



TRANSFORMING TRADE AND DEVELOPMENT IN A FRACTURED, POST-PANDEMIC WORLD

Report of the
Secretary-General of UNCTAD
to the fifteenth session
of the Conference





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Contents



Abbreviations	v
Preface	vi
Introduction	1
I. A fractured global economic landscape scarred by the COVID-19 pandemic	7
A. Unfulfilled trade and development promises prior to the pandemic	8
1. An unbalanced global economy and deteriorating global economic conditions	9
2. Changing global production structures amidst slowing trade and foreign direct investment flows	10
3. Rising financial vulnerabilities: Volatile capital flows, rising indebtedness and illicit financial flows	13
B. The pandemic exposes and deepens the multiple fractures in the global economy	16
1. A worrying disconnect between sizable national responses and inadequate international measures	17
2. A changing policy paradigm towards greater State intervention	19
C. Strengthening efforts to address existing vulnerabilities and advance on the 2030 Agenda	22
II. Doubling down on the Sustainable Development Goals and unmet trade and development targets	25
A. Analytical evidence documenting widening implementation gaps	26
B. Sounding the intergovernmental alarm about lack of progress on economic Sustainable Development Goals	30
C. Growing demands for technical support to the economic dimension of the Sustainable Development Goals	32
D. Strengthening the United Nations development system's focus on the productive side of economic sustainability	33
E. Taking the Sustainable Development Goals seriously, staying the course and learning the lessons from implementation challenges	36

Contents



39

III. Charting new pathways for post-pandemic trade and development

41

A. Fostering inclusive structural transformation in a changing globalization

47

B. Building wealth while respecting planetary boundaries

51

C. Improving fiscal space and access to international liquidity for developing countries

55

IV. A more resilient multilateralism for trade and development beyond 2030

63

V. Conclusion



Abbreviations



COVID-19	coronavirus disease (of 2019)
FDI	foreign direct investment
GDP	gross domestic product
IFF	illicit financial flow
SDR	special drawing right
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Preface



Since the last session of the United Nations Conference on Trade and Development four years ago, fractures and fault lines have deepened across the world economy, compromising the achievement of the Sustainable Development Goals. These fractures include widening inequalities that have fuelled popular discontent with globalization, deepening digital divides and uneven vulnerabilities to climate change. These fractures also include a growing disconnect between investment in the real economy and exuberant financial markets that have left the 2030 Agenda for Sustainable Development underfinanced yet have kept debt burdens growing and illicit financial flows rising. The multilateral system itself has shown increasing signs of fracturing, as it has come under mounting stress due to tensions over trade and technology and rising economic nationalism.

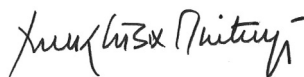
These growing fractures have been further scarred by the coronavirus disease (COVID-19) pandemic and its disproportionate impact on the most vulnerable. A worrying economic symptom of the pandemic is the striking discrepancy between the massive national policy responses observed in developed countries and the woefully inadequate international response, which has left many developing countries searching for answers and options. The time is now to redress this situation with a new international approach

that sets us on a path towards more gainful globalization and a more resilient form of multilateralism that can heal these fractures.

The pandemic is accelerating a transformation in global production towards shorter, more regional and more resilient value chains. It has also shown the limits of “go it alone” nationalism. The strong national policy responses to the COVID-19 pandemic are hastening the revival of industrial policies and suggest a changing paradigm that reaffirms stronger developmental States. The international community needs to build common ground on these trends so that they feed an acceleration of the 2030 Agenda for Sustainable Development.

In my report to the fifteenth session of the United Nations Conference on Trade and Development, which will be held in Bridgetown, Barbados, in October 2021, I focus on how expanding the transformative productive capacities and capabilities of all States could form the core of a new, more resilient multilateral consensus for accelerating achievement of the Sustainable Development Goals. Building productive capacities that facilitate structural transformation, economic diversification and industrialization – or “transformative productive capacities” – is needed in all countries. They will be vital to overcoming the current, fractured global economic landscape and addressing the new challenges posed by the COVID-19 pandemic.

The fifteenth session of the Conference should be the moment for debate on how to put these transformative productive capacities at the centre of United Nations efforts for a better recovery from the pandemic, and for achieving gainful globalization and a revived multilateralism. If the outcome of the Bridgetown Conference can strengthen the focus of the entire United Nations system on the productive side of economic sustainability, then it will go a long way towards accelerating achievement of the 2030 Agenda.



Mukhisa Kituyi

Secretary-General of the United Nations Conference on
Trade and Development



Introduction



1. In my report to the fourteenth session of the United Nations Conference on Trade and Development, convened in Nairobi in 2016, I underlined the progress that had been made in human development and economic transformation over the 75 years since the creation of the United Nations. I emphasized that this progress and transformation had gone hand in hand with growing globalization and with multilateralism governing the interdependence both between countries and between economic, social and environmental conditions.

2. At the same time, I cautioned that there was a long way to go. The world continued to face the persistent effects of the global economic and financial crisis, the spectre of a prolonged period of slow growth in some countries and dimming trade opportunities for many, the challenges represented by new technologies for the world of work, the re-emergence of unsustainable debt burdens, continued volatility in commodity prices, widening levels of income and wealth inequality and unprecedented migration flows. Added to all of this were the challenges arising from climate change and food and energy insecurity, as well as the associated economic, political and social instability.

3. I also emphasized that we seemed to be better equipped than ever to address these multiple challenges. The fourteenth session of the Conference took place at a watershed moment for the international community. It was the first quadrennial conference following the historic agreement of the “triple promises” of 2015, namely the 2030 Agenda for Sustainable Development that established the Sustainable Development Goals, the Addis Ababa Action Agenda on financing for development and the Paris Agreement on climate change. These agreements collectively offer a blueprint of truly historic magnitude for how our global society, economy and environment should look in 2030. As such, the Conference represented a starting point to translate our determination and decisions, as set out in the triple promises, into actions.

4. Now, with one third of the road towards 2030 travelled, the forthcoming UNCTAD ministerial conference will take place at a time when the global economy is deeply affected by the coronavirus disease (COVID-19) pandemic.

The pandemic has proven to be contagious as much economically as in medical terms, and its cost is already measured in the trillions of dollars. With the declaration of a global pandemic in March 2020, social-distancing measures brought economic activity to a near standstill in one country after another, causing a sharp global economic downturn and a near breakdown of global trade, foreign direct investment and financial flows. While massive policy support has prevented even worse outcomes, the pandemic has struck already fragile economic conditions and exposed the vulnerability of already disadvantaged economies and populations.¹ There is renewed hope as vaccinations begin, but ensuring wide access and fair distribution will remain a challenge for a long time. Meanwhile, the recent upsurge of the virus and reintroduction of stringent containment measures in many jurisdictions implies continued great uncertainty on the evolution of the global health and economic situation, as well as on the effectiveness of policies designed to alleviate the related human, economic and social costs.

5. No historical episode can provide valuable insights on the eventual consequences and appropriate policy responses regarding the COVID-19 crisis. The trade-off between limiting the public health crisis and containing economic slowdowns makes finding economic policy responses more complex. Any response must be of sufficient magnitude to match the scale of

Any response must be of sufficient magnitude to match the scale of the crisis and deploy sufficient creativity to match its unique nature

of the crisis and deploy sufficient creativity to match its unique nature. That response must also steer recovery towards achieving the triple promises of 2015. Recovering better demands that we treat the COVID-19 pandemic not only as a crisis to be managed, but also as an opportunity to leverage current and emerging economic transformations and address policy-based and institutional barriers in the way of more equitable and sustainable growth.

6. We must also recognize that, had we advanced further on the triple promises of 2015, stronger health systems would have coped better with the health crisis, and more inclusive and sustainable economies would have lessened its social and economic impacts. Instead, when the pandemic started, the global economic landscape was characterized by major fractures, with the world economy marked by inequality and mired in trade and growth slowdowns, and with multilateralism at a crossroads without clarity as to which direction to take. The pandemic bared to the full the weaknesses that such fractures entail.

¹ For a detailed discussion of how the COVID-19 pandemic has affected the most vulnerable, see UNCTAD, 2020a, *Impact of the COVID-19 Pandemic on Trade and Development: Transitioning to a New Normal* (United Nations publication, Sales No. E.20.II.D.35, Geneva).

7. In that respect, the current situation bears some resemblance with the second half of the 1990s. The Asian financial crisis brought the Asian economic miracle to a halt and sent shock waves across regions and countries, both developing and developed; it also raised serious doubts about the widely accepted recipe that had guided trade and development policies at the time. And it was the period when the multilateral trading regime faced an existential crisis that culminated in the breakdown of the Third Ministerial Conference of the World Trade Organization (WTO) in Seattle in 1999, remembered more for the street demonstrations against globalization and multilateralism, and the tear gas that prevented ministers from attending the meeting, than for trade negotiations.

8. I am referring to these events – and particularly the Seattle Ministerial Conference – not to equate the economic havoc caused by the COVID-19 pandemic and the current difficulties in the multilateral trading regime with the challenges faced at the end of the 1990s. Rather, I want to remind us of the critical role played by the tenth session of the United Nations Conference on Trade and Development, held in Bangkok in 2000, in defending multilateralism and emphasizing that both appropriate policies and properly disciplined globalization are indispensable for integration into the global economy to foster trade and development gainfully.

9. As the first global ministerial conference on trade and development after the Seattle debacle, the tenth session of the Conference – and the highest forum for trade and development in the United Nations system – provided an opportunity for developing countries and their development partners to assess, at the ministerial level, the concerns that lie at the heart of trade and development policies and the challenges faced by associated multilateral settings. As United Nations Secretary-General Kofi Annan said at the time, the tenth session of the Conference provided a propitious occasion for an honest and objective review of globalization and associated institutional frameworks, and a time to take stock of past and recent economic policies from the perspective of development. In fact, for many, the tenth session of the Conference provided an opportunity for a “healing process”, and an occasion to reflect and collectively seek solutions to the challenges facing the multilateral trading regime.

10. We are now facing similar challenges – although the immediate causes and drivers may be different. The existing economic fractures and inequalities within and between countries, combined with dwindling support for multilateral solutions, have accelerated and deepened the economic, financial and social impacts of the COVID-19 pandemic, delaying ensuing policy responses and hampering their effectiveness. Years of austerity and a retreat of the State from the provision of public goods reduced health-care

systems to levels incapable of dealing with the large numbers of infected people and hollowed out the State structures that are indispensable for the provision of rapid and sufficient internationally coordinated relief to anybody in need, irrespective of social status, gender or citizenship. Whatever it will take to address the consequences of the COVID-19 pandemic, there can be no going back to a pre-pandemic policy consensus – or lack thereof.

11. Rather than simply be considered as a crisis, the pandemic can be understood as an event that demands new economic and intellectual beginnings. Learning from the crisis and trying to recover towards more sustainable social and economic conditions will require a debate as to whether issues regarding public

The pandemic can be understood as an event that demands new economic and intellectual beginnings

health and the environment need to figure more prominently in the rules and norms that govern globalization, and what this would imply for the economic sphere of globalization and especially its trade and development dimension. Historians may remember the remainder of the year 2020 and much of 2021 as the time when the groundwork for new global economic relationships was laid. We should not miss the opportunity that a ministerial conference on trade and development provides to contribute its part to this process. Within the broad mandate of the United Nations Conference on Trade and Development (UNCTAD), and from a development perspective, the fifteenth session of the Conference must confront the big challenges and concerns of developing countries regarding the integrated treatment of trade and development in a fractured world scarred by the COVID-19 pandemic. In so doing, the fifteenth session of the Conference must address the way in which a revived and more resilient multilateralism can manage the multiple and changing nexuses between trade and development to the benefit of all.

12. In addition to containing the health and economic impacts of the COVID-19 pandemic and saving people's lives and livelihoods, another key challenge ahead is to prevent the pandemic from derailing progress towards achievement of the Sustainable Development Goals. The pandemic risks making the results underpinning progress on the Goals become even more uneven, and the pace of these achievements risks falling even further behind expectations. The deliberations of the first high-level political forum at the United Nations General Assembly in September 2019 had already highlighted that the world was dangerously off track in implementing the 2030 Agenda for Sustainable Development, and United Nations Secretary-General António Guterres had declared that a “decade of action” was needed to make up for lost ground in achieving the Goals.

13. Recognizing these setbacks and the additional complexities caused by the COVID-19 pandemic should not deter us from staying the course with the Sustainable Development Goals and their direction of travel to 2030 and beyond. The fifteenth session of the Conference provides the opportunity to draw the right lessons from how the existing fault lines could allow the pandemic to scar the global economy so deeply for realizing the economic objectives of the Goals spelled out originally in the outcome document, i.e. the Nairobi Maafikiano (TD/519/Add.2), of the fourteenth session of the Conference with an eye towards bringing to bear our collective efforts more concertedly and accelerating progress towards economic sustainability.

14. While reaffirming the continuing relevance of the Doha Mandate and the Accra Accord, the Nairobi Maafikiano spelled out the specific areas where UNCTAD can and should make maximum contribution to the 2030 Agenda for Sustainable Development and the outcomes of other relevant conferences. The approach to inclusive economic development rooted in structural transformation and outlined in the Maafikiano remains valid and even more relevant in the current global economic environment. This strategic direction agreed in Nairobi rested on the concept of building productive capacities for economic transformation as key to developing countries' economic catch-up and centred around four key SDGs, namely Goals 8, 9, 10 and 17.² This "theory of change" underpinning UNCTAD work has not changed. Current setbacks to multilateralism aside, building transformative productive capacities remains an unfulfilled objective for implementing the economic dimensions of the 2030 Agenda.

15. We need to find solutions to the COVID-19 crisis that also help to redress the fractures that have emerged from globalization, creating unfair outcomes and contributing to inequality and vulnerabilities. We also need to uphold that globalization is a policy-driven process and that multilateralism presents the most effective approach to managing policies and their impacts, in a mutually gainful way, across national borders.

Building transformative productive capacities will be vital to healing the fractured global economic landscape and should become central to a more resilient multilateralism

It is my firm belief that this is the right response to the pandemic and the

² In *The Least Developed Countries Report 2006: Developing Productive Capacities* of UNCTAD, productive capacities are broadly defined as "the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop" (p. 61; United Nations publication, Sales No. E.06.II.D.9, New York and Geneva). While this concept has most often been used for the least developed countries (for detailed discussion in this context, see UNCTAD, 2020b, *The Least Developed Countries Report 2020: Productive Capacities for the New Decade*, chapter 3, United Nations publication, Sales No. E.21.II.D.2, Geneva), the Nairobi Maafikiano recognizes broader applicability of the concept.

legitimate concerns about globalization and our fractured societies, and that reviving a more resilient multilateralism is the only way to invigorate gainful globalization and empower the multiple nexuses between trade and development to speed up progress on the 2030 Agenda.

16. The present report emphasizes that the fifteenth session of the Conference will be an important moment for the international community to identify elements that will mark the decade of action and move forward the global discourse on inclusive economic development, globalization and multilateralism. It will be the moment for emphasizing the role that the multiple nexuses between trade and development can play in combating the economic consequences of the COVID-19 pandemic and overcoming the multiple fractures in the current global economic landscape. This report also argues that, as the decade of action to achieve the Sustainable Development Goals begins, the fifteenth session of the Conference will be the moment for member States to revive a more resilient multilateralism and reaffirm the critical role of UNCTAD in supporting progress towards the Goals and to call on the wider United Nations system to put building transformative productive capacities at the heart of sustainable development. Building productive capacities that facilitate structural transformation, economic diversification and industrialization – or transformative productive capacities – as put forward in the Nairobi Maafikiano, is vital not only to tackle the fractured global economic landscape but also to address the new challenges posed by the COVID-19 pandemic. With that in mind, by strengthening its development system's focus on the productive side of economic sustainability, the United Nations could lead by example and reinvigorate multilateralism and global cooperation.