quarter of 2020 alone and harshly affected many of the 2 billion workers in informal employment with little protection.[13]

43. Global trade is expected to rebound by 7–8 per cent in 2021, closer to a "weak recovery" scenario than to a "quick return to trend".[14] Regarding FDI, the pandemic has created significant uncertainty about economic prospects, not least in developing countries, which may cause a delay or even cancellation of previously envisaged projects. As such, the pandemic may mark an inflection point that could fundamentally alter the configuration of international production over the next decade, whereby FDI flows to developing countries may be expected to remain positive but significantly below previous peaks.[15]

44. While the COVID-19 crisis has affected all countries, its impact varies widely. The biggest decline in output is in the developed world, where many countries are battling a second wave of the disease. However, the economic and social damage is greatest in the developing

The pandemic marks an inflection point that could fundamentally alter the configuration of international production over the next decade

[11] The numbers cited refer to the entire year 2020, with much more drastic declines registered for the first and especially the second quarter of 2020. See UNCTAD (2020a) for detailed numerical evidence on the impact of the pandemic.

[12] Wheatley J, 2020.

[13] International Labour Organization, 2020, Restore progress towards attaining the Sustainable Development Goals, statement by Guy Ryder at the annual meetings of the World Bank and the International Monetary Fund, 15 October.

[14] WTO, 2020, Trade shows signs of rebound from COVID-19, recovery still uncertain, press release, 6 October.

[15] UNCTAD, 2020f, Investment Trends Monitor, Issue 36, October.

world. These countries combine a high importance of particularly affected economic sectors (such as tourism) with high levels of informal employment and little social protection. This puts millions of livelihoods at risk and with the possibility of pushing an additional 130 million people into extreme poverty if the crisis persists, with close to 300 million facing acute food insecurity. An exception is East Asia, and in particular China, where the health impact was relatively low, and economies bounced back quickly and strongly.

45. Within countries, the pandemic's economic effects disproportionally affect younger generations that find it more difficult to get a foothold in the disrupted labour market and those unable to follow online teaching obliged to discontinue their education. The economic and social effects of the pandemic also risk reversing progress on gender equality and women's empowerment. Given continued gender pay gaps, the overrepresentation of women in relatively less stable as well as less remunerated jobs, women tend to have lower liquid savings and have fewer options for not going in to work than men. When they can relocate to a home office, they often shoulder most of the additional tasks related to care for children and elderly members of the household.

46. The pace of the recovery is also expected to be highly uneven. So far, it has been K-shaped, with those at the top of the income and wealth distribution able to enjoy asset price increases and continue working from home offices, while those at the bottom often face the trade-off between exposing themselves to the pandemic or renouncing any income.

47. The deepening of existing fractures from the uneven direct effects of the pandemic itself is likely to be compounded by diverging paths of economic recovery. In addition to success in containing the spread of the disease, and eventually getting affordable access to vaccines and effective treatment, the country-specific pace of the recovery will depend on the scale and effectiveness of national policy responses and on differences in the structure of countries' economies and their preparedness to adjust to ongoing and emerging structural changes in international production.

1. A worrying disconnect between sizable national responses and inadequate international measures

48. The pandemic triggered an extensive policy response at the national level in most developed economies. The United States alone saw the rapid adoption of a spending stimulus worth 12 per cent of GDP and a 1.5 percentage point cut in short-term interest rates. Other developed countries also brought up fiscal spending to protect workers and rescue firms. The combined monetary and fiscal stimulus of developed countries

is equivalent to about 20 per cent of their GDP. Their additional spending and liquidity support measures amounted to more than double those in developing economies in terms of national income, and more than 20 times on a per capita basis.[16] Central banks in the major advanced economies have created new money worth close to $4 trillion, much of which has kept yields on long-term government debt close to zero. Entrenched ultra-low interest rates in major developed countries will facilitate keeping long-term debt to GDP ratios stable, with expanding GDP compensating rising debt levels.

49. The massive response of developed countries at the national level contrasts with a woefully inadequate response at the international level. This is surprising because the global nature of the pandemic in medical and economic terms clearly reflects global interdependence and the great need for multilateral cooperation to address the pandemic. By contrast, the international response to the global economic and financial crisis was as ambitious as national measures in the immediate aftermath of the global economic and financial crisis. In terms of financial support, it included a tripling of the International Monetary Fund's lending resources and adaptation of the Fund's lending framework that sought to make access to its resources easier and more flexible, as well as new allocations of special drawing rights (SDRs) in August and September 2008, totalling a record level of over SDR 180 billion. Additionally, the Federal Reserve of the United States and central banks of other developed countries established central bank liquidity swap lines to improve liquidity conditions in dollar funding.

The massive response of developed countries at the national level contrasts with a woefully inadequate response at the international level

50. This time around, the international response has been much more limited. The International Monetary Fund is providing close to $100 billion to 81 countries to deal with the crisis, and the World Bank has disbursed $21 billion. In April 2020, the Group of 20 agreed on a Debt Service Suspension Initiative for the poorest countries which, however, is limited to bilateral official debt, and by early September 2020, deferred debt service payments amounted to only about $9 billion. Central banks have also taken measures to ease dollar strains. The Federal Reserve extended currency swap lines to a range of countries, including four developing countries (Brazil, Mexico, the Republic of Korea and Singapore) and most other central banks were allowed temporarily to exchange United States treasuries for cash. However, estimated financing needs for developing countries are expected to be in the order of $2.5 trillion, and many developing countries face a continued

[16] See UNCTAD, 2020a.

risk of sovereign- and corporate-bond defaults and possible funding crises. The debt burden of developing countries has risen by 26 percentage points since the end of 2019 and is approaching 250 per cent of their combined GDP.[17]

51. Stepped-up international support is particularly important as developing countries enjoy much less fiscal space and face greater difficulty in accessing international liquidity. The near-economic standstill in developed economies and the disruption of global supply chains particularly affected developing countries that depend on remittances from citizens working abroad and on export earnings from a narrow range of goods, including commodities such as oil whose average price level in 2020 is about one third lower than in 2019.

52. Developing countries also experienced rapid and massive capital outflows in March and April 2020. Even though this capital flow reversal has come to a halt, and some developing countries with strong credit ratings have raised new financing by selling bonds, it has left many developing countries in a very fragile state. Subsequent reversals, when investors measure their exposure against continued crisis conditions in the real economy, could tip many into financial chaos. This means that the pandemic has put a spotlight on the many shortcomings of the international monetary and financial architecture. As such, it provides an opportunity to accelerate long overdue reforms that would ease access by developing countries to international liquidity and facilitate sovereign debt restructurings.

2. A changing policy paradigm towards greater State intervention

53. An important question regarding the COVID-19 crisis is whether the sizable increase of State involvement in economic activity will mark a departure from the paradigm of a retreat of the State that has prevailed since the early 1980s.

54. The global economic and financial crisis had already made doubts about the economy-wide and broader social benefits of unfettered markets more widely accepted. But the immediate policy response adopted in developed countries during the COVID-19 crisis has shattered many of what previously were considered taboos. For example, after years of austerity, higher levels of government debt became tolerable, with Germany invoking special conditions to be able to suspend its debt brake and its balanced-budget norm. Central-bank financing of government debt became a possibility in many developed countries, as much as leaving aside concerns over moral hazard in Governments bailing out enterprises or handing out cash

[17] Wheatley J, 2020.

payments to enterprises and households, much as advocated by proponents of universal basic income schemes. The United Kingdom of Great Britain and Northern Ireland renationalized its railways and announced the heaviest borrowing since World War Two. Pushing towards higher wage floors through the introduction of minimum wages is increasingly getting traction in major developed economies, where pushing wages down for the sake of international competitiveness was a pillar of economic policy for decades. Once concerns over economic recovery gain priority over crisis containment, it is also likely that many developed countries governments will further expand long-shunned industrial policies.[18] The adoption of some of these measures may relate to specific purposes in crisis situations. Yet, these and similarly novel policies may well become part of a new normal, just as the unconventional monetary policy that developed country central banks adopted after the global economic and financial crisis have been maintained now for close to a decade.

Increased State involvement in economic activity due to COVID-19 may mark a departure from the paradigm of a retreating State that has prevailed for decades

55. One indication for this would be that, rather than prematurely reverting to fiscal austerity as in their response to the global economic and financial crisis, developed economies uphold fiscal expansion to continue spending for humanitarian reasons and prevent a downward economic spiral, as well as reverse years of public underspending. Focusing macroeconomic policy on assuring adequate demand and economic fairness, driven mainly by expansionary fiscal policy, may well become a key characteristic of the post-pandemic environment. Years of fiscal austerity had contributed to pervasive and chronic shortcomings in infrastructure and logistics that hampered the capacity of Governments to provide support at levels that may have tempered the sharp increase in COVID-19 infections and deaths. Yet, rapid and decisive increases in fiscal expenditure to address the economic and social fallout of the pandemic have contained popular dissatisfaction. It reassured people that everything possible was undertaken to provide a reliable immediate response to the pandemic. Maintaining an enlarged State presence would clearly help in the challenge of vaccinating the population at an adequate pace.

56. The pandemic has also increased the cost of not expanding net public spending. Insufficient fiscal spending would risk creating a high rate of long-term unemployment, eroding precious human capital and leaving capital equipment unused, and a further extended period of sluggish growth would

[18] Aiginger K and Rodrik D, 2020, Rebirth of industrial policy and an agenda for the twenty-first century, *Journal of Industry and Trade*, 20(2):189–2017.

postpone or cancel investment and innovation decisions, triggering a further decline in global productivity growth. This means that a premature turn towards fiscal austerity would reduce job creation and impede the building of productive capacities and structural transformation that crucially determine pre-tax income inequality. As such, it would complicate a post-pandemic recovery and risk further worsening already deep inequalities and increasing vulnerabilities to future shocks. It would also risk further undermining popular support for democratic Governments. This is because some would see support measures after the global economic and financial crisis focused on monetary expansion as predominantly benefiting high-income groups and the wealthy, while it would take targeted fiscal measures to secure the living standards and livelihoods of the less affluent parts of the population.

57. Another indication for the possibility of increased State involvement to continue could be that the massive macroeconomic stimulus in developed economies has come on the heels of enhanced broad-based adoption of formal industrial policies and individual measures aimed at stimulating industrial sectors. Such measures have become commonplace, not least because of anxiety about the ability to maintain high living standards and technological leads in a post-pandemic world. In Europe, leaders vowed to erect barriers to foreign competitors, repatriate production of key technologies, reduce dependencies in sensitive industries, and create new digital champions, much in line with the new industrial strategy of the European Union.[19] In the United States, State aid has been instrumental in accelerating the development of COVID-19 vaccines and follows on the development of frontier digital technologies, much of which came out of the Defense Advanced Research Projects Agency of the United States Department of Defense that pioneered the Internet, Global Positioning System and touchscreen technology.

58. These changes in government policy illustrate that, in addition to finding solutions to the pandemic, much of the greater State involvement and the adoption of more active policy measures respond to ongoing shifts in globalization. The rapid spread of digital technologies may be the most important among these shifts, including as digital service provision has received a decisive boost from the pandemic. But recognition that regaining popular support for globalization and

Regaining popular support for globalization and multilateralism requires conscious efforts to address longer-standing pre-pandemic fractures in the global economy

[19] European Commission, 2020, A New Industrial Strategy for Europe, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2020) 102 final, available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0102&from=EN.

multilateralism requires conscious efforts to address longer-standing pre-pandemic fractures in the global economy has clearly also played a role.

C. Strengthening efforts to address existing vulnerabilities and advance on the 2030 Agenda

59. The economic fallout of the pandemic risks further questioning the promises of globalization, and the woefully inadequate international response could cause a further faltering of expectations that multilateralism can manage interdependencies, at a point when global cooperation is paramount.

60. If unchecked, these developments would leave the world unprepared for when and where the next pandemic or other global shock strikes. Equally important, they would risk undoing the advances achieved towards the Sustainable Development Goals and the ability of Governments to maintain the multilateral regimes which have been the basis for these advances.

61. These developments would be particularly worrying in the context of the Sustainable Development Goals for two reasons. First, the situation has been related to growing inequality, as reflected by both the decline in the share of labour in national income and the polarization of personal wealth and income. The concentration of wealth and income growth among the top 1 per cent, accompanied by income stagnation for those at the bottom of the ladder and precarity or declines for middle-income earners, has become a defining feature of our time in virtually all countries, but especially in major developed countries, where it has fed growing popular discontent with globalization.

62. While growing inequality has several causes, some of which may be country-specific, policy choices have played an important role. The 1980s saw the wide adoption of a vision of economic policy that sees a retreat of the State as the basis for sustained growth and development. As a result, Governments have cut taxes for high-income earners and the wealthy, while reducing welfare and redistributive policies that benefit those at the

middle and bottom of income distribution.[20] The emerging digital revolution has sharpened these trends. Digital technologies can make significant contributions to realizing the Sustainable Development Goals and have already generated enormous wealth in record time. This wealth, however, has so far been concentrated around a small number of individuals and companies. Under current policies and regulations, this trajectory is likely to continue, further contributing to market concentration and rising inequality.[21]

63. Rightly or wrongly, part of growing inequality has also been attributed to globalization, possibly as the gains of globalization, in the form of lower-priced goods, are spread across the population, while adverse effects associated with a decline in traditional middle-class manufacturing jobs in regions with a high density of import-competing industries are geographically concentrated and therefore highly visible. The ensuing feeling that the gains of globalization are not shared equally and fairly has led to a pushback against globalization, especially in developed countries.

64. A second reason is that the disconnect between financial markets and real economic activity implies a dearth of investment in transformative productive capacities, despite the availability of large amounts of finance. The 2030 Agenda for Sustainable Development requires the largest investment push in history (UNCTAD estimates[22] the annual shortfall at $2.5 trillion in developing countries alone), while the backlash to globalization reduces the political resolve to engage in global cooperation at a time when it is of key importance. These facts raise important questions. One question is whether globalization inherently fosters dynamics that eventually lead to a backlash and, if so, whether these dynamics are inevitable or can be avoided by an adjustment in the rules and norms that govern globalization and ensuing shifts in policy focus.

65. We must not resign ourselves passively to the fractures that are increasingly characterizing the global economy. Instead, we must rectify what has been going wrong and ensure that change equates fairness and advance on the 2030 Agenda. This implies recognizing that the difficulties of harnessing globalization for the benefit of all have been underestimated, as has the risk that related disillusions with multilateralism jeopardize global cooperation. It requires that we mobilize the entire gamut of policy

[20] UNCTAD, 2012, *Trade and Development Report 2012: Policies for Inclusive and Balanced Growth* (United Nations publication, Sales No. E.12.II.D.6, New York and Geneva).

[21] UNCTAD, 2018a, *Trade and Development Report 2018: Power, Platforms and the Free Trade Delusion* (United Nations publication, Sales No. E.18.II.D.7, New York and Geneva); UNCTAD, 2019b, *Digital Economy Report: Value Creation and Capture – Implications for Developing Countries* (United Nations publication, Sales No. E.19.II.D.17, Geneva).

[22] UNCTAD, 2014, *World Investment Report 2014: Investing in the [Sustainable Development Goals] SDGs – An Action Plan* (United Nations publication, Sales No. E.14.II.D.1, New York and Geneva).

instruments to continue our efforts towards implementation of the Nairobi Maafikiano and fulfil the mandate of UNCTAD of addressing the division of the world into pockets of poverty and of plenty, through gainful integration of developing countries into the world economy.

66. Greater inclusiveness of these policies is crucial for ensuring their popular support. Proactive and legitimized Governments on board for multilateral solutions can best ensure that policies fostering economic development are considered from a global perspective and effective responses to global challenges are found in a way that take the global commons as a yardstick, while allowing appropriate reflection of each country's national interest. The COVID-19 pandemic has shown once again that nationalist solutions do not work.