



*Short courses for Permanent Missions in Geneva organized by  
the Division on Technology and Logistics*

# **Current issues and policy alternatives: a review of macroeconomic, financial and structural policies for development**

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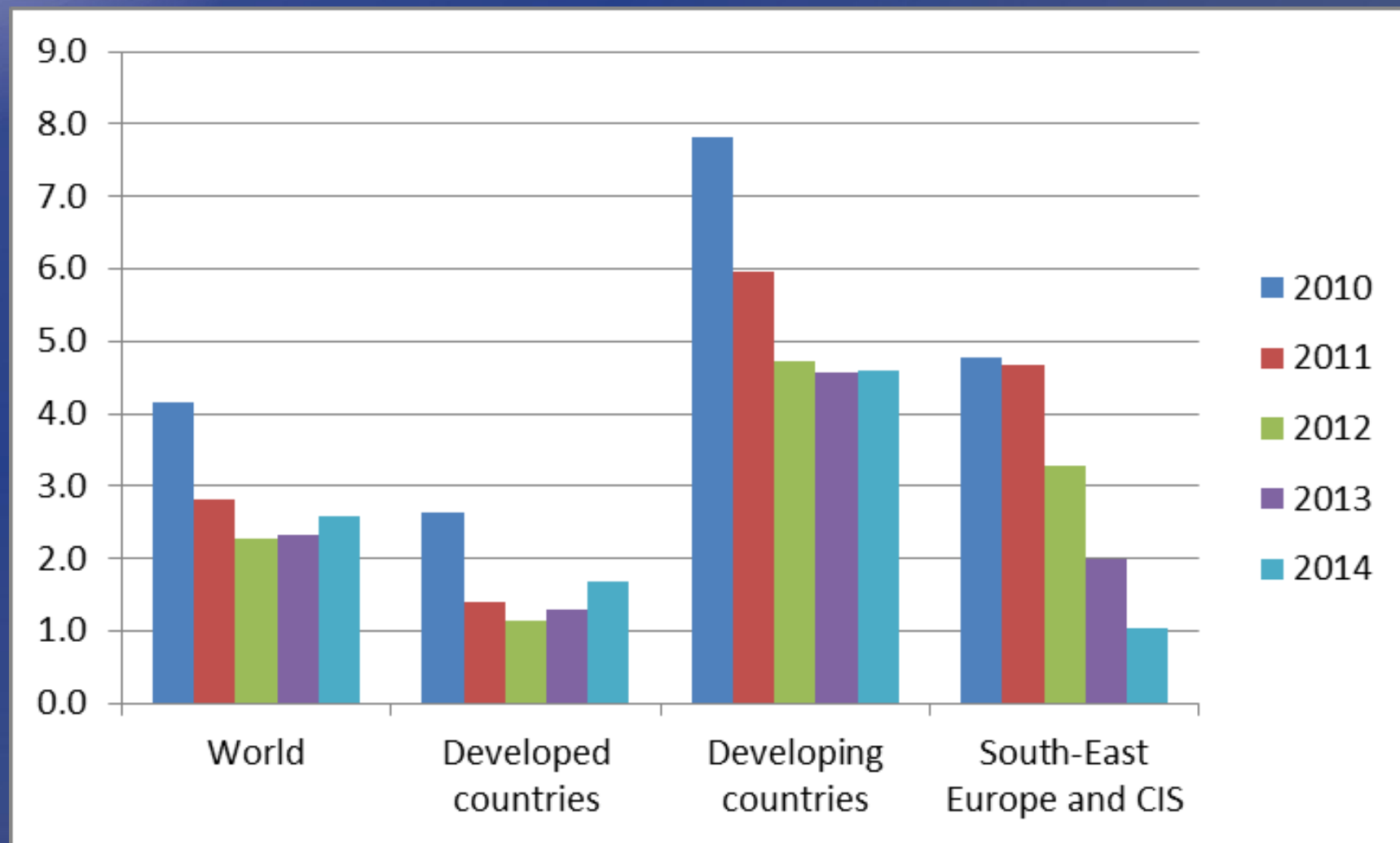
# 1) Macroeconomic trends

- Growth of GDP and trade did not recover pre-crisis dynamism
- Insufficient demand remains the main obstacle for growth in developed countries
- Current policy mix in the developed economies combining monetary expansion with fiscal austerity and wage restraint is ineffective
- Developing countries need new growth drivers, strengthening domestic demand and expanding productive capacity
- Developing countries need sufficient policy space for handling negative spillovers and implement macroeconomic and industrial policies



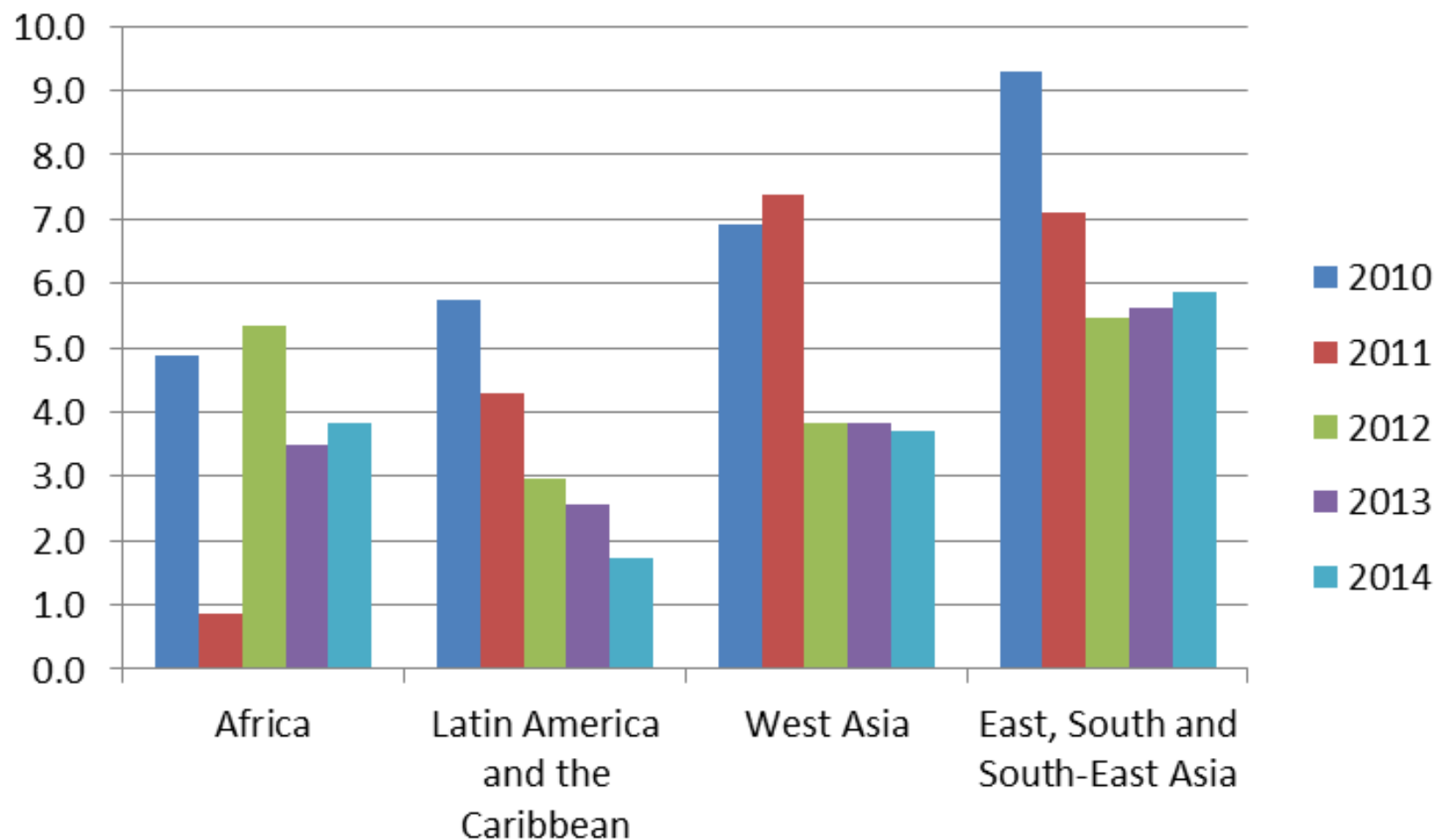
# The world economy in 2014: still in the doldrums

Output growth, selected country groups, annual percentage change, 2010–2014



# The main developing regions are set to maintain their recent growth performance

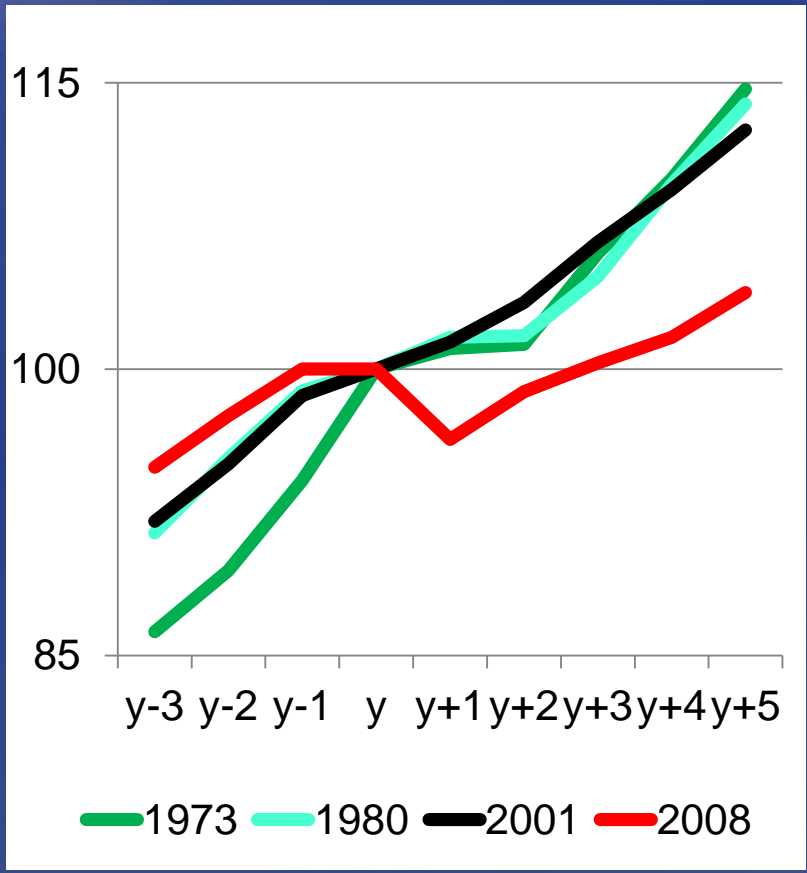
Output growth, selected developing regions, annual percentage change, 2010–2014



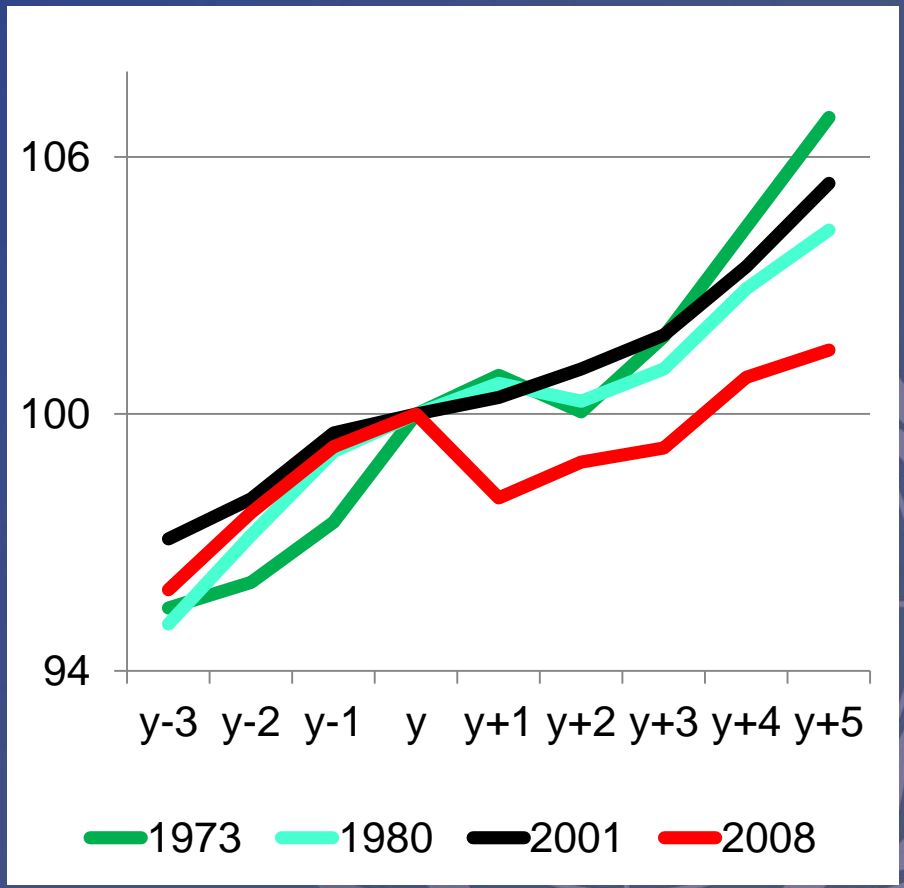


# Weakest recovery in the post-war period (partly due to policy responses)

**Constant GDP in developed economies**  
index numbers, crisis year=100

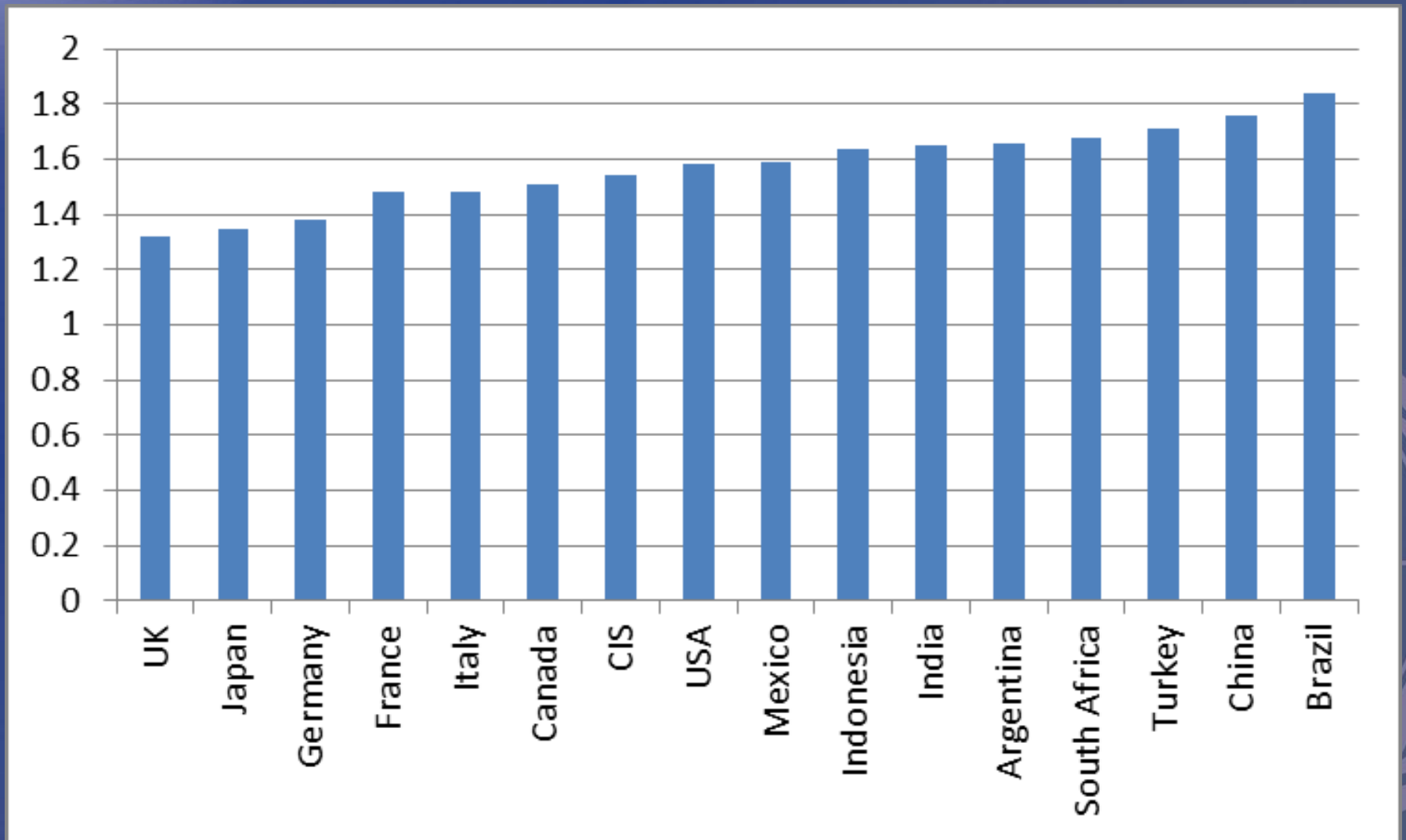


**Employment in developed economies**  
index numbers, crisis year=100



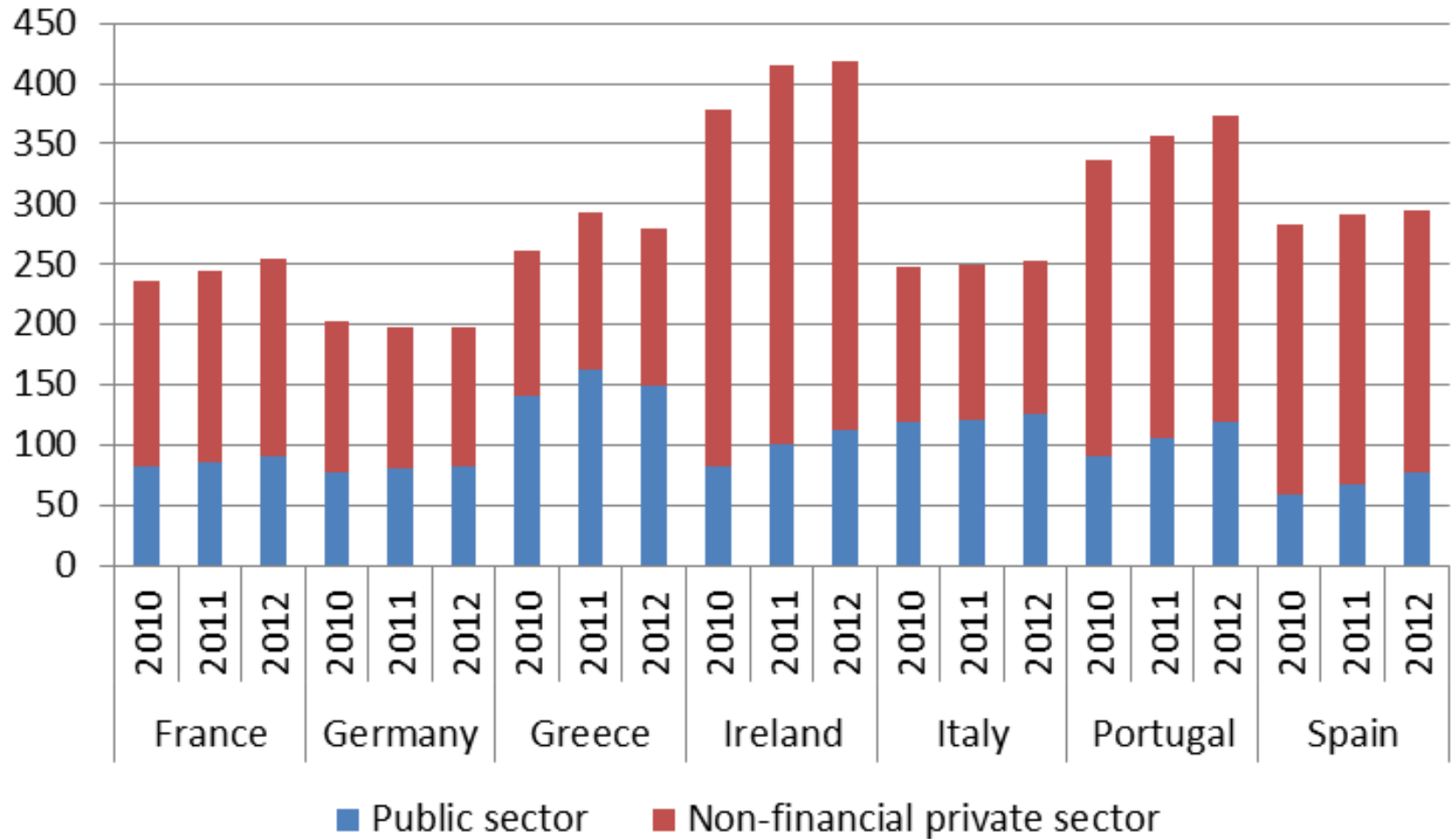


# Short-term fiscal multipliers (Government spending on goods and services)



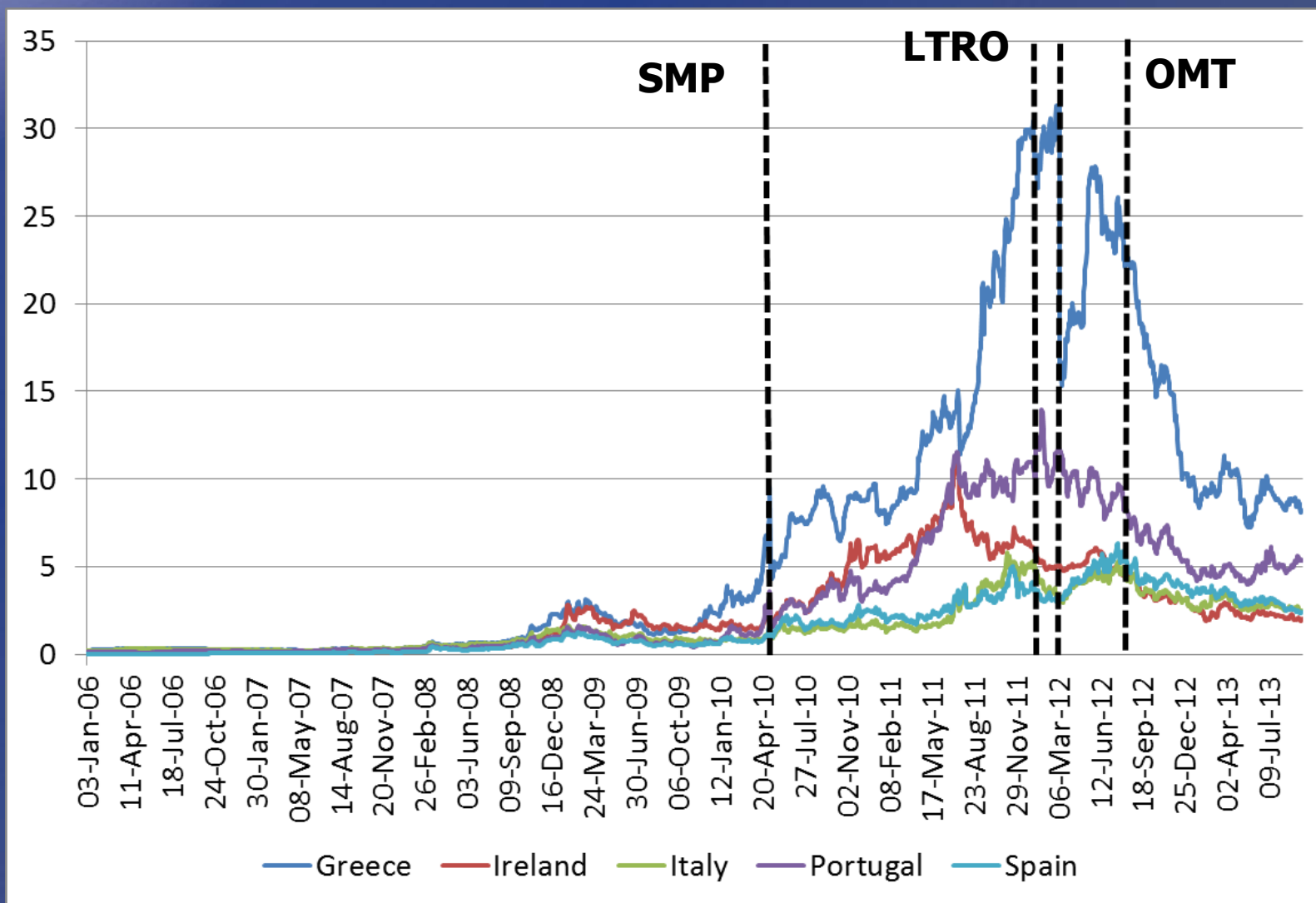


# Public and private debt in selected Euro Area countries *(in % of GDP)*





# Spreads on sovereign debt vis-a-vis German bonds, Jan 2006 - Sept 2013 *(in per cents)*

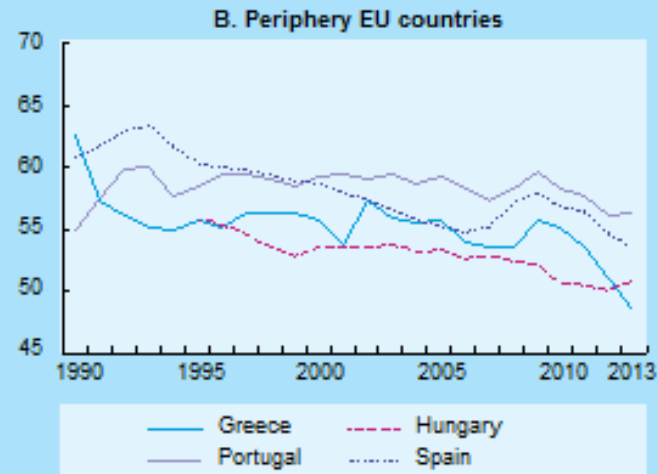
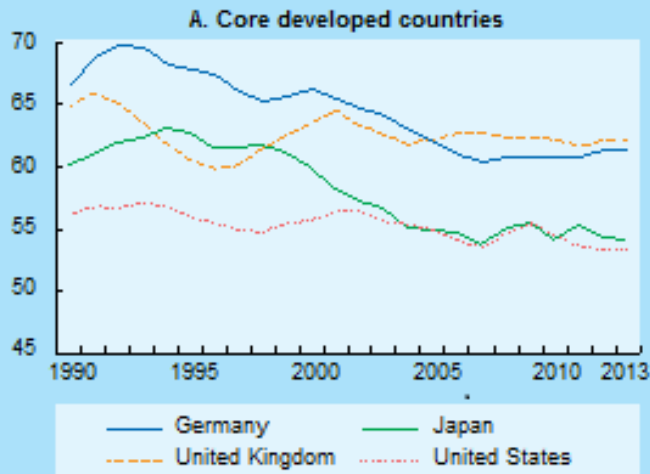




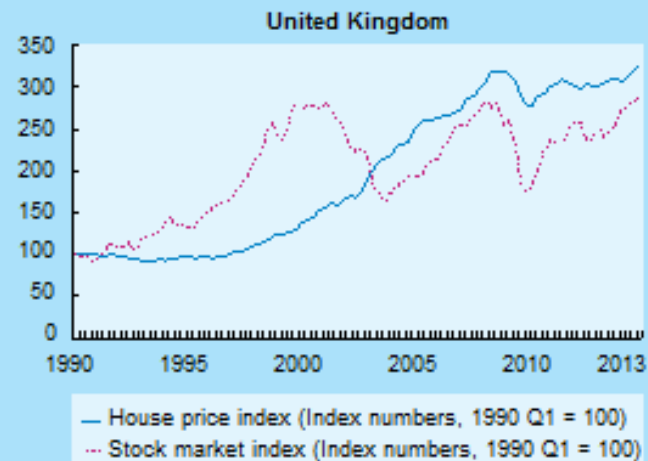
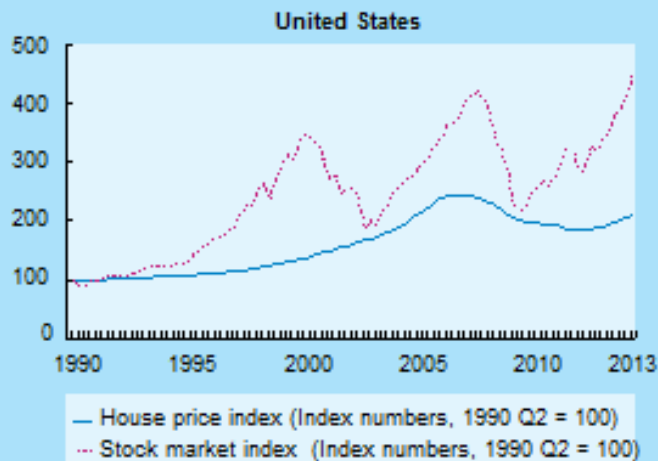


# The roots of the crisis are not addressed

Labour income share in GDP, 1990–2013



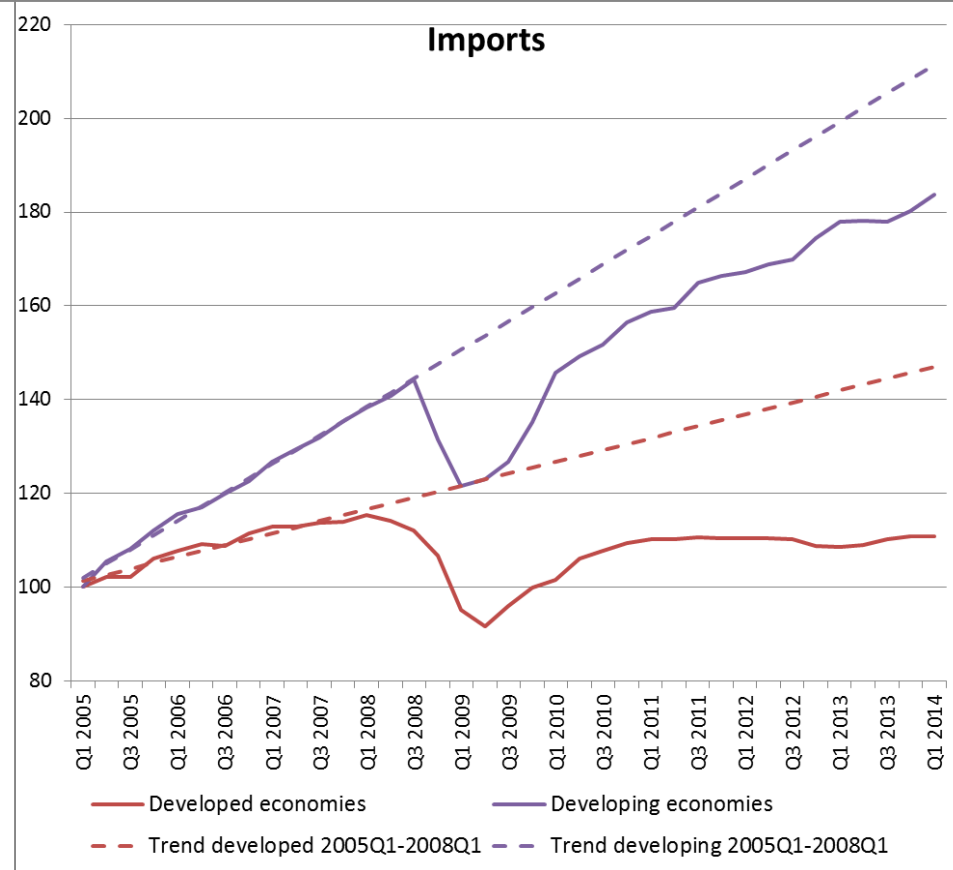
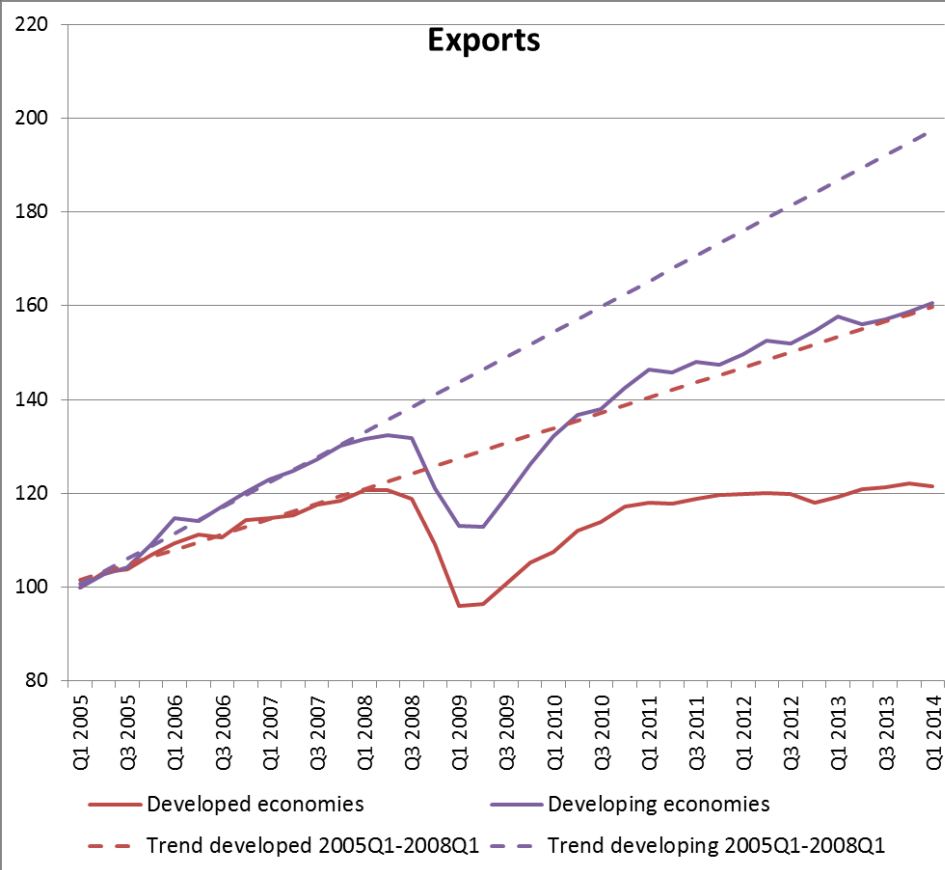
House price and stock market indices, 1990–2013





# Developing country exports and developed country imports remain far from their pre-crisis dynamism

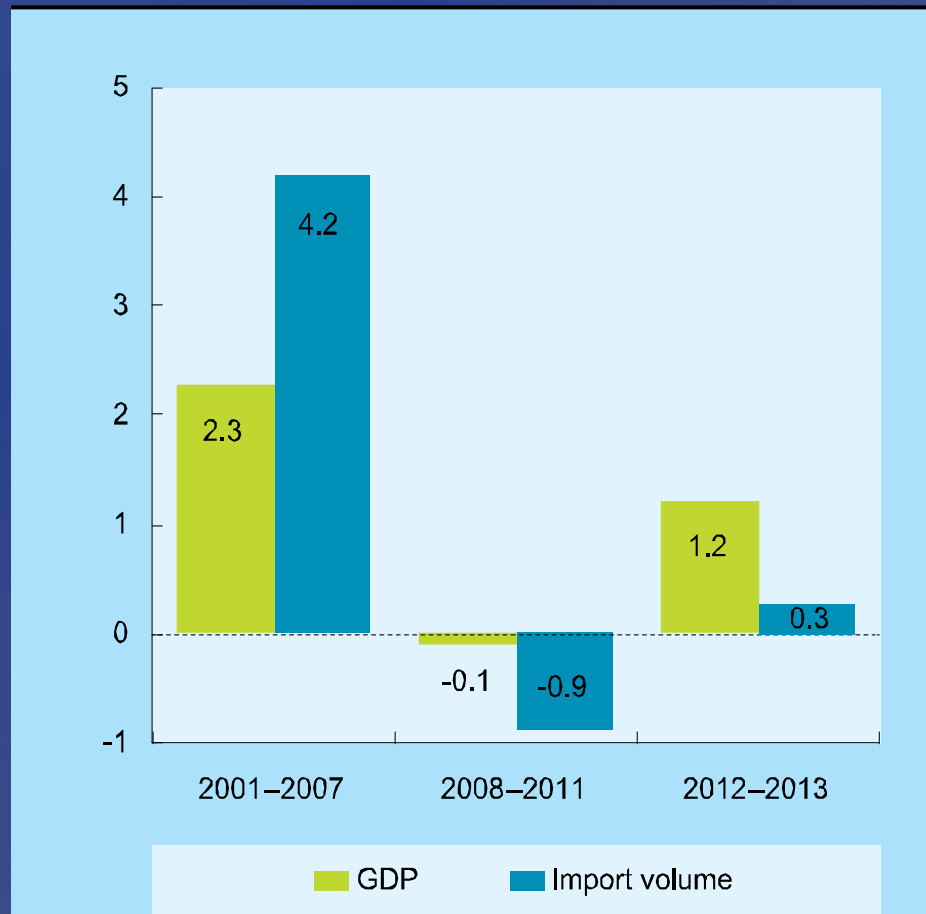
## Volume of export and imports, selected country groups, 2005–2014 (index numbers, 2005–100)





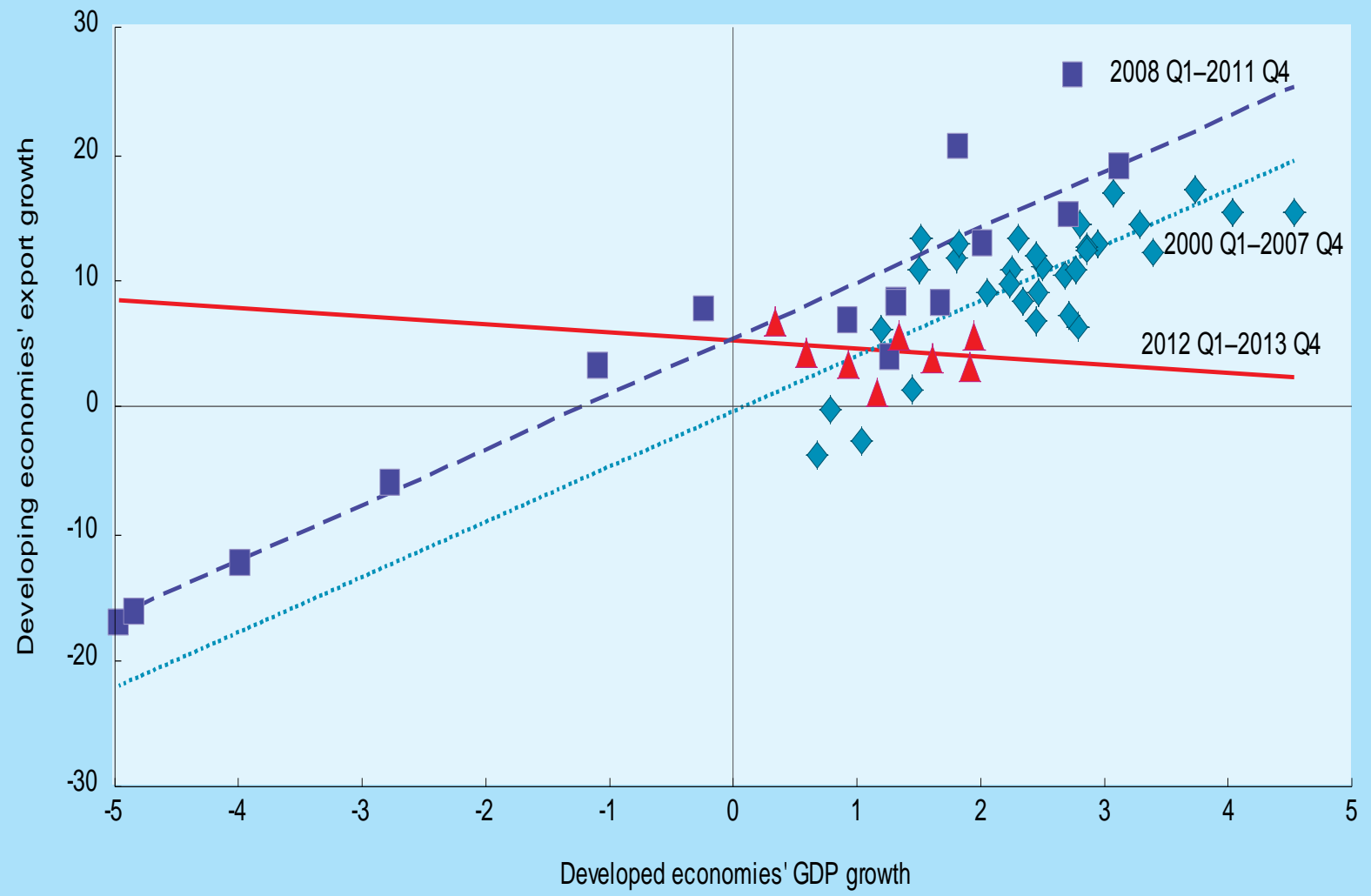
# Export-oriented policies are becoming less effective

**GDP and import volume growth, developed economies, 2001–2013**  
(Annual average percentage change)





# Developed economies' GDP growth and developing economies' export growth, 2000–2013 (%)





## 2) Structural changes?

- Different growth paths are changing the world economic structure
- Changes in weight of different regions modify the structure of the world demand
- Developing countries need to adapt their development strategies to a changing world
- Developing countries need new growth drivers, strengthening domestic and regional demand and expanding productive capacity

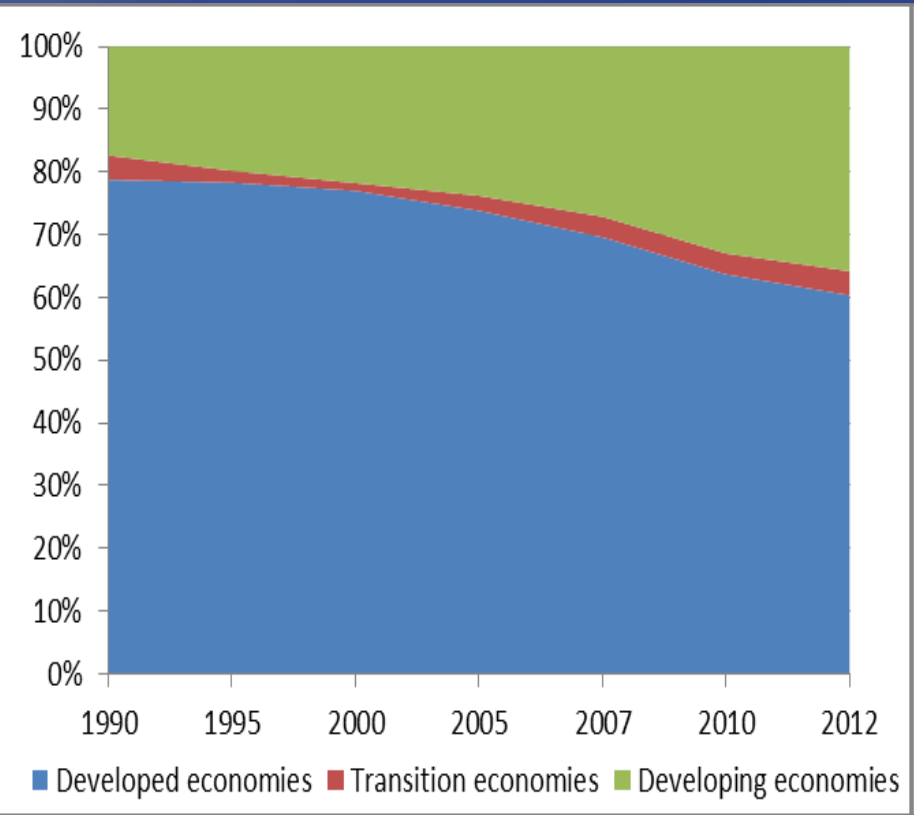




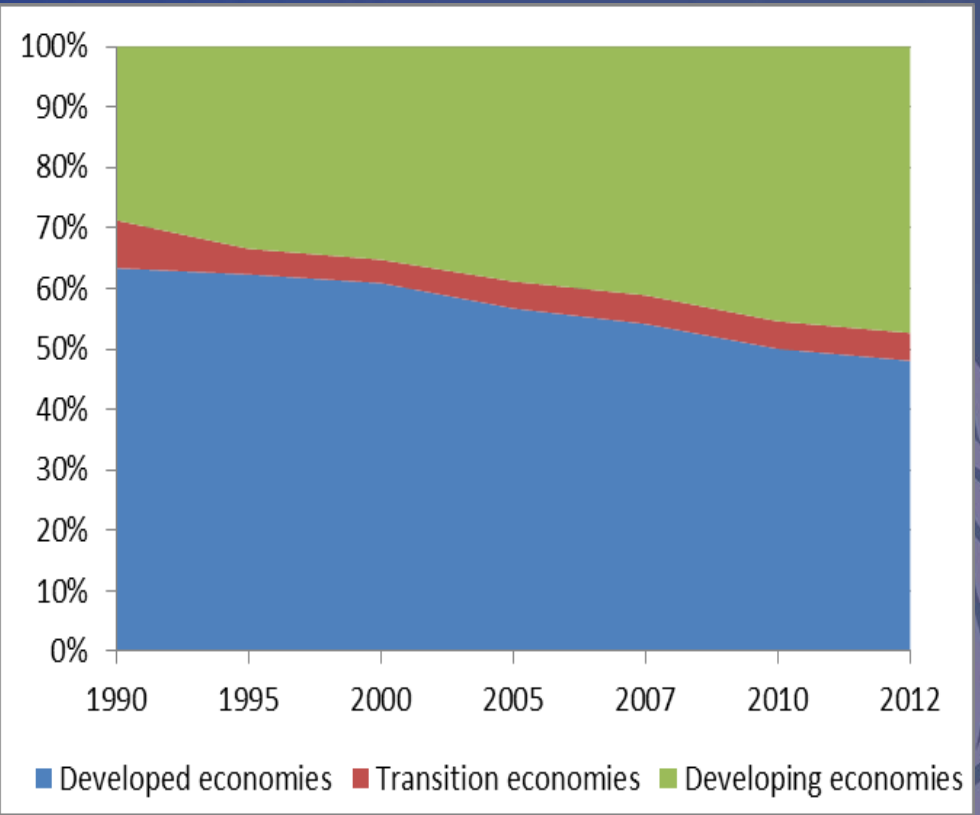
# The structure of world economy is changing

## *Shares in global GDP, 1990-2012*

At market prices



At purchasing power parity



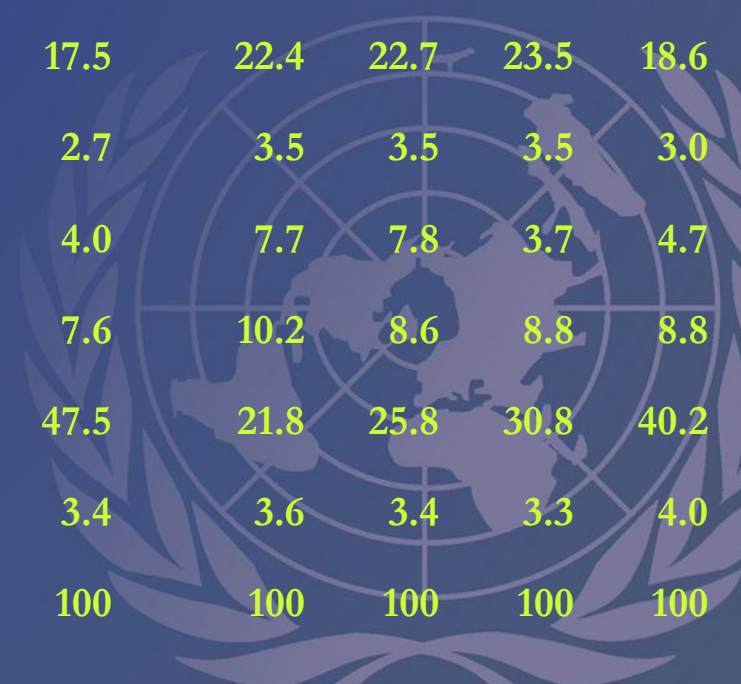




# Share in World GDP, 1900-2010

*(in %)*

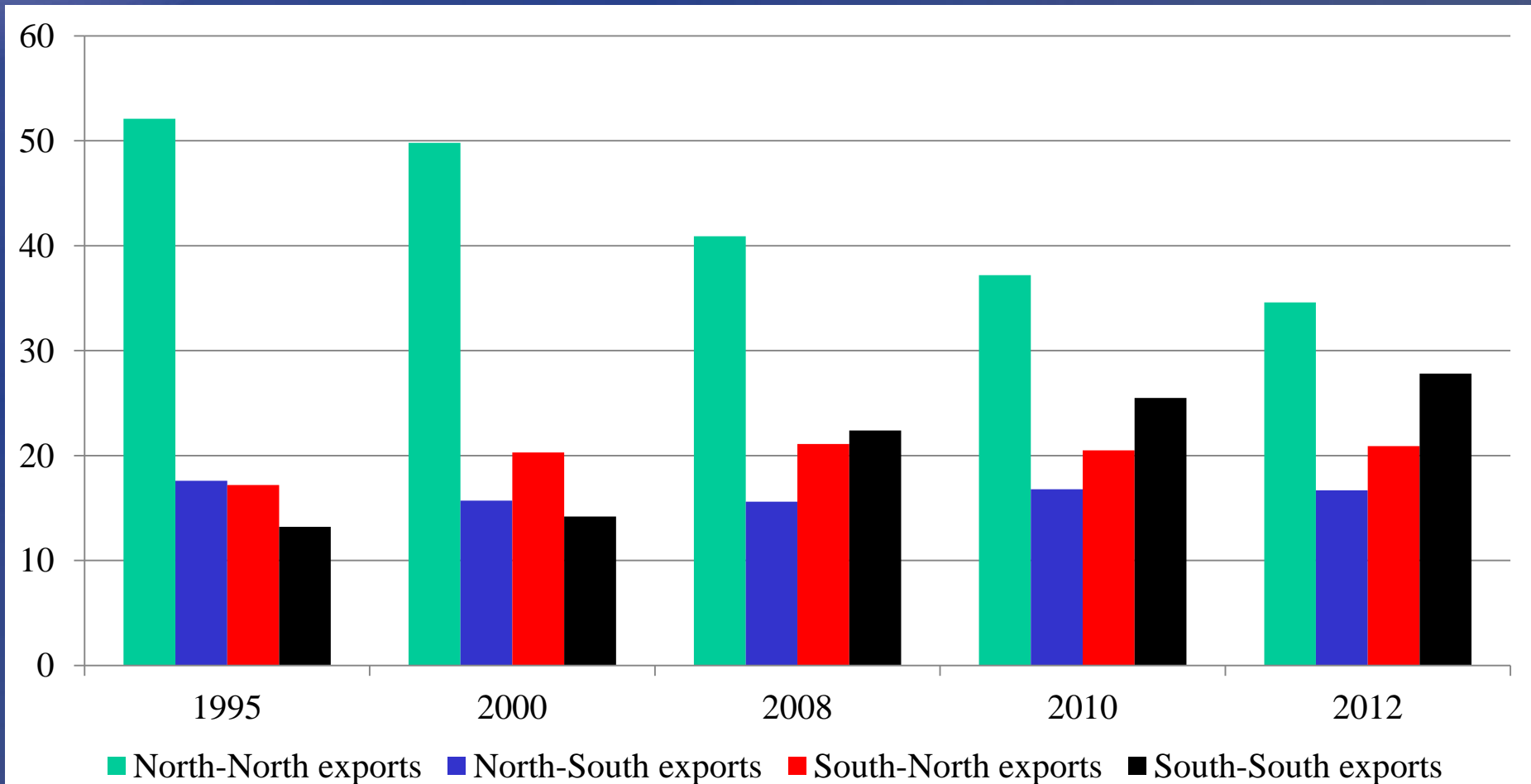
	Maddison (International \$)							IMF-WEO (PPP)			
	1900	1950	1970	1980	1990	2000	2010	1980	1990	2000	2010
Europe	39.4	29.6	29.5	27.6	24.7	22.5	17.3	30.8	28.3	26.3	20.7
United States	15.8	27.3	22.4	21.1	21.4	21.8	17.5	22.4	22.7	23.5	18.6
Oceania+Canada	1.7	3.4	3.2	3.2	3.2	3.2	2.7	3.5	3.5	3.5	3.0
Former USSR	7.8	9.6	9.8	8.5	7.3	3.5	4.0	7.7	7.8	3.7	4.7
Latin America	3.6	7.8	8.3	9.8	8.3	8.3	7.6	10.2	8.6	8.8	8.8
Asia	28.2	18.6	23.3	26.2	31.8	37.4	47.5	21.8	25.8	30.8	40.2
Africa	3.4	3.8	3.6	3.6	3.3	3.2	3.4	3.6	3.4	3.3	4.0
Total	100	100	100	100	100	100	100	100	100	100	100





# The direction of global trade has shifted towards a greater importance of South-South trade

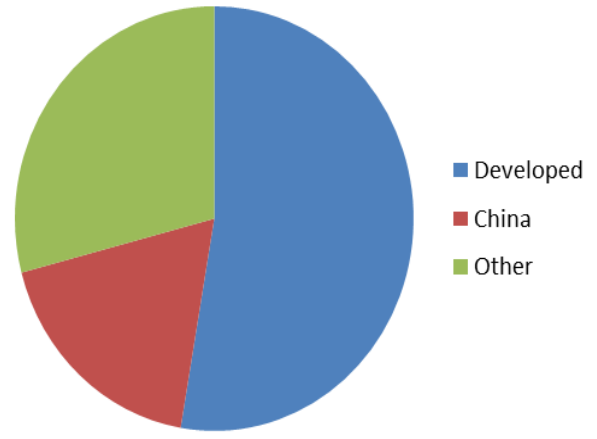
Shares in world exports, selected country groups, 1995–2012 (per cent)



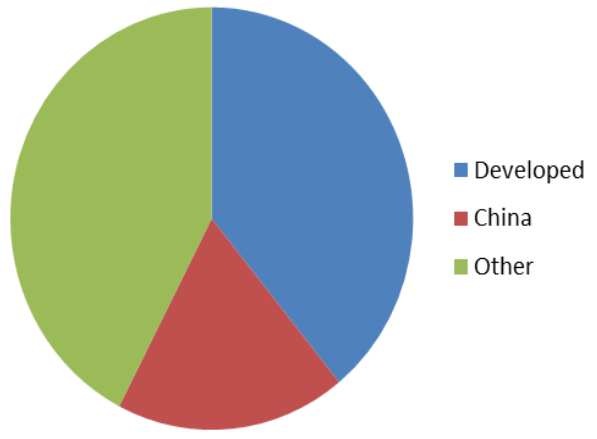


# Consumption of selected commodities by region, 2002 and 2012

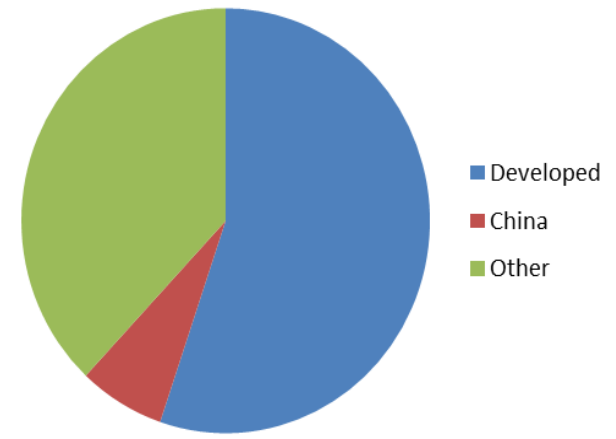
### Copper 2002



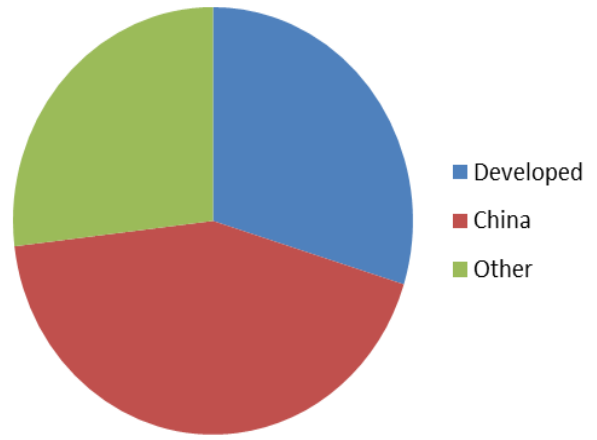
### Soybeans 2002



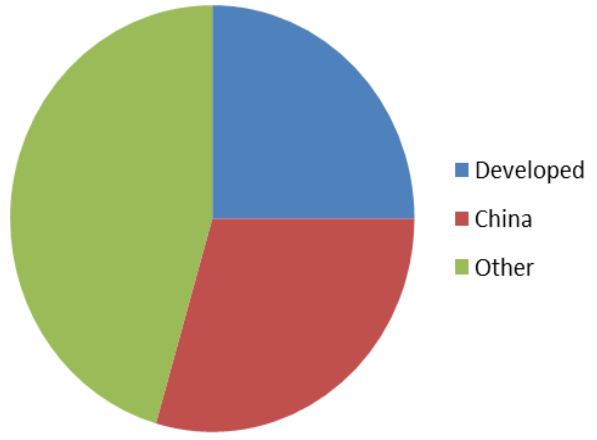
### Oil 2002



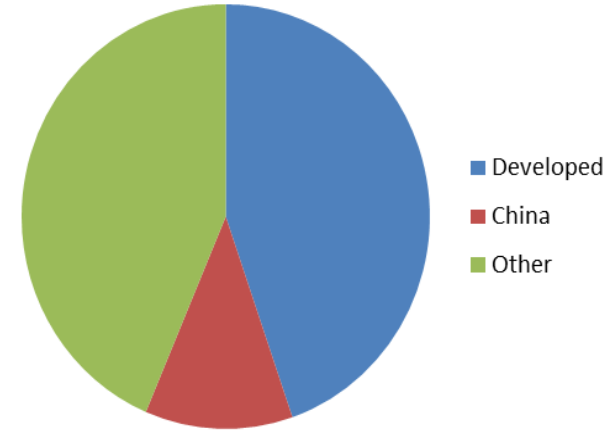
### Copper 2012



### Soybeans 2012

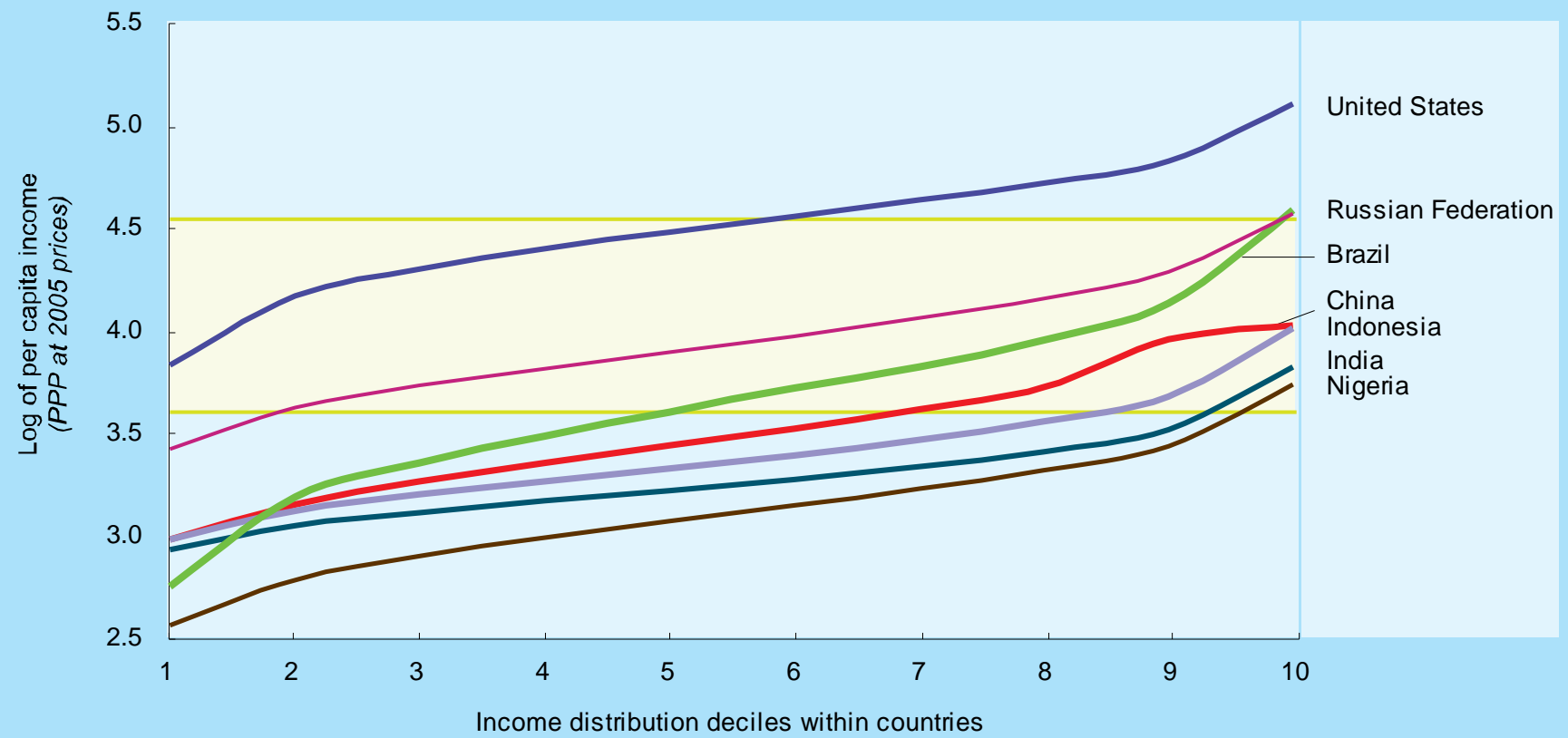


### Oil 2012





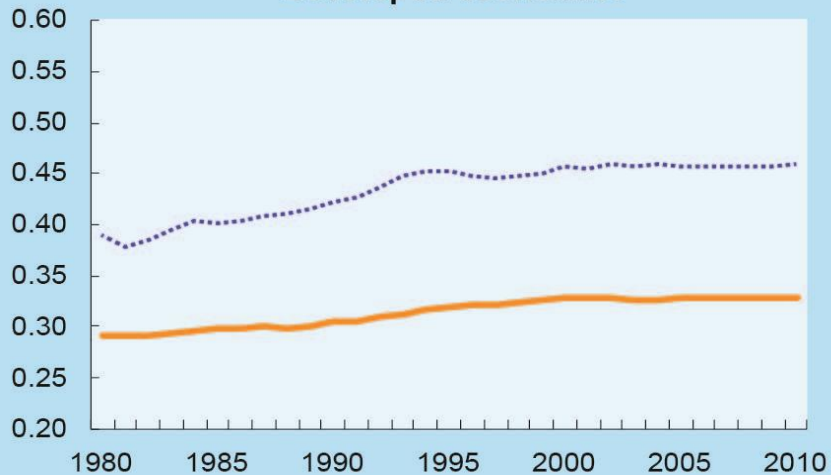
# Per capita income and different income classes, selected countries, 2005



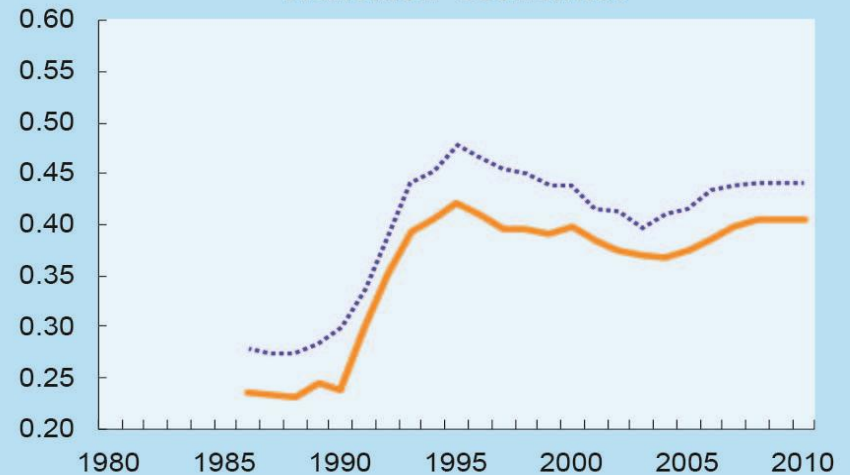


# Income inequality has increased significantly in most regions since the 1980s

### Developed economies



### Transition economies



### Latin America and the Caribbean



### Asia

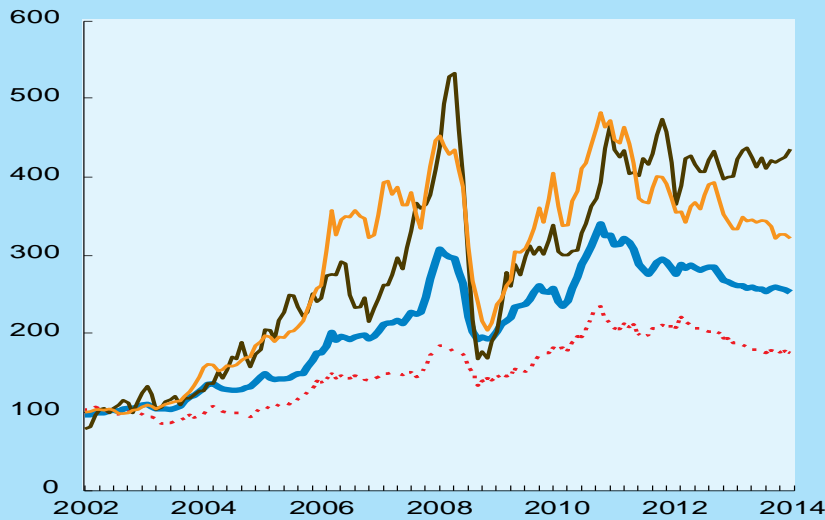


..... Gini coefficient for gross income

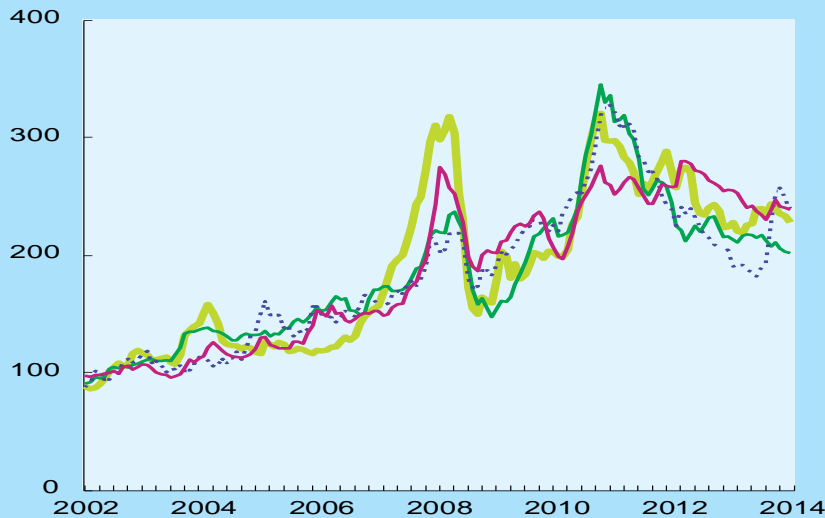
———— Gini coefficient for net income

**Commodity prices are likely to remain high but terms of trade unlikely to keep improving**

**The main challenge for commodity producing countries remains appropriating a fair share of the resource rents and using the revenues to reduce income inequality and spur manufacturing**



- All commodities
- ... All commodities (in euros)
- Minerals, ores and metals
- Crude petroleum



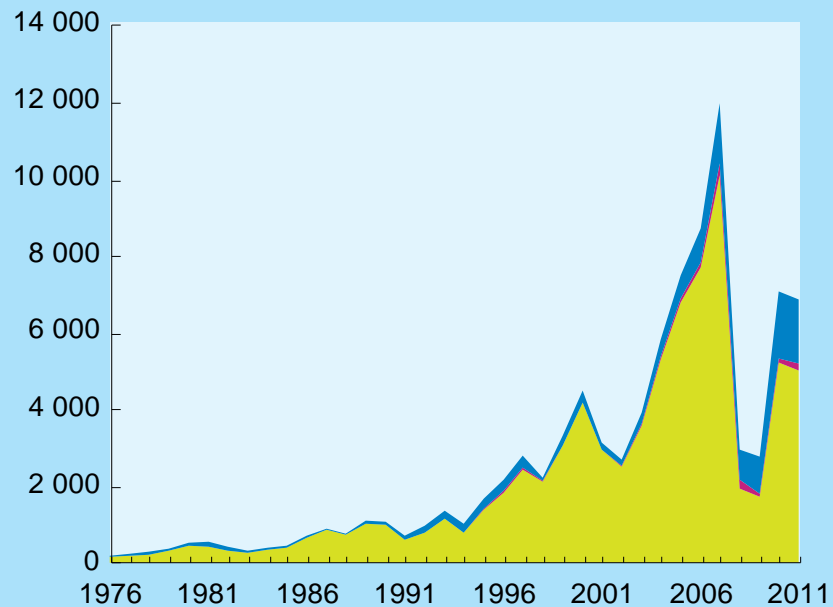
- Food
- ... Tropical beverages
- Vegetable oilseeds and oils
- Agricultural raw materials





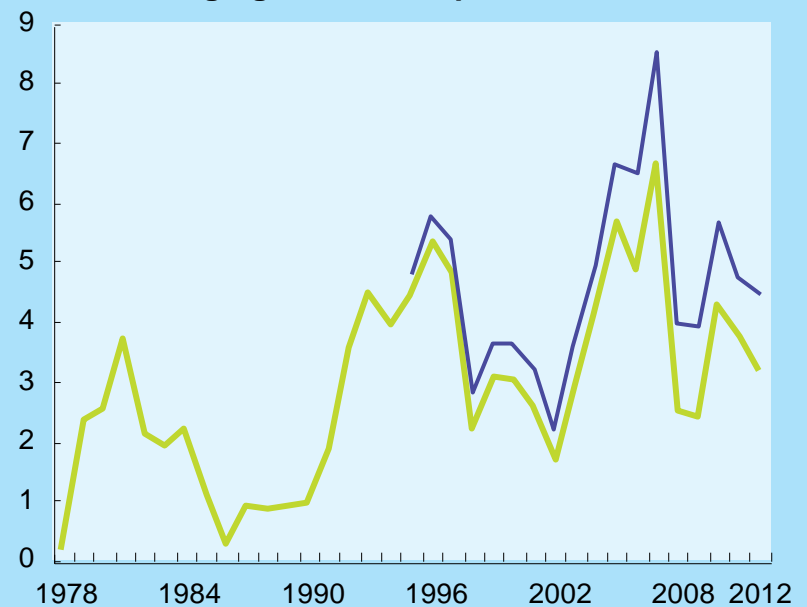
# International capital flows are highly volatile...

Net capital inflows, billions of dollars



- Developed economies
- Developing economies
- Transition economies

Net private capital inflows to emerging economies, per cent of GDP



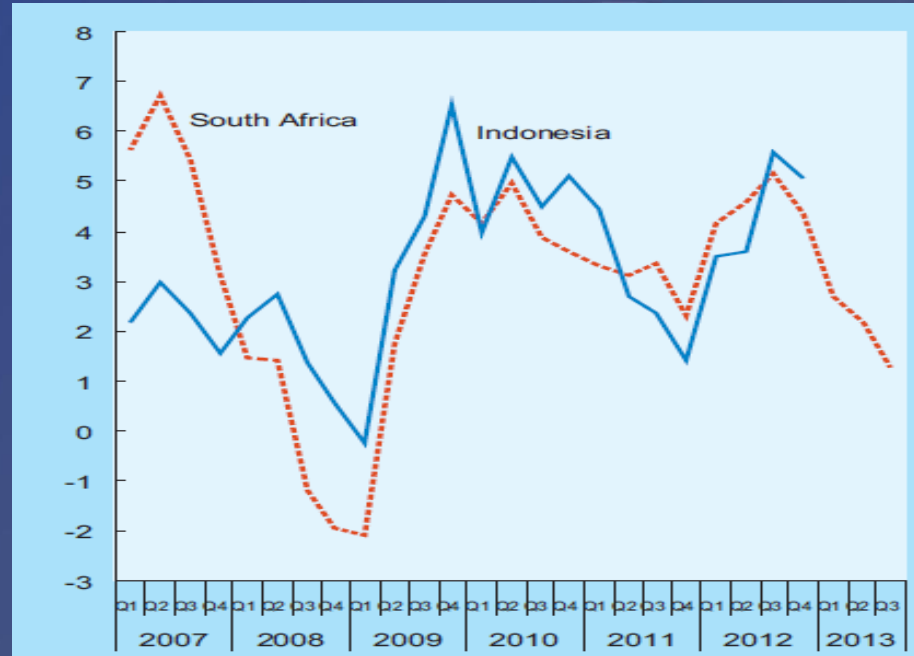
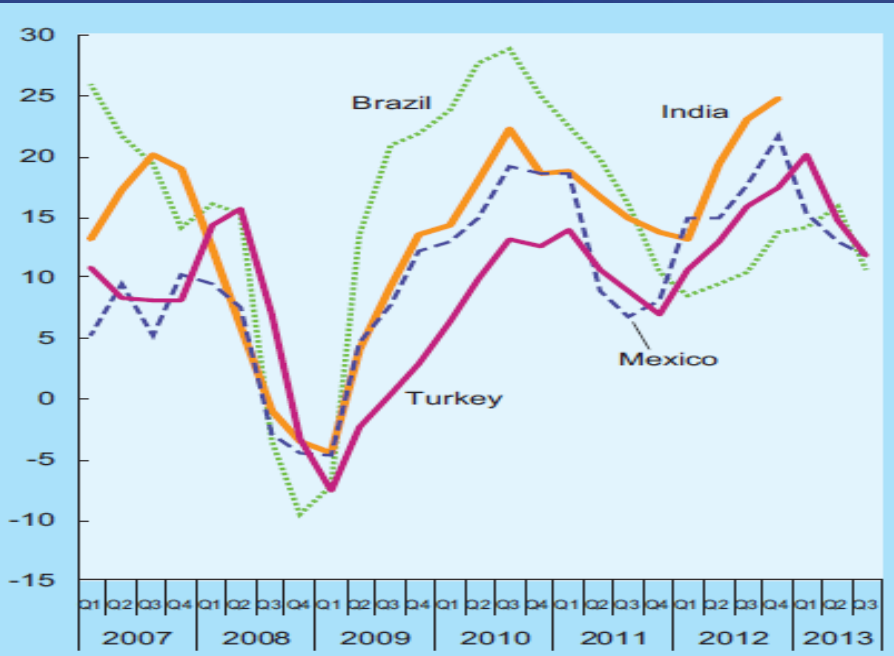
- Net private inflows
- Net private inflows, excl. equity outflows



# ... and financial instability remains a real threat

- The global financial cycle is driven mainly by developed countries' policy decisions guided by the needs of their own domestic economies
- Given their volume and instability, international capital flows frequently have disruptive effects on developing countries' macroeconomic variables and financial systems, and should be managed according to prudential and developmental goals

**Capital inflows, 2007 Q1–2013 Q3 (Billions of current dollars)**





### 3) Active policies require policy space

- Need for greater policy ambition in both developed and developing countries to move towards a more inclusive and sustainable development
- Developing countries need sufficient policy space to advance post-2015 development agenda in a less favourable external economic environment
- Trade and investment rules should not be obstacles to the implementation of industrial policies
- Multilateral agreements provide better outcomes than bilateral ones, especially for less powerful countries
- Greater policy ambition needs greater public resources





## Developing countries need new growth drivers...

- Developing countries recovered from the financial crisis faster than developed countries, by supporting domestic demand with counter-cyclical policies and in some cases helped by rising commodity prices. But they have not decoupled and vulnerabilities remain:
    - Countercyclical policies and gains from terms of trade are important but insufficient to drive a development process
    - Developing countries need to rebalance growth strategies with less emphasis on exports to developed countries and a greater role of domestic and regional demand (TDR 2013)
    - Primary exporters cannot be complacent with relatively high prices and need to diversify production and exports
    - Structural transformation is the big challenge everywhere
- 



## ... and avoid negative spillovers, including through the management of the capital account

- A global financial cycle is driven by developed countries' economic conditions and decisions; resulting capital flows not necessarily aligned with developing countries needs and may have disruptive economic effects
- Capital account management measures are needed for managing amount, composition and direction of foreign capital flows; they should be considered normal instruments in the policymakers' toolkit, not exceptional devices to be employed only in critical times
- Multilateral rules allow governments to manage their capital accounts, but some bilateral trade and investment agreements introduce commitments to financial liberalisation that may impede such regulations
- There is a need for multilateral mechanisms for crisis prevention and management







## ... which will require greater policy ambition ...

- Addressing structural weaknesses and ensuring inclusive growth, in a less favourable external economic environment, will need:
  - Industrial policies – supported by macroeconomic policies – to stimulate productive investment, develop local markets and diversify the economy
  - Public investment in infrastructure and human capital
  - Stable and long-term capital inflows
  - Greater fiscal space to finance more ambitious policy agenda







## ... and greater policy space

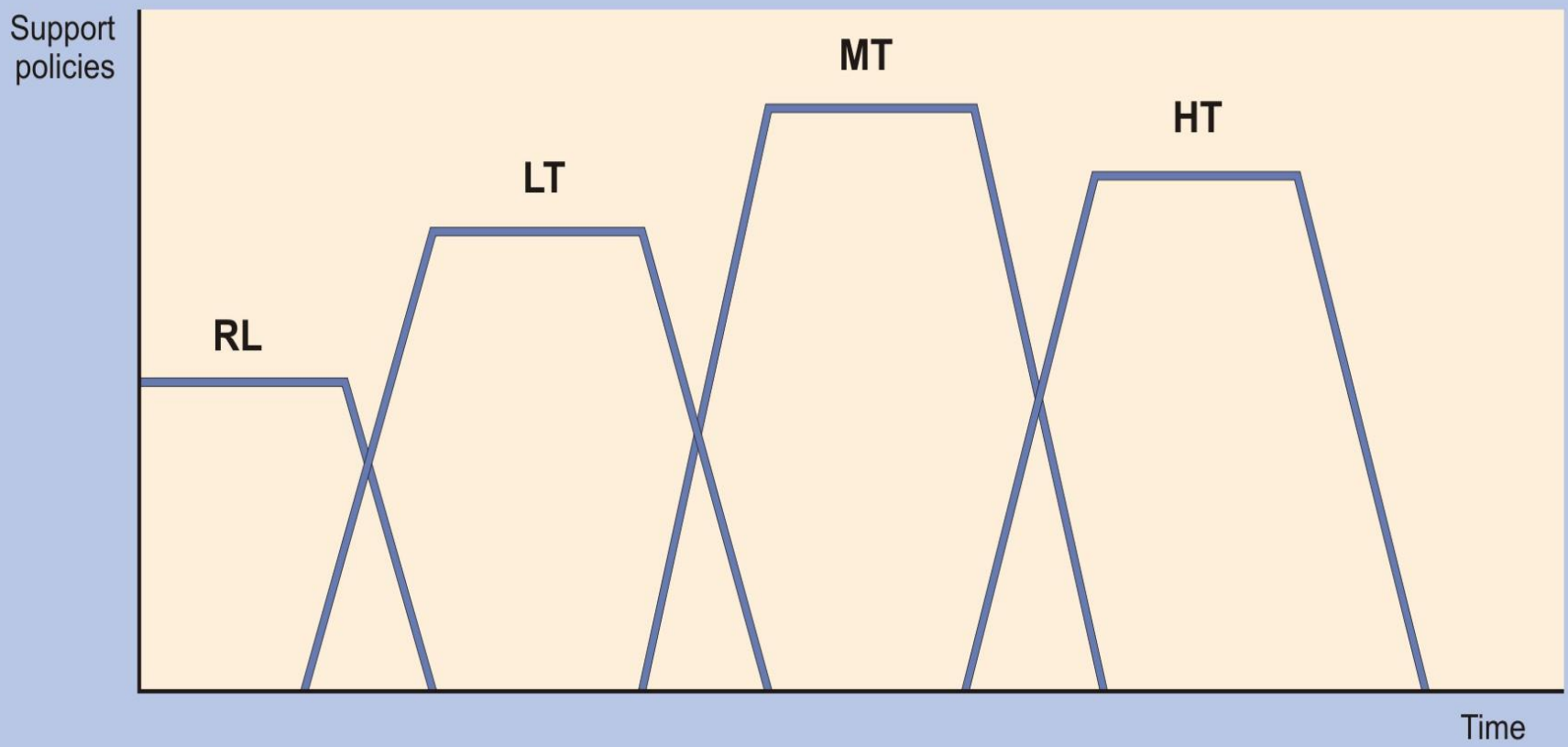
- Skilful use of policy space that remains under existing trade and investment agreements to pursue proactive policies with a view to fostering structural transformation and rebalancing growth strategy
  - Refocus on multilateral agreements which recognize the legitimate concerns of developing countries
  - Eliminate pro-investor-biased mechanisms embedded in International Investment Agreements that reduce policy space
  - Carefully consider loss of policy space when engaging in bilateral and regional trade and investment agreements
  - Joining global value chains should not simply mean aligning policy measures to interests of lead firms





# Targeted product groups change in the development process as the technology content of production gradually increases

Stylized path of support policies for different categories of manufactures





# The number of bilateral FTA (which are not only about trade) exploded in the 1990s.

