

Short courses on key
international economic and development issues
for delegates from permanent missions of Geneva

Trade and Development Reports 2023-24

Challenges and Opportunities for fiscal space and economic diversification

21 November 2024

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Division on Globalization and Development Strategies

Today's presentations

- 1. The macroeconomics of discontent
(Cambiz Daneshar)**
- 2. Recent evolutions in international markets,
together with some related longstanding
issues and policy recommendations
(Nicolas Maystre)**

Macroeconomics of Discontent

Current trends and challenges in the global economy

1. **New low growth normal**
2. **The heavy burden of debt**
3. **Discontent with the status quo**
4. **Policy proposals**

➤ New normal of low global growth

Ongoing deterioration of global growth since the Global Financial Crisis

- Cascading **shocks** to global economy
- **Global growth** stabilizing at depressed rate

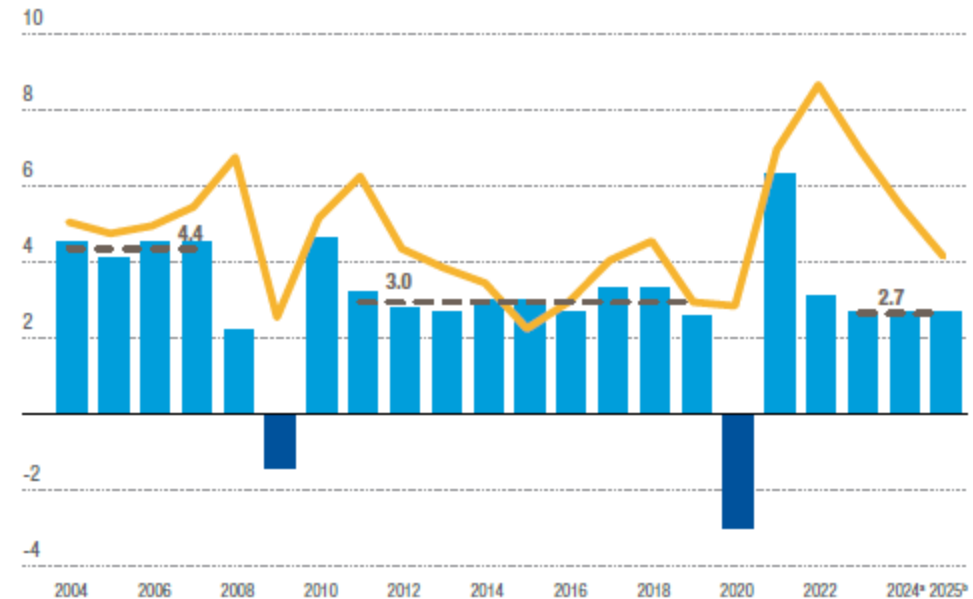


Figure 1

Easing inflationary pressures have accompanied lacklustre growth in global output

World output growth and inflation
(Percentage)

— Inflation — Average ■ GDP growth



Source: UNCTAD based on the United Nations Global Policy Model.

Notes: GDP, gross domestic product. Output growth is based on GDP at constant 2015 prices (market exchange rates). Grey dashed lines denote average annual growth rates for 2004–2007, 2011–2019 and 2023–2025. Inflation corresponds to a weighted average of national and regional GDP deflators.

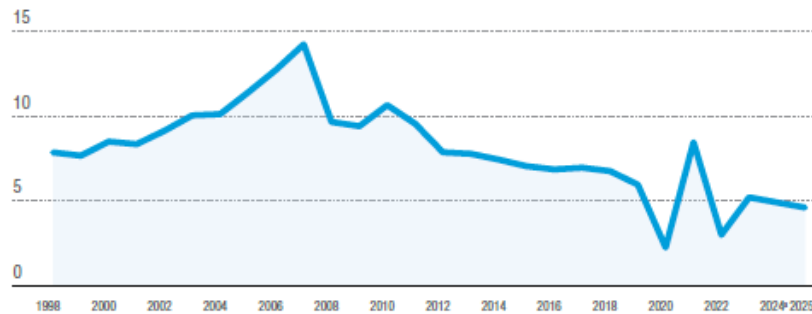
* Estimate.

^b Projection.

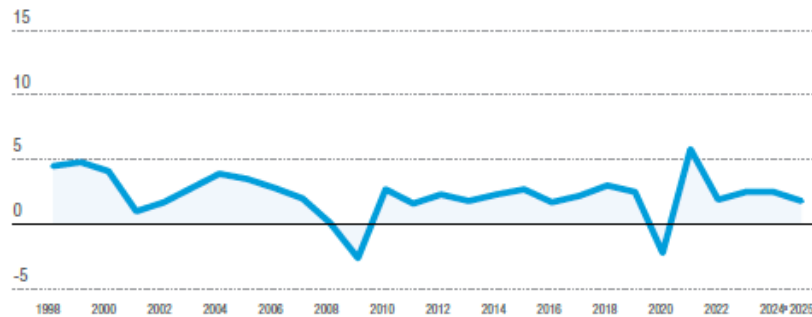
➤ The 3 largest economic blocs

➤ **Figure 2**
Stagnation and deceleration afflict the world's major economies
Real GDP growth, selected economies
(Percentage)

A. China



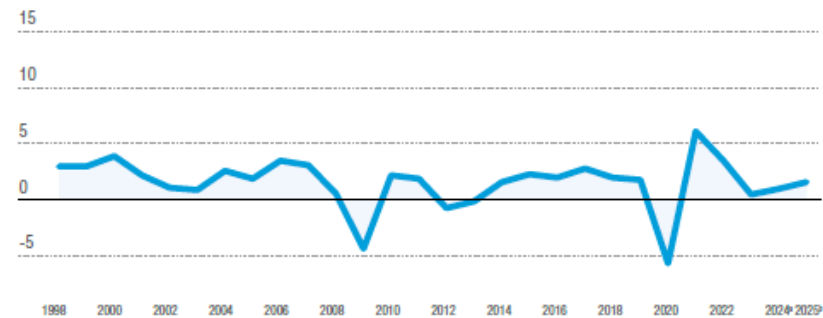
B. United States



▶ **Stagnation** in U.S. and E.U.

▶ Gradual **deceleration** of Chinese economy

C. European Union



Source: UNCTAD based on the United Nations Global Policy Model.

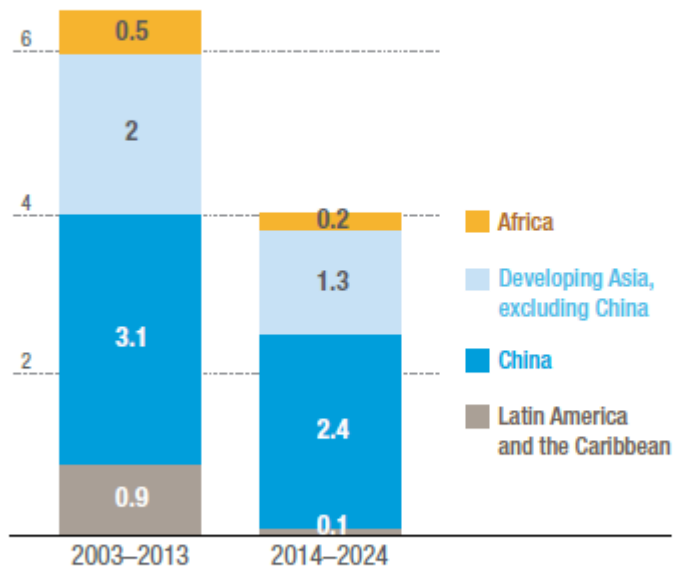
Notes: Based on GDP at constant 2015 prices.

* Estimate.

^b Projection.

➤ Weakening growth in the global South

➤ **Figure 3**
Crises weakened growth potential across the global South
Contribution to global South's economic growth, selected economy and groups
(Percentage)



Source: UNCTAD based on United Nations Global Policy Model.

Notes: Data reflect the average annual growth rates for the two periods analysed. The global South corresponds to the UNCTAD classification grouping of developing economies.

- **Growth in the global South** has been eroded by series of major crises.
- **2023-25:** Growth stabilizes, but not enough for the South to prosper.

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➤ The heavy burden of debt

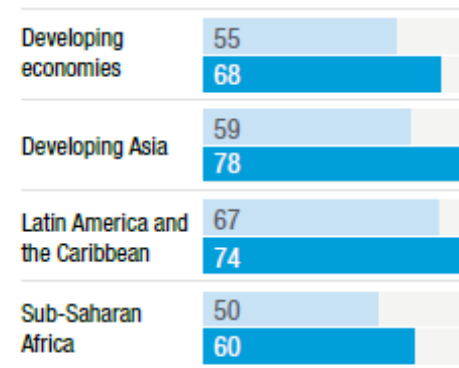
Public debt burdens have increased significantly since the COVID-19 pandemic.

- ▶ **Public resources diverted away** from critical needed spending and investments
- ▶ Return of **fiscal austerity** as policy prescription

➤ **Figure 4**
Significant increases in public debt levels in the aftermath of the COVID-19 shock
General Government, gross debt
(Percentage of GDP)

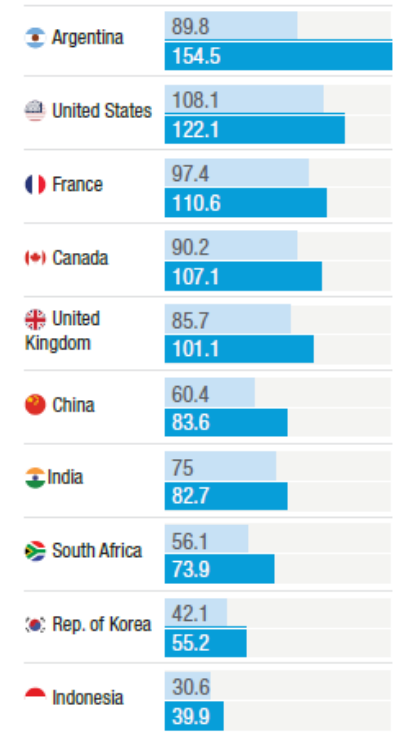
A. Developing regions

2019 2023



B. Selected countries

2019 2023



➤ (Un)pleasant fiscal arithmetic

The jump in public debt after the COVID-19 shock has raised usual concerns about government solvency worldwide.

- ▶ In **developing economies**, recommendations for fast fiscal consolidation to gain policy credibility
- ▶ In **advanced economies**, a more gradualistic approach tolerating higher primary deficits for extended period
- ▶ **“R minus G”**
- ▶ Requires: **Coordinated increase in tax** on cross-border activities (especially on high-net-worth individuals and large corporations) to raise government primary balances; and a **multilateral initiative to reduce risk premia** on selected government investments in developing countries

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➤ Discontent with the status quo

Widespread discontent and dissatisfaction with the prevailing post-pandemic status quo

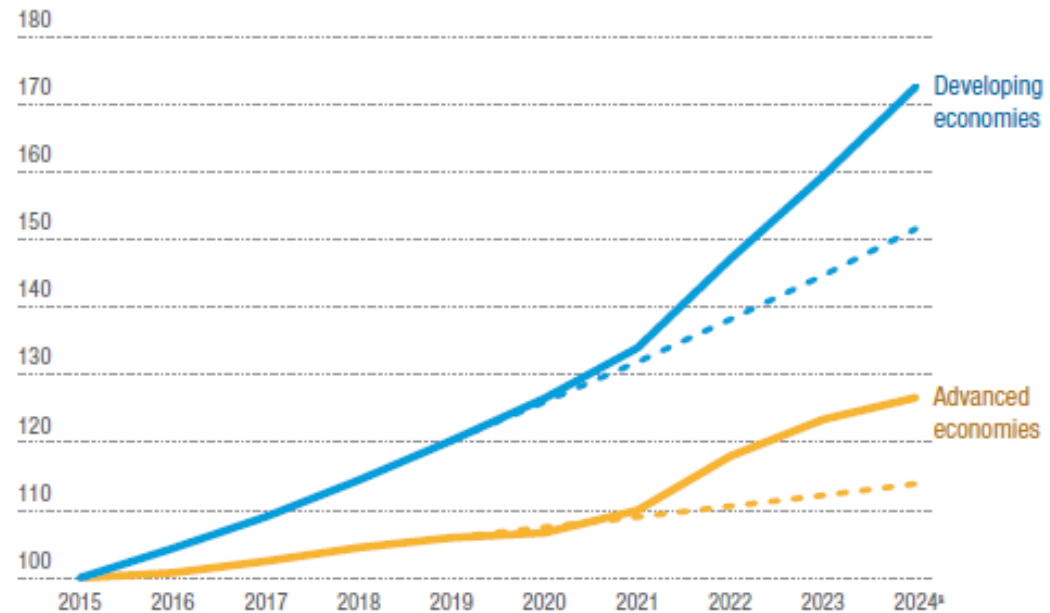
- **Higher consumer prices eating into** household disposable income



Figure 5

The uptick in consumer prices has eroded household purchasing power in both advanced and developing countries

Consumer price index
(2015=100)



Source: UNCTAD based on data from International Monetary Fund (2024). World Economic Outlook, April.
Note: Dashed lines correspond to estimates based on pre-pandemic (2015–2019) trends. Aggregations for advanced and developing economies are computed using geometric means.
a Estimate.

➤ Discontent with the status quo

- ▶ Household consumption spending **stagnated** or, in some cases, **languishing below** pre-pandemic levels

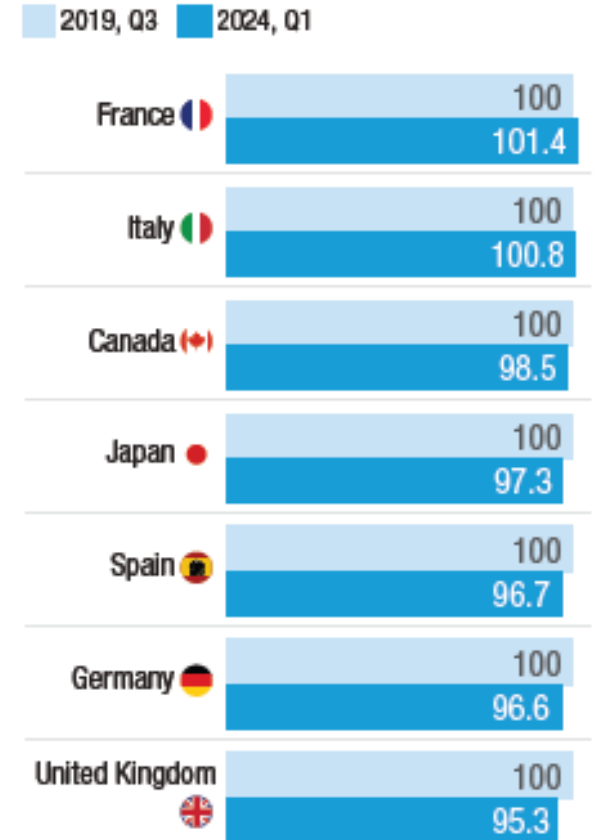


Figure I.8

Consumption spending by households in numerous countries has yet to recover to its pre-pandemic level

Real final consumption expenditure per capita of households, selected OECD countries

(Third quarter of 2019=100)



Source: UNCTAD based on OECD database.

Abbreviations: Q1, first quarter; Q3, third quarter.

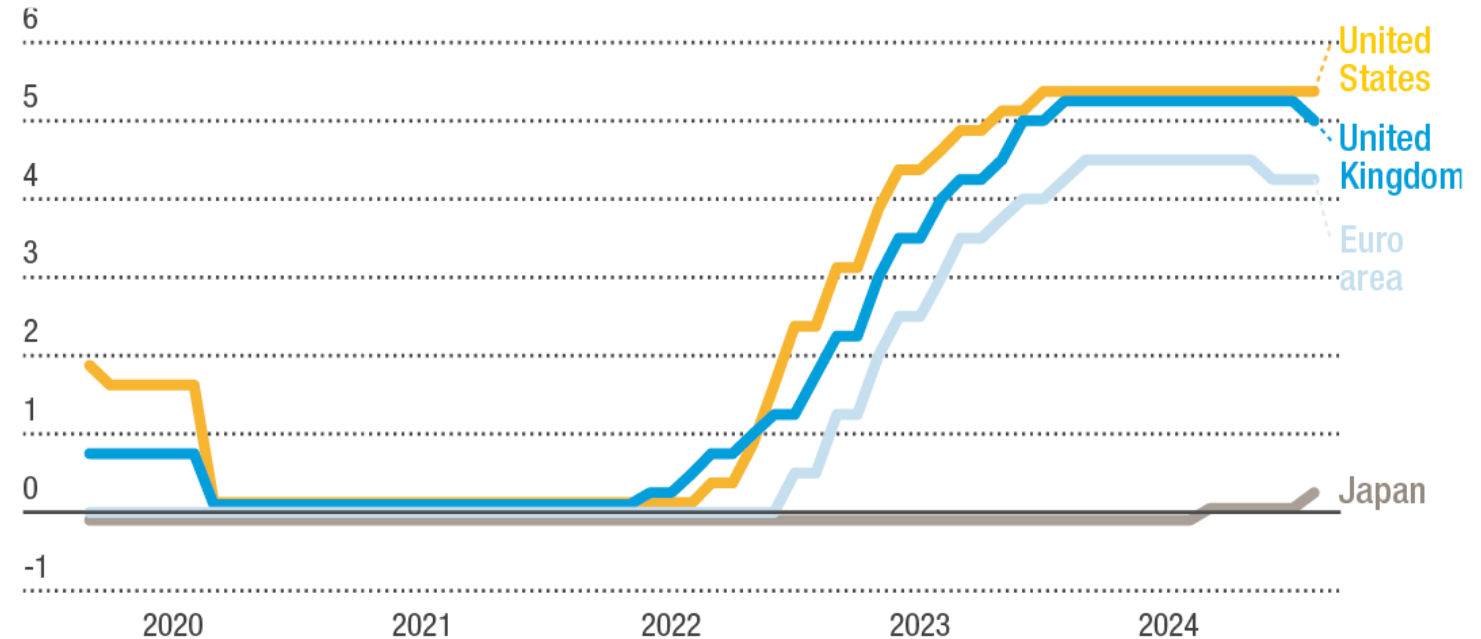
➤ Discontent with the status quo

- ▶ **Overreliance** on monetary policy
- ▶ **Excessive** and **prolonged** tightening
- ▶ Undue **hardship**

➤ Monetary policy rates remain high across the globe

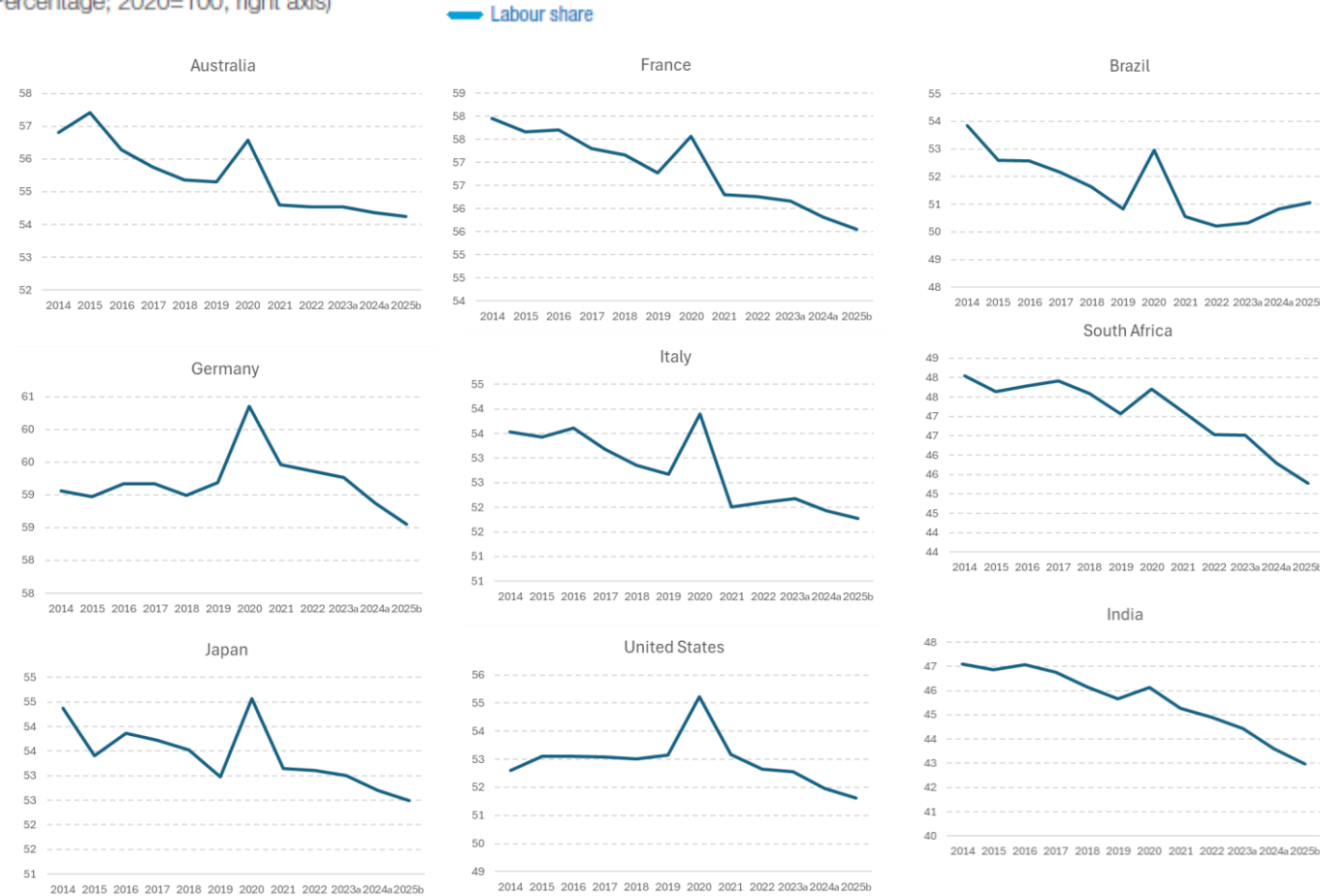
Central bank policy (short-term) interest rates
(Percentage)

Selected developed economies



Discontent with the status quo

Figure I.13
A universal fall in the labour share unfolds across developed economies
amid diverging trajectories in real wages
Labour share of income and real-wage index, selected developed economies
(Percentage; 2020=100, right axis)



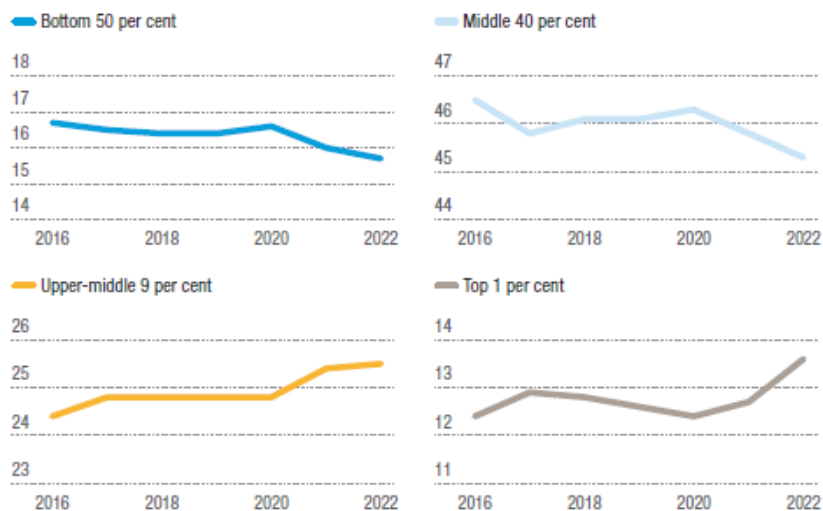
Increasing income inequality is feeding sentiments of discontent and unfairness

- ▶ Decline in **share of national income** going to **labour**

Discontent with the status quo

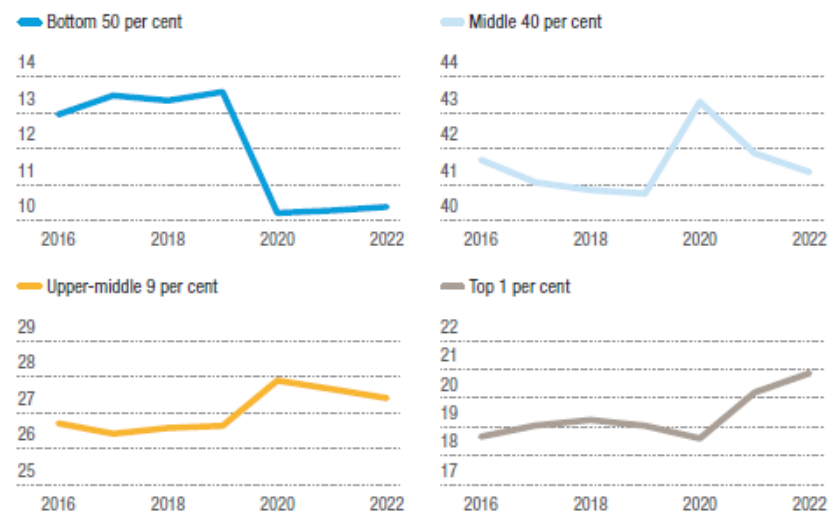
Figure I.15
Those with lower income bear the brunt of the decline in the labour share of income in some developed countries
Pre-tax personal income distribution
(Percentage of total personal income)

Italy



▶ **Lower earners** are often **bearing the brunt** of the decline in the labour share of income

United States



Source: UNCTAD based on the World Inequality Database.

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➤ Policy proposals



Fiscal revenues

- ▶ Coordinated clamping down on corporate arbitrage practices, tax havens and conduit jurisdictions
- ▶ Multilateral mechanism to redress asymmetries in negotiating positions of developing countries
- ▶ UN Framework Convention on International Tax Cooperation



Affordable, reliable and longer-term financing

- ▶ Increased concessional finance through capitalization of multilateral and regional banks
- ▶ Issuance of new and reallocation of existing special drawing rights
- ▶ Innovative financial instruments (sustainable development / resilience bonds)
- ▶ Expansion of currency swap facilities



Policy tools to tackle inflation

- ▶ Rein in anti-competitive practices, abuses of dominant market positions and corporate concentration in key markets
- ▶ Revisions to existing regulatory framework of commodity trading activities

➤ Policy proposals



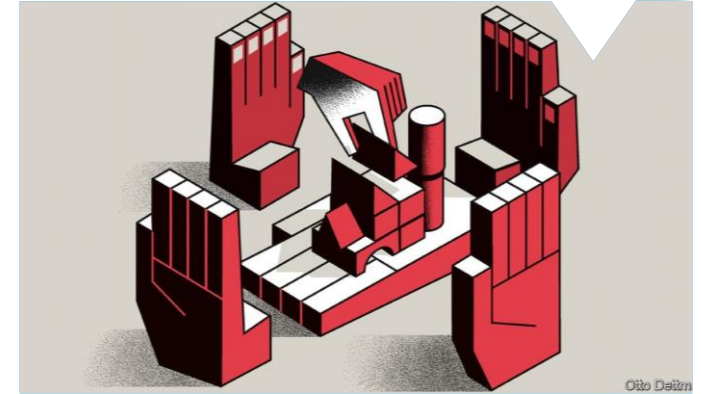
Monetary decisions to consider wider impacts

- ▶ Debt trajectories and servicing costs
- ▶ Financing of critically needed investments
- ▶ Financial sustainability
- ▶ Gaps in capital provision



Growing income inequality

- ▶ More equitable policy solutions
- ▶ Comprehensive social protection
- ▶ Development strategies based on lower inequalities and inclusive growth



Industrial policies

- ▶ Return to the agenda of advanced economies, but still often frowned upon as a policy tool in developing economies
- ▶ Induce improvements in governance structures and regulatory frameworks

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2. **Recent evolutions in international markets,
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Recent evolutions in international markets

(together with some related longstanding issues and policy recommendations)

1. **The illusion of a rebound** (TDR 2024, chap. II)
2. **Longstanding and emerging trade-related weaknesses** (TDR 2023, chapter II)
3. **The quest for quality jobs: The limits of manufacturing- and services-led exports** (TDR 2024, chapter II)

➤ In 2024, major international markets rebounded

- ▶ Net capital flows to developing countries* turned positive during the first quarter of 2024.
- ▶ Commodity prices have partly receded from their 2022 highs after several turbulent years.
- ▶ Growth in merchandise trade returned to positive territory.

Beneath the surface, however, lie major fragilities and challenges for policymakers, particularly in developing countries.

Also, current high uncertainties weigh on international markets and immediate problems risk distracting policymakers from addressing long-term challenges.

* Net capital flows refers here to the sum of net direct investments, net portfolio investments and net other investments from the financial account of the balance of payments. It captures non-resident net flows minus resident net flows, excluding “derivatives” and “reserves and related assets”.

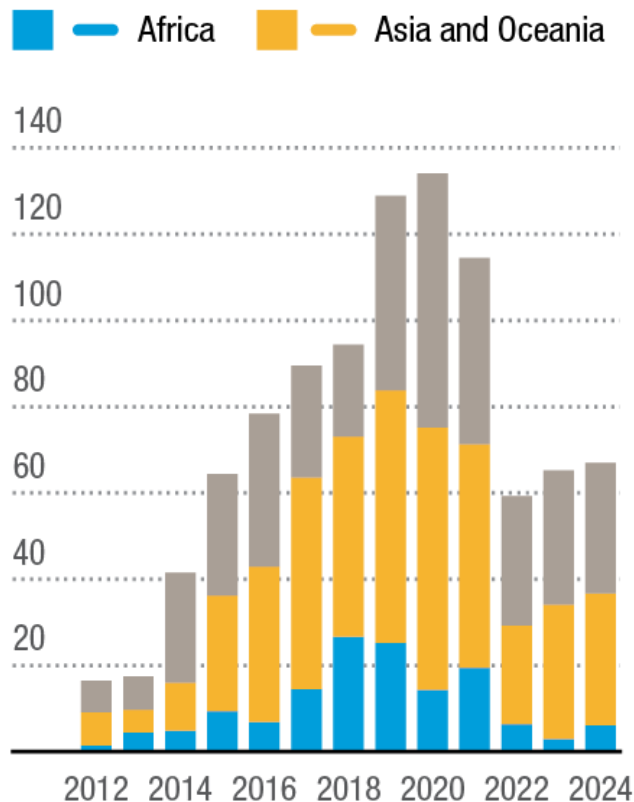


Borrowing costs are still high while new sovereign bond issuances are rebounding in developing regions

Total issuances, weighted average coupons and number of issuing countries of newly issued sovereign bonds, selected developing regions

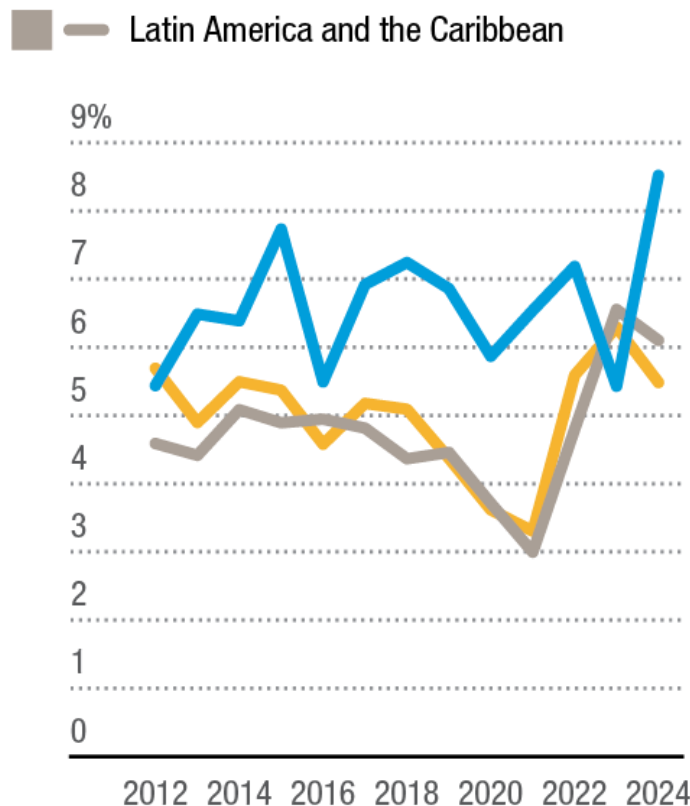
A. Total issuances

(Billions of dollars)



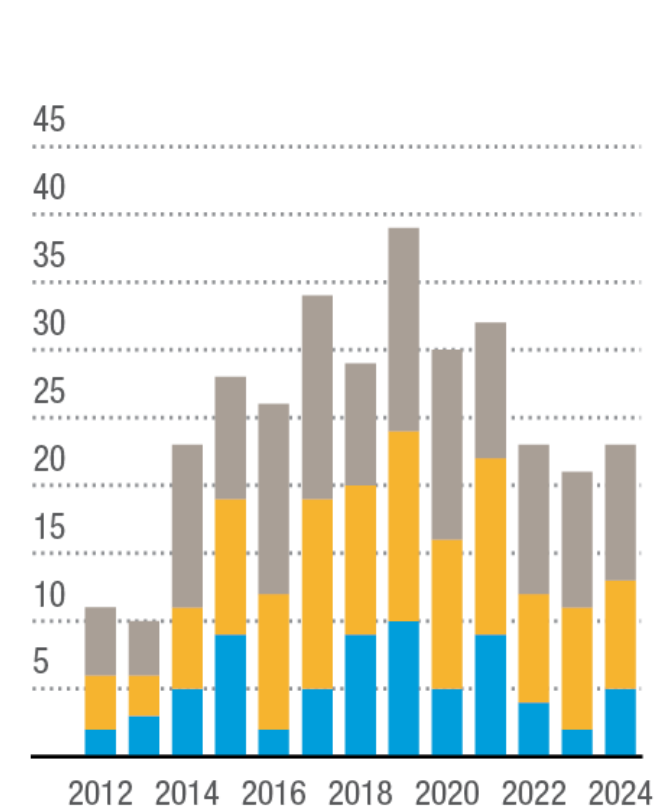
B. Weighted average coupon

(Percentage)



C. Issuing countries

(Number)



Source: UNCTAD based on LSEG Eikon.

Note: Data relate to annual issuances of sovereign dollar, euro and yen bonds under foreign jurisdictions, excluding issuances in the context of debt restructuring. For 2024, data only comprise issuances until August.

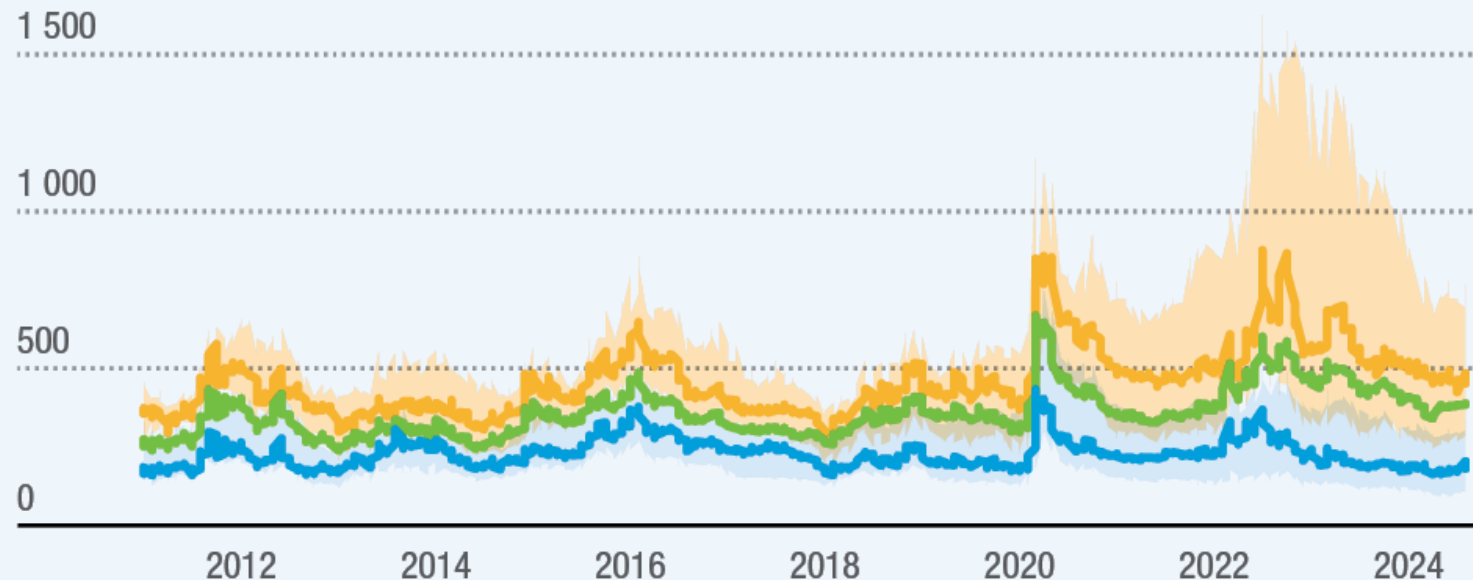


Yields of sovereign bonds in frontier market economies have not receded to pre-COVID-19 levels

Weekly spreads with respect to Treasury bonds of the United States, selected economies, July 2011–August 2024

(Basis points)

— Emerging market economies — Frontier market economies
— JP Morgan Emerging Market Bond Index – Global Diversified



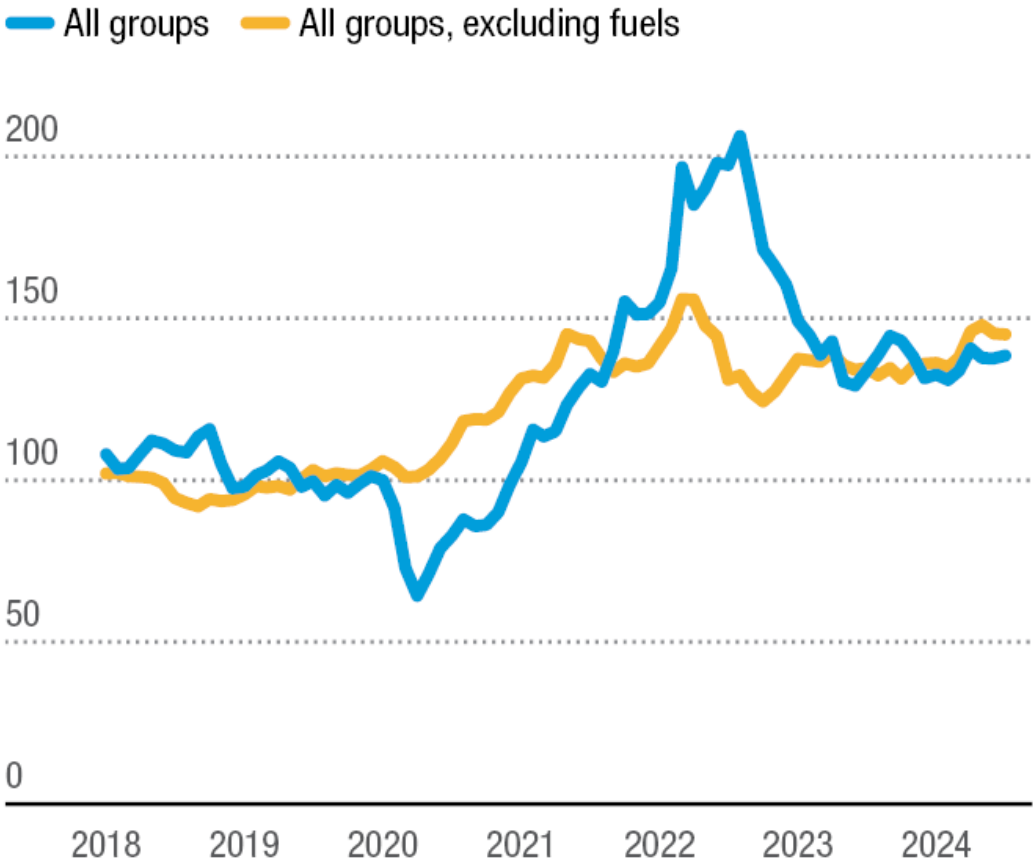
Source: UNCTAD based on country-level data from the JP Morgan Emerging Market Bond Index.

Note: The bold lines for the emerging market and the frontier market groups of economies correspond to the median of each group, computed from economy-specific data available in JP Morgan's Emerging Market Bond Index – Global Diversified. The shaded areas refer to the interquartile range.

Commodity prices softened but remained more than 20 per cent above pre-COVID-19 levels

A. UNCTAD commodity price index

(Average 2019=100)



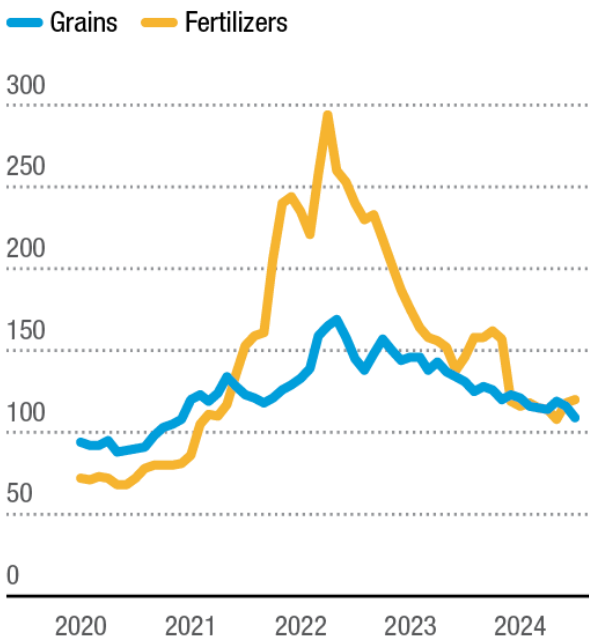
Source: UNCTAD based on UNCTADstat database.

Note: In panel A, data ends in August 2024.

Food and fertilizer prices are declining except for rice

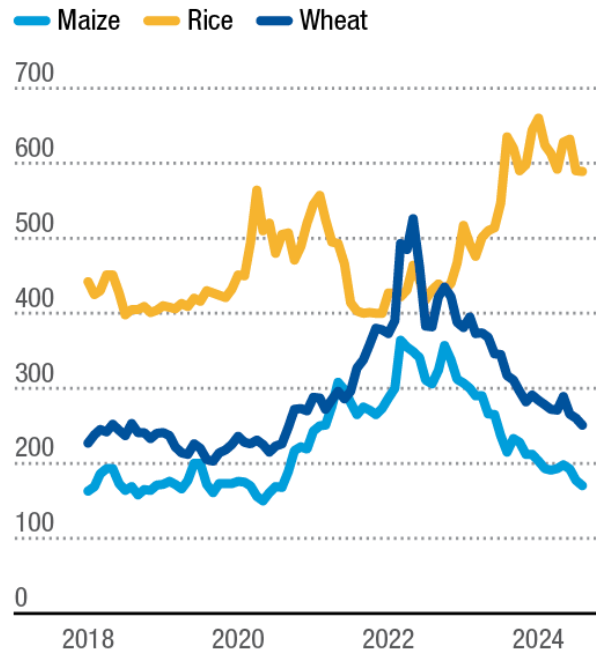
A. Grains and fertilizers

(2010=100)



B. Selected food commodity benchmark prices

(Dollars per metric ton)



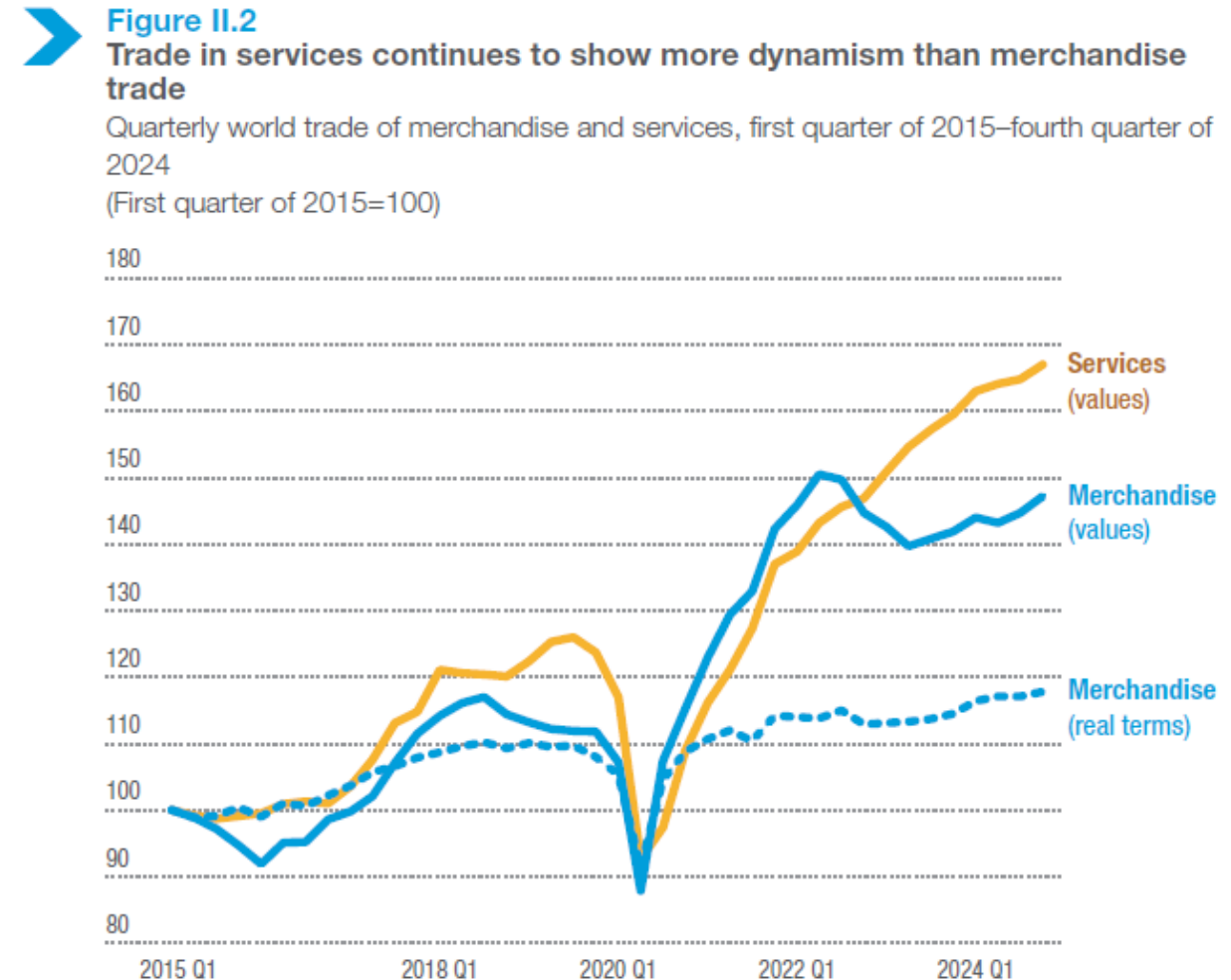
Source: UNCTAD based on UNCTADstat and the Commodities Price Data (The Pink Sheet) of the World Bank.

Note: Data ends in July 2024.

➤ International trade: The 2024 revival is not the end of the tunnel

The robust trends in merchandise trade in early 2024 have dwindled

- ▶ Expected economic slowdown in major economies (China, United States, Europe).
- ▶ Geopolitical tensions and policy uncertainty are likely to limit the rebound.
- ▶ Front-loading orders from China.
- ▶ Risks of heightened trade tensions (increased protectionist actions vis-à-vis China was not restricted to OECD economies).



Source: UNCTAD based on UNCTADstat database.

Notes: Q1, first quarter. All series are seasonally adjusted. Estimates from UNCTAD Nowcasts for the second to fourth quarters of 2024.



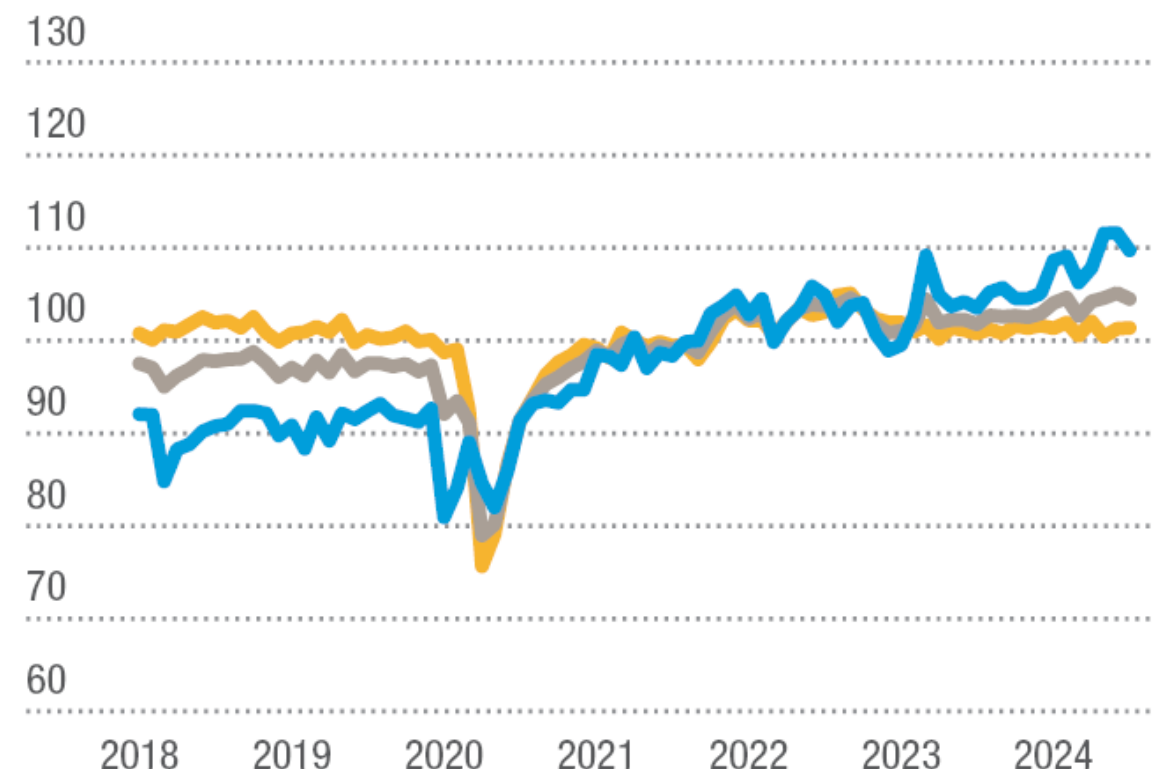
World merchandise is growing again, although divergences exist across regions

Trade flows in real terms, January 2018–July 2024

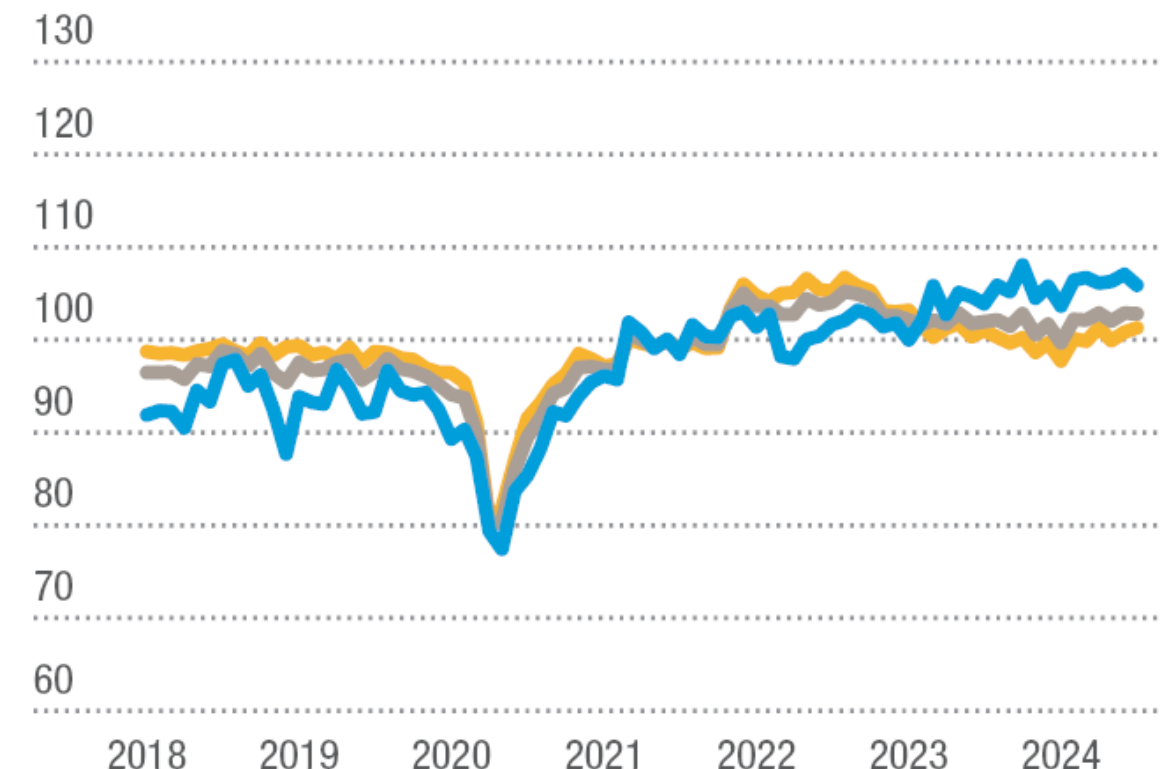
(Average 2021=100)

A. Exports

— World — Advanced economies — Emerging economies



B. Imports



Source: The World Trade Monitor database of the CPB Netherlands Bureau for Economic Policy Analysis.

Note: Country group classification relies on CPB Netherlands Bureau for Economic Policy Analysis (see Ebregt, 2020).



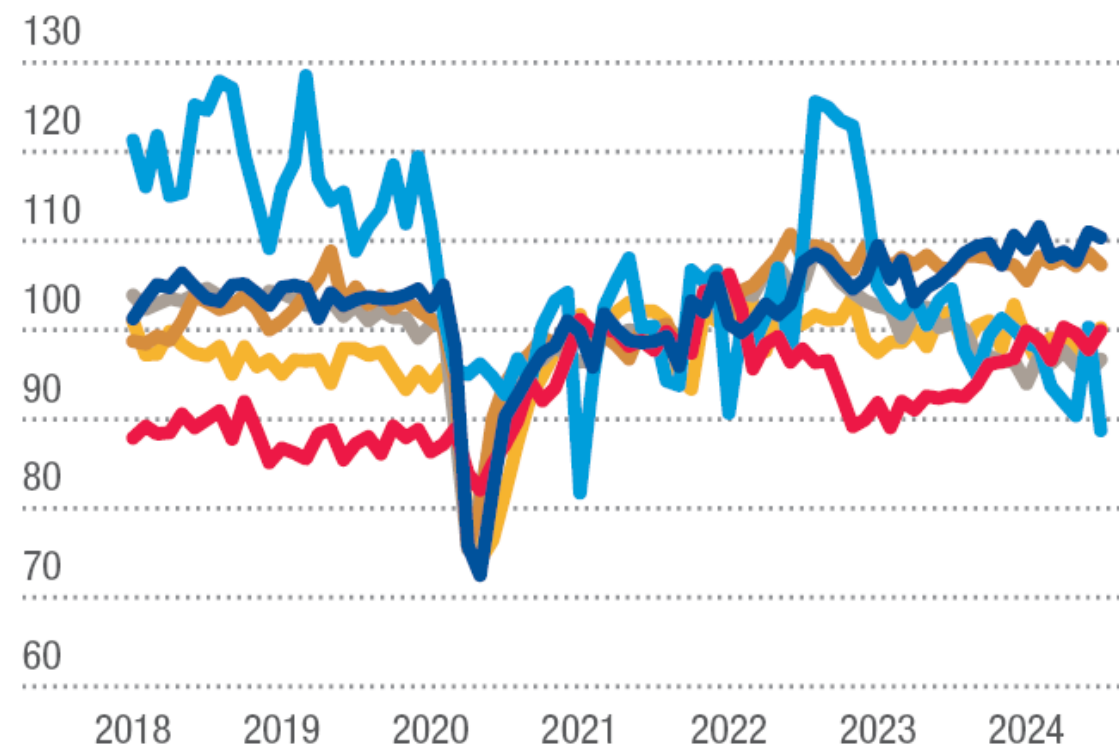
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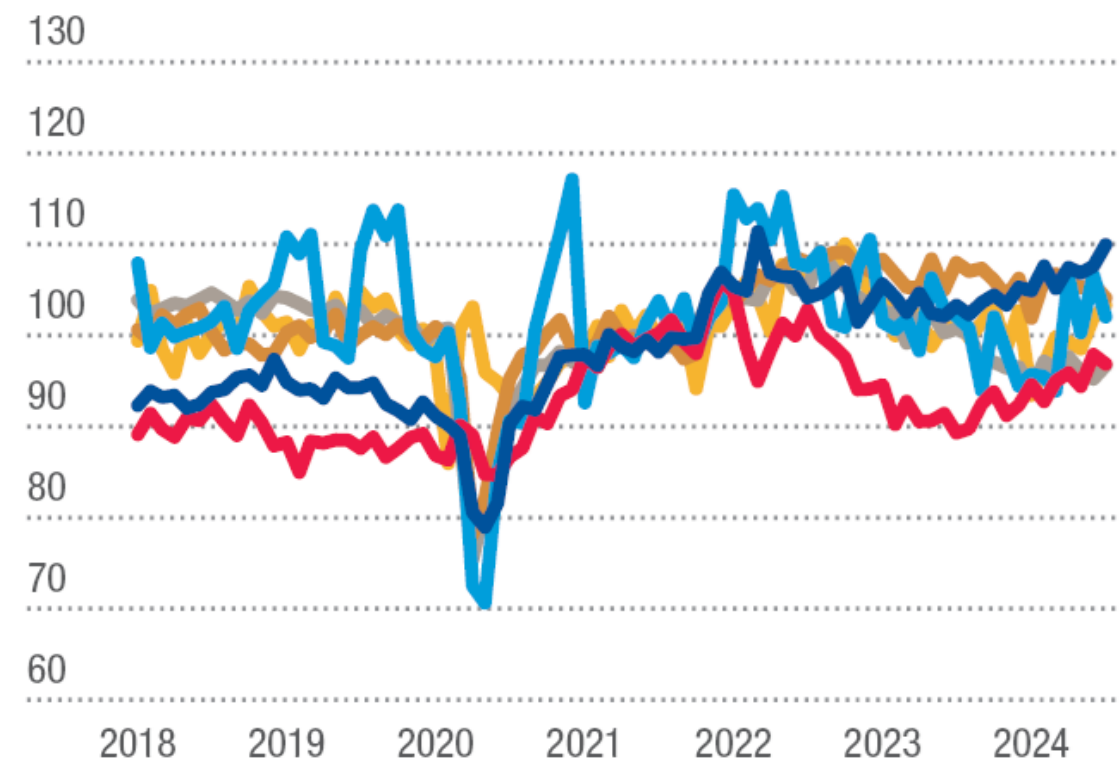
(Average 2021=100)

A. Exports

Japan United Kingdom United States Advanced Asia, excluding Japan Euro area Other advanced economies



B. Imports



Source: The World Trade Monitor database of the CPB Netherlands Bureau for Economic Policy Analysis.

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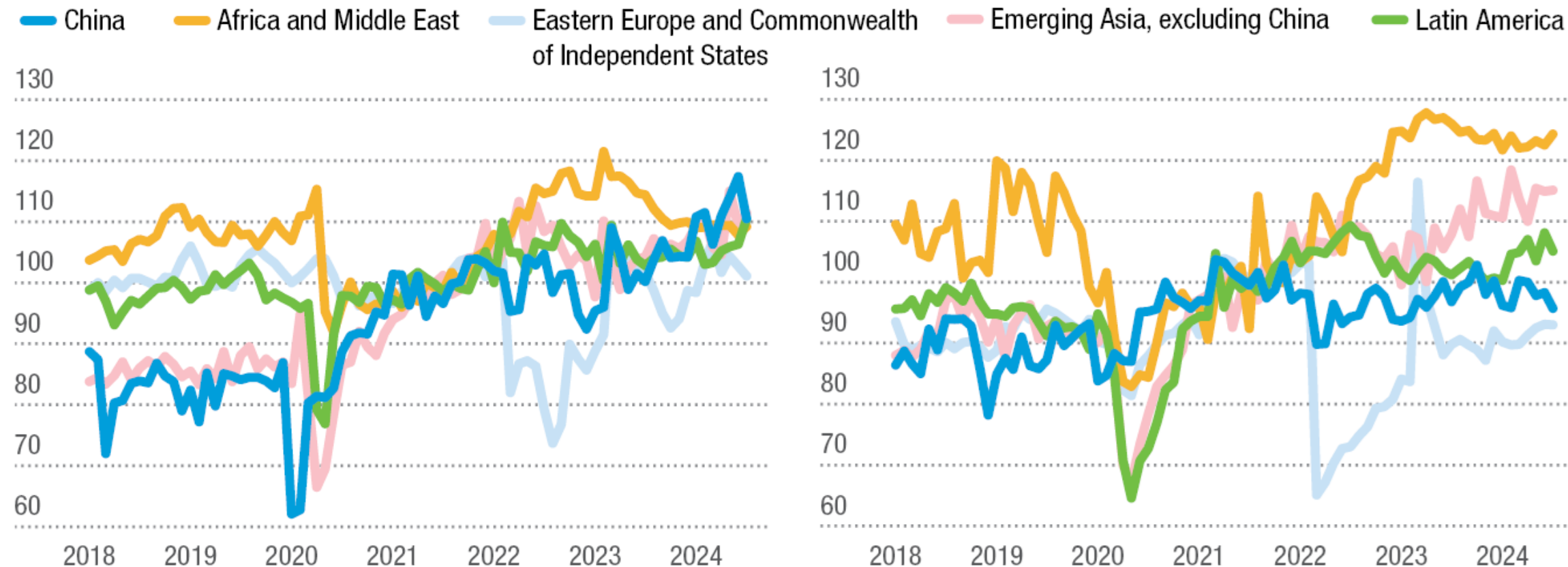


World merchandise is growing again, although divergences exist across regions

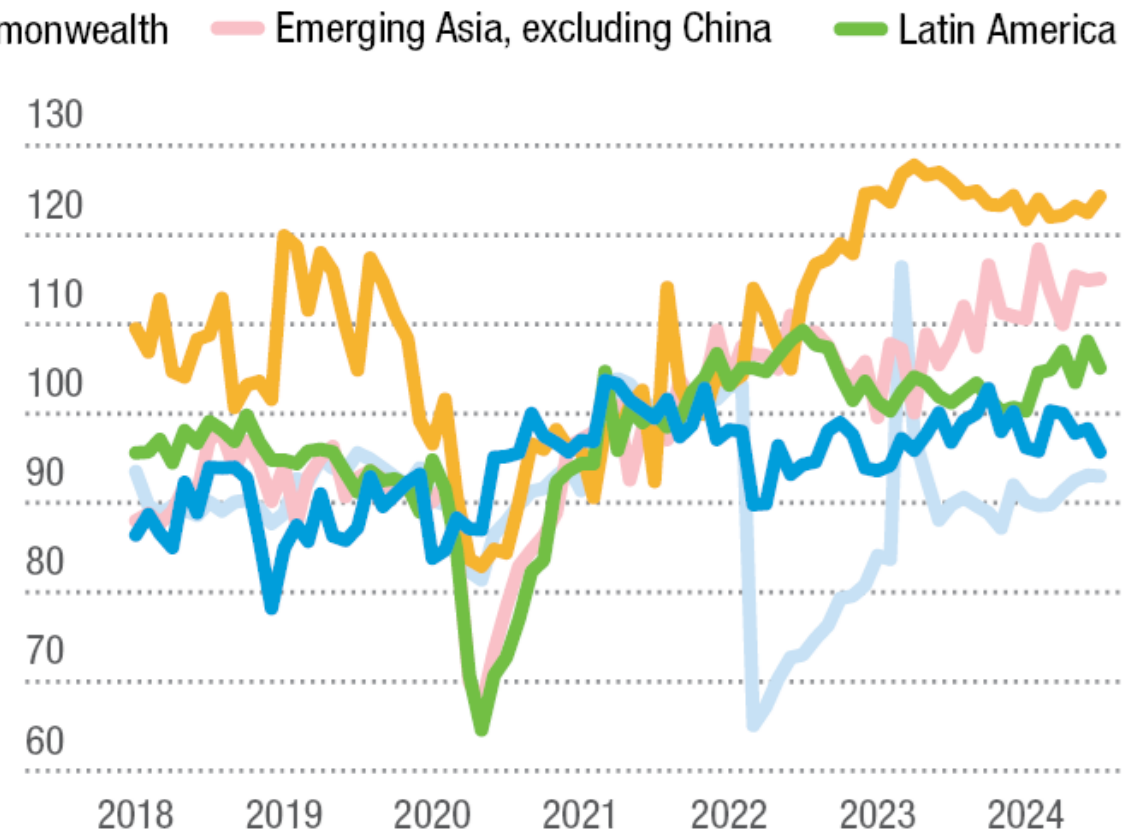
Trade flows in real terms, January 2018–July 2024

(Average 2021=100)

A. Exports



B. Imports



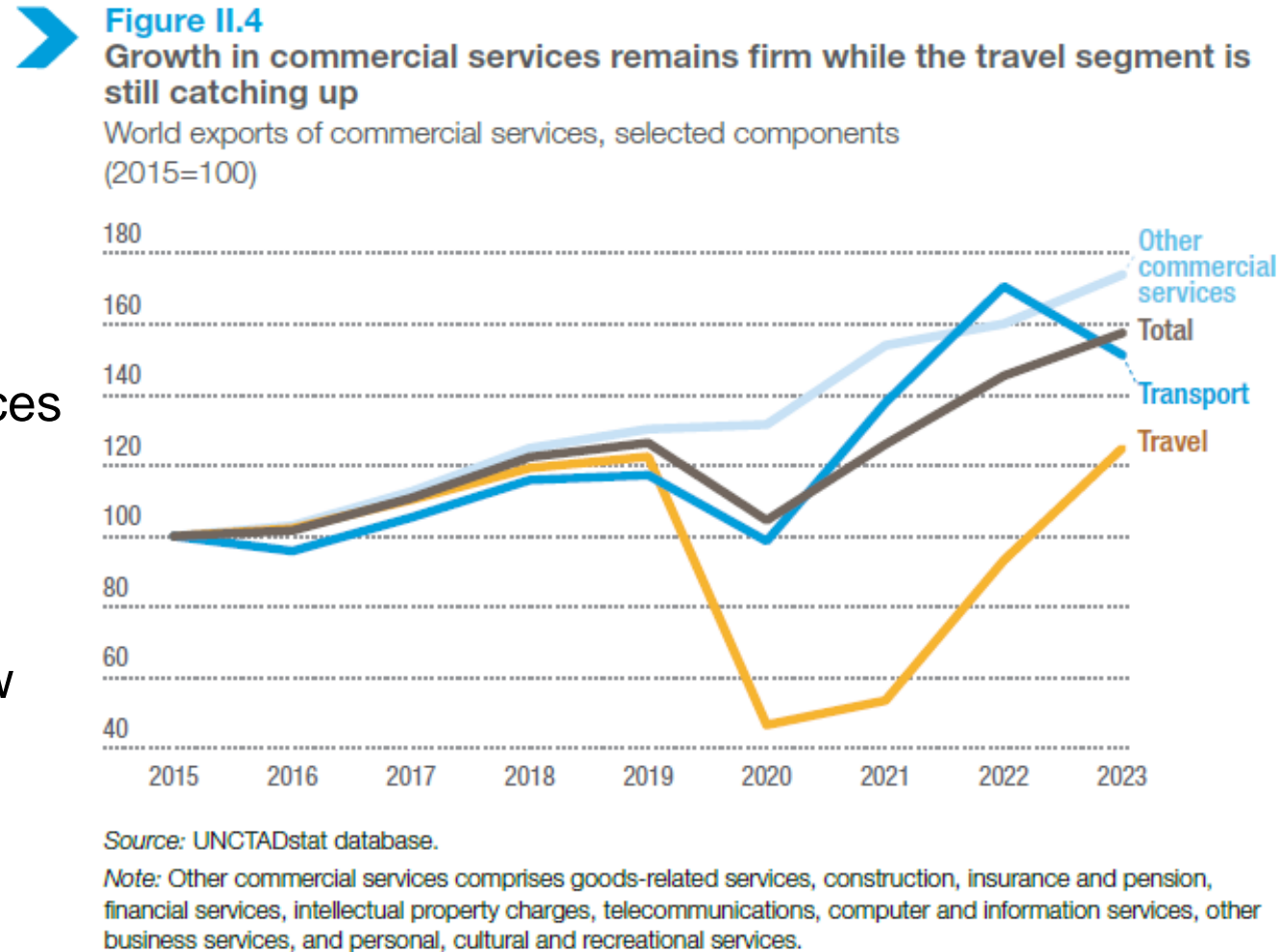
Source: The World Trade Monitor database of the CPB Netherlands Bureau for Economic Policy Analysis.

Note: Country group classification relies on CPB Netherlands Bureau for Economic Policy Analysis (see Ebregt, 2020).

➤ Commercial services have been stronger (and resilient during the COVID-19 crisis)

The outlook for trade in services remains comparatively better than for merchandise trade in 2024.

- ▶ Data for the first quarter show that world services exports in dollar terms increased by 9 per cent on a quarter-on-quarter, seasonally adjusted annualized-rate basis.
- ▶ High carbon emissions-intensive services grew most rapidly: travel expanded 18 per cent, transport increased 15 per cent. All other commercial services grew 5 per cent.



Recent evolutions in international markets

(together with some related longstanding issues and policy recommendations)

1. **The illusion of a rebound** (TDR 2024, chap. II)
2. **Longstanding and emerging trade-related weaknesses** (TDR 2023, chapter II)
3. **The quest for quality jobs: The limits of manufacturing- and services-led exports** (TDR 2024, chapter II)

➤ **Longstanding and emerging trade-related weaknesses**

- ▶ The unequal distribution of trade gains, apparent in both advanced and developing countries, has worsened during the pandemic years.
- ▶ Unilateral shifts in industrial policies in developed economies are generating tensions among trading partners, hampering prospects for structural transformation in many developing countries.

➤ **Revisiting the distributional impacts of trade, including after the COVID-19 shock**

- ▶ The rise of export concentrations in developing countries
- ▶ The decline of the labour income share globally

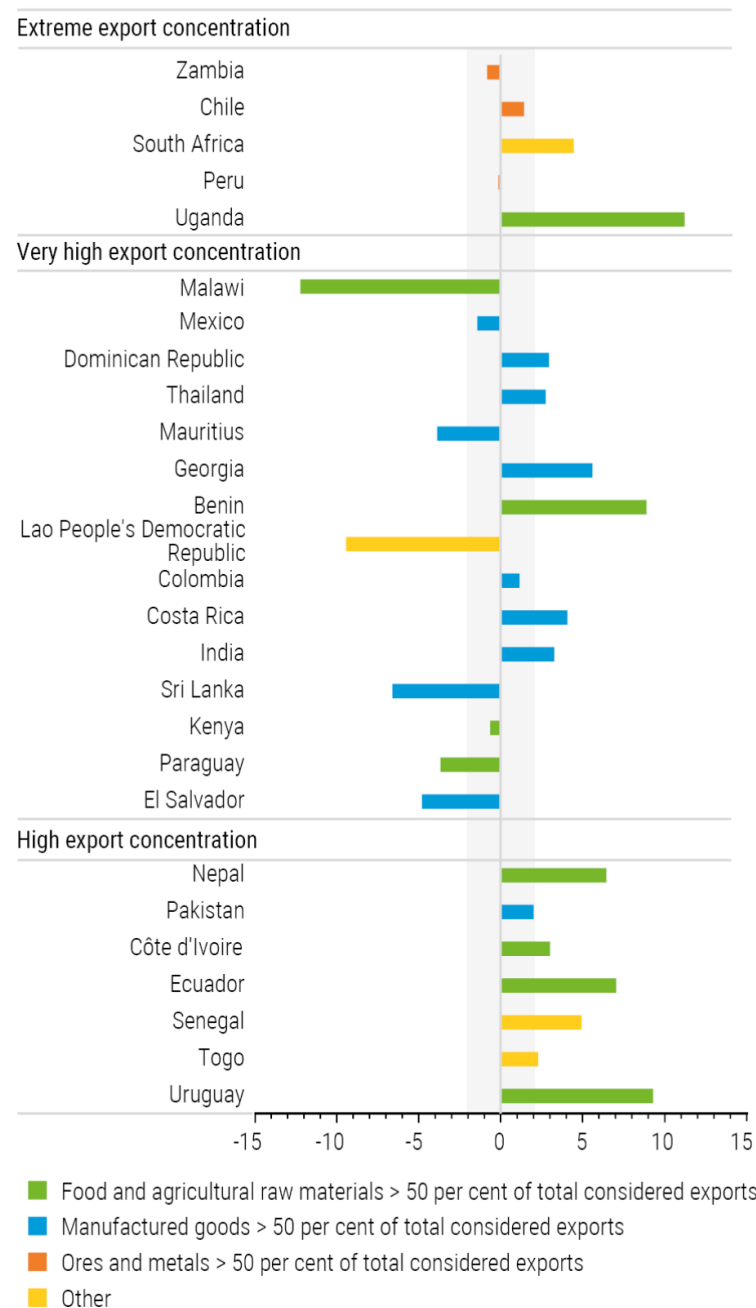
Export concentrations have increased in most observed developing countries through the pandemic

Source: Exporter Dynamics Database (2023 pre-release).

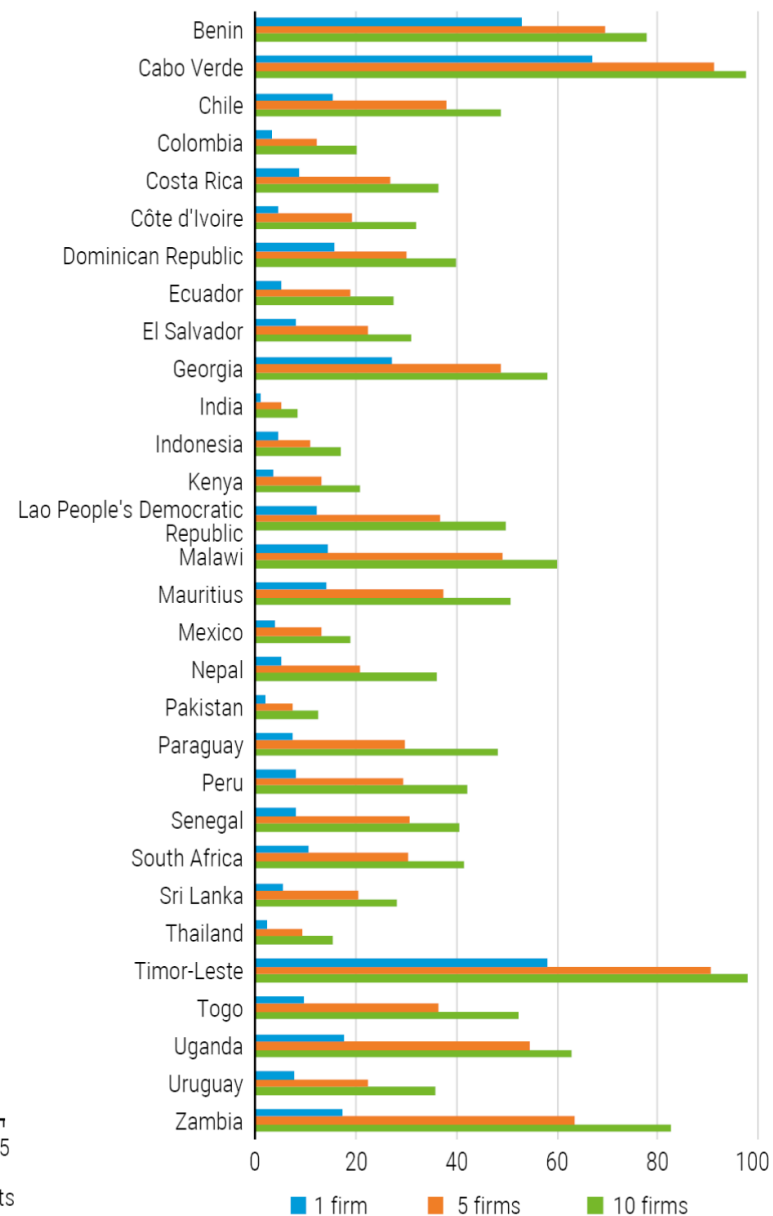
Notes: Aggregated firm-level data on goods exports (excluding the oil sector and services).

“Extreme export concentration” designates countries where the top 1-per cent firms accounted for more than 70 per cent of total exports in 2015–2019. “Very high” and “high” export concentration designate countries where the top 1-per cent firms accounted for between 50 and 70 per cent, and between 36 and 49 per cent, respectively.

A. Changes in countries' exports shares of the top 1-per cent exporting firms by types of export specialization: 2015–2019 vs. 2020–2022
(Percentage points)

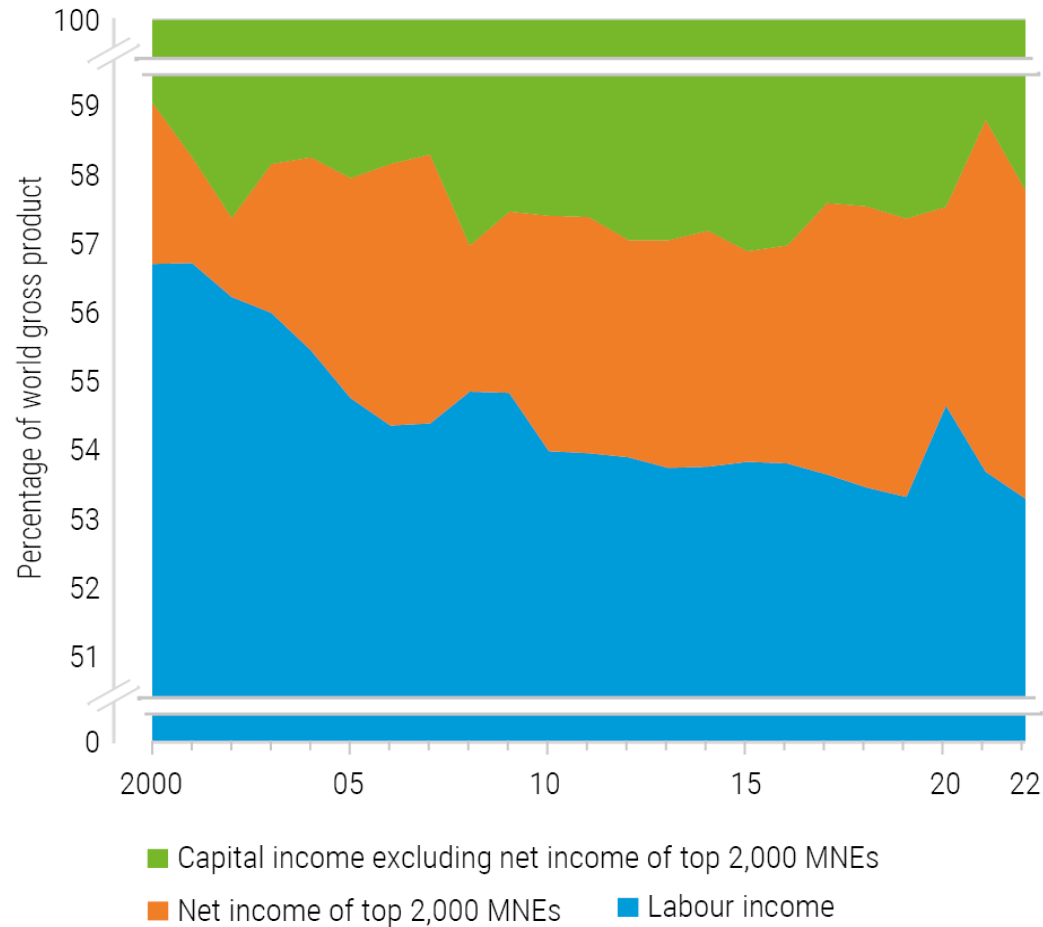


B. Shares in a country's exports by its largest exporting firms, 2020–2022
(Percentage)

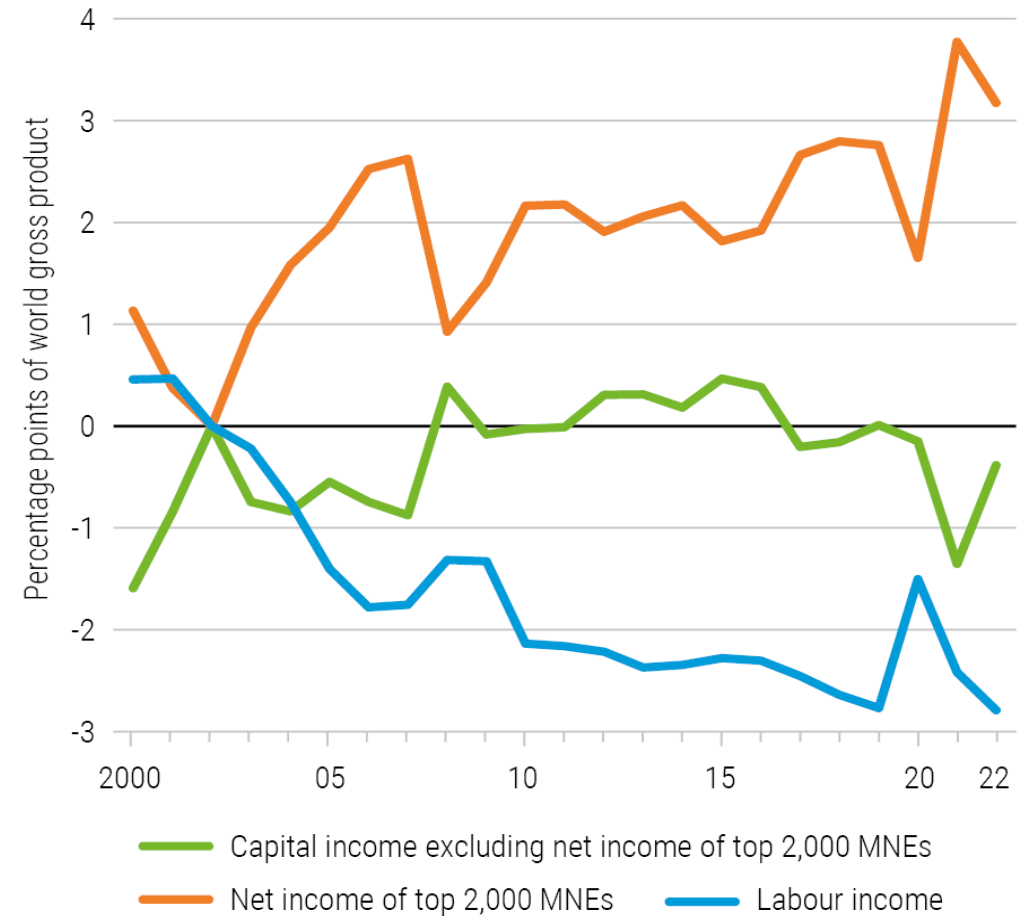


The continuing decline of the labour income share globally mirrors the increasing profits of the largest 2,000 firms worldwide (incl. during the COVID-19 pandemic)

A. Global functional income distribution



B. Evolution compared to 2002



Source: UNCTAD calculations based on the Refinitiv Eikon database and the United Nations Global Policy Model.

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.

A new paradigm of international trade?

- The trade dispute between China and the United States
 - Growing international conflicts
 - The rise of export controls
 - Securing domestic supply
 - Constraining geopolitical rivals
 - Encouraging investment in locally based processing facilities
 - The growing use of subsidies and other (trade) instruments by major developed countries or country groups to foster the green transition
 - **USA:** e.g. the Inflation Reduction Act (IRA), the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and the Infrastructure Investment and Jobs Act (IIJA) to promote electric vehicles, green manufacturing, etc.
 - **European Union:** Under the banners of the European Green Deal and the “Open strategic autonomy”: e.g. Green Deal Industrial Plan (GDIP), the Net-Zero Industry Act (NZIA), the Deforestation Regulation (EUDR) and the Carbon Border Adjustment Mechanism (CBAM)
- > Unilateral measures often risk weakening further international cooperation and multilateralism

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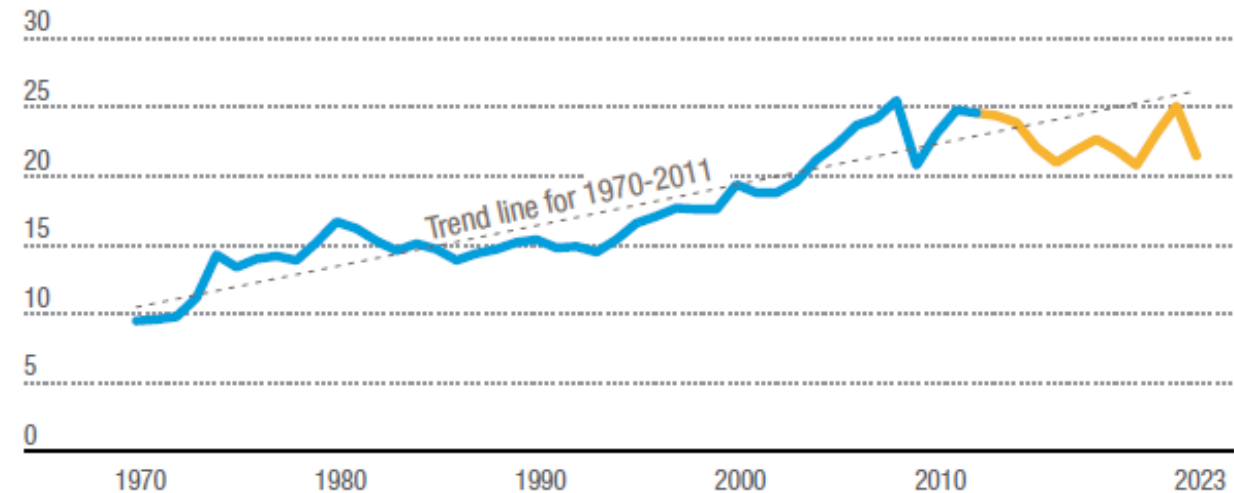
➤ A strong revival of world trade is unlikely

The model of manufacturing-led exports growth increasingly appears to have limitations for many developing economies

- ▶ The comparative advantage of cheaper, less-skilled labour no longer aligns with the reliance of modern manufacturing on skill- and capital-intensive production.
- ▶ Services-led exports cannot generate currently enough quality jobs in developing countries.
- ▶ Policymakers in developing countries need to look beyond manufacturing- and services-led exports to enable productivity growth across the economic system.

➤ World trade has been levelling off after the global financial crisis

World trade as a share of global GDP
(Percentage)



Source: UNCTAD based on UNCTADstat database.

➤ Towards green transition, and the promotion of labour-absorbing services activities

➤ Four strategies for expanding productive employment in labour-absorbing services

An ambitious policy mix in non-tradable sectors will be necessary

A three-pronged strategy could focus on:

- ▶ Encouraging lower-skill job creation by firms in non-tradable services.
- ▶ Providing public inputs and access to productivity-enhancing investments for smaller enterprises.
- ▶ Investing in technologies that complement rather than replace, low-skilled workers in services sectors.

Focus	Actions	Expected benefits	Illustrative case
▶ Established large and relatively productive incumbent firms	Incentivizing such firms to expand their employment either directly or through local supply chains	Generating upstream linkages with service providers	Saksham Saarthi Partnership with Uber and Ola in Haryana, India
▶ Small enterprises	Providing such firms with specific inputs (e.g. management training, loans or grants, customized skills among workers, specific infrastructure or technology assistance)	Enhancing productive capabilities in such firms	Youth Enterprise with Innovation (YouWin!) in Nigeria
▶ Workers or firms	Offering digital tools and other modern technologies that explicitly complement low-skill labour	Enabling less educated workers to do (some of) the jobs traditionally reserved for more skilled professionals and increasing the range of tasks they can perform	The Manthan Project in Uttar Pradesh, India
▶ Less-educated workers	Combining vocational training with “wrap-around” services, a range of additional assistance programmes for job seekers	Enhancing the employability, retention and eventual promotion of less-educated workers	Harambee Youth Employment Accelerator in South Africa

Source: UNCTAD based on Rodrik and Sandhu (2024).

Note: Saksham saarthi translates to “capable charioteer/driver”.

Thank you

