TRADE AND DEVELOPMENT REPORT, 2013

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Adjusting to the changing dynamics of the world economy

UNCTAD

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Key points:

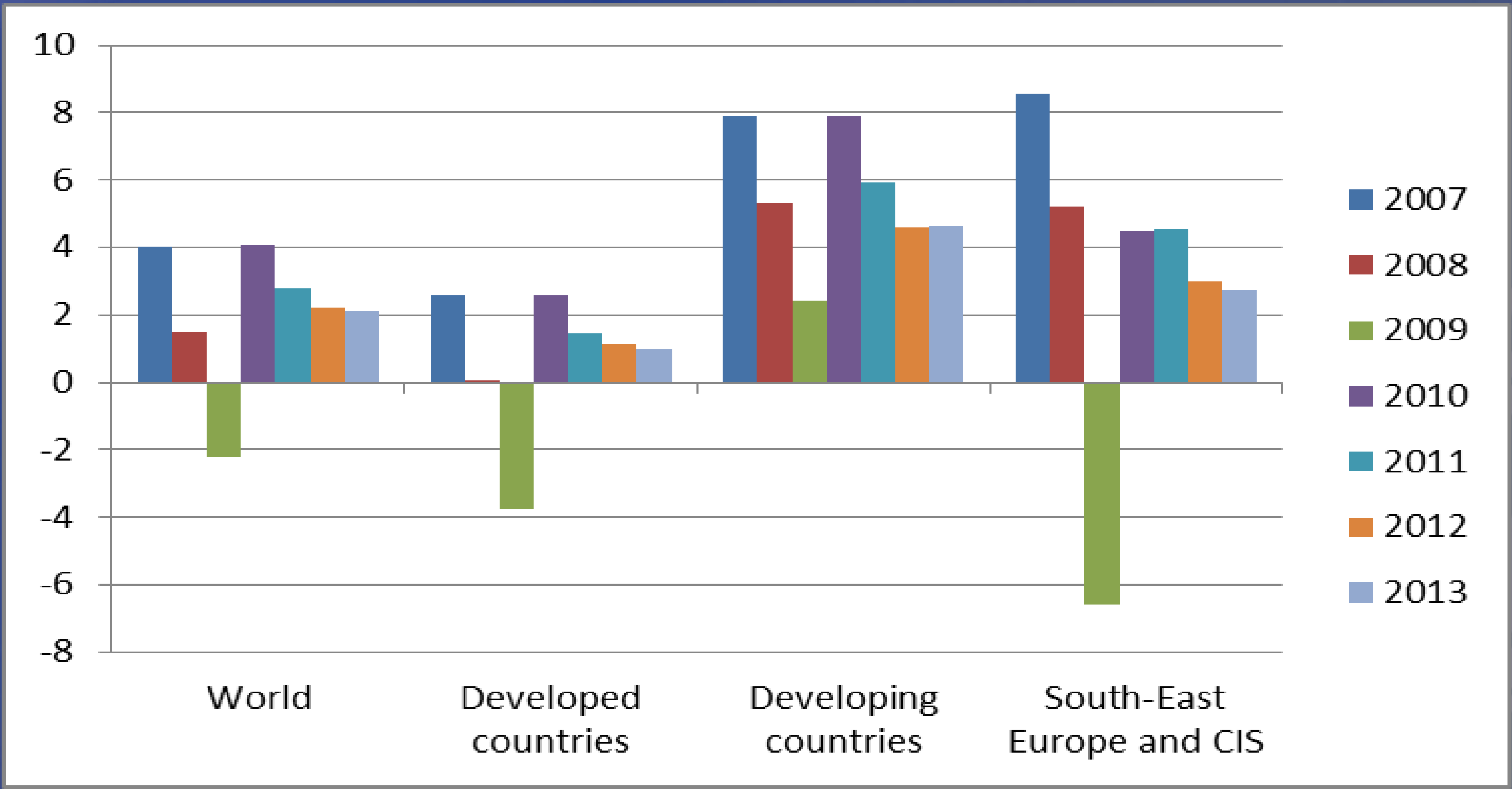
- ✓ *The global economy is in a structural crisis:* ***reverting to pre-crisis growth strategies is neither possible nor desirable***

- ✓ *Export-led development strategies are no longer viable.* ***More balanced development strategies with a greater role for domestic and regional demand needed*** *– this requires reconsideration of role of wages and public sector in development process*

- ✓ *5 years after the collapse of Lehman Brothers,* ***taming finance*** *remains a priority: financial systems need to serve the 'real' economy and facilitate adaptation to new global demand patterns*

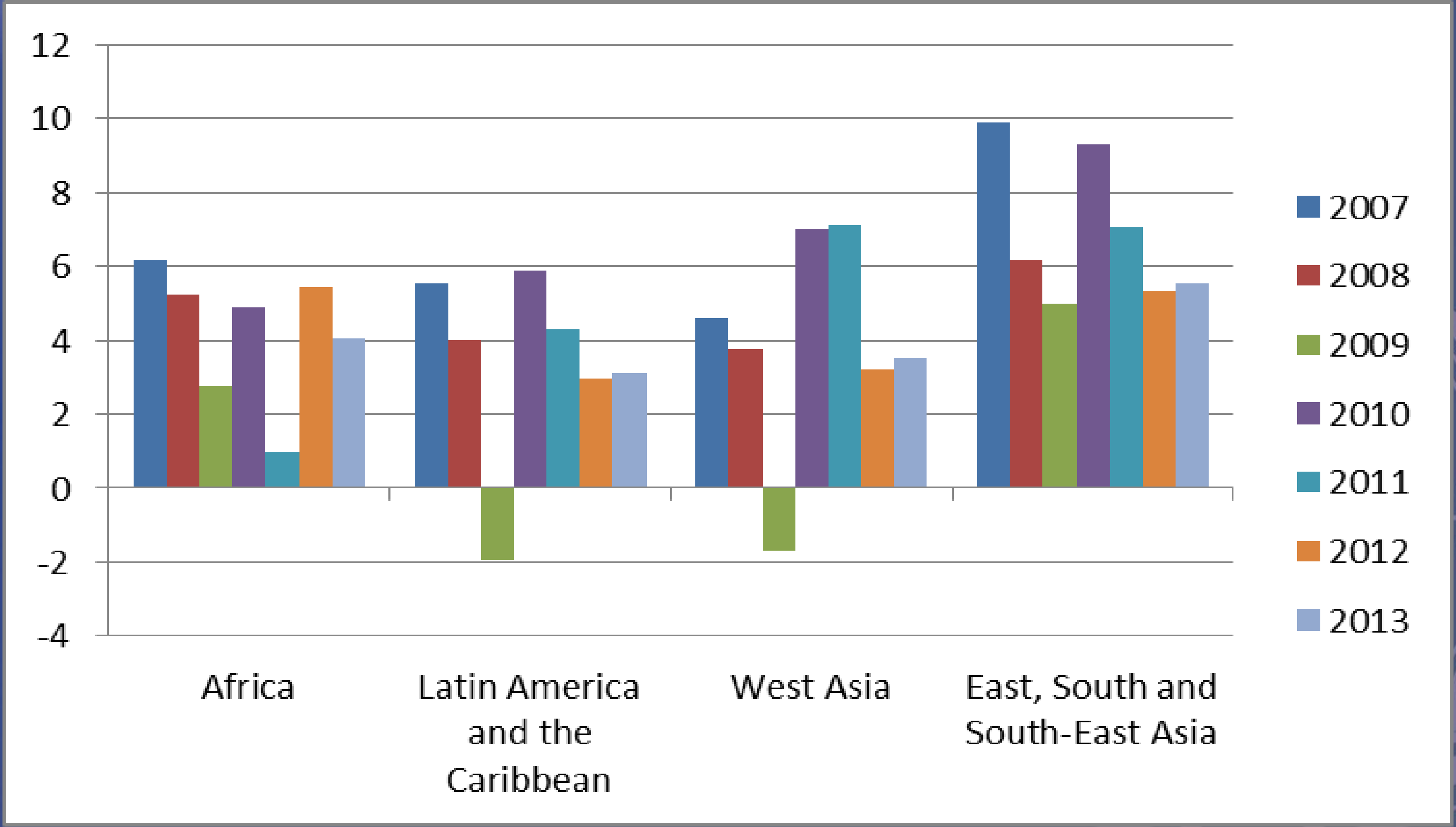
The global economy remains far away from a strong, sustained and balanced growth path

World output growth, selected country groups, annual percentage change, 2007–2013



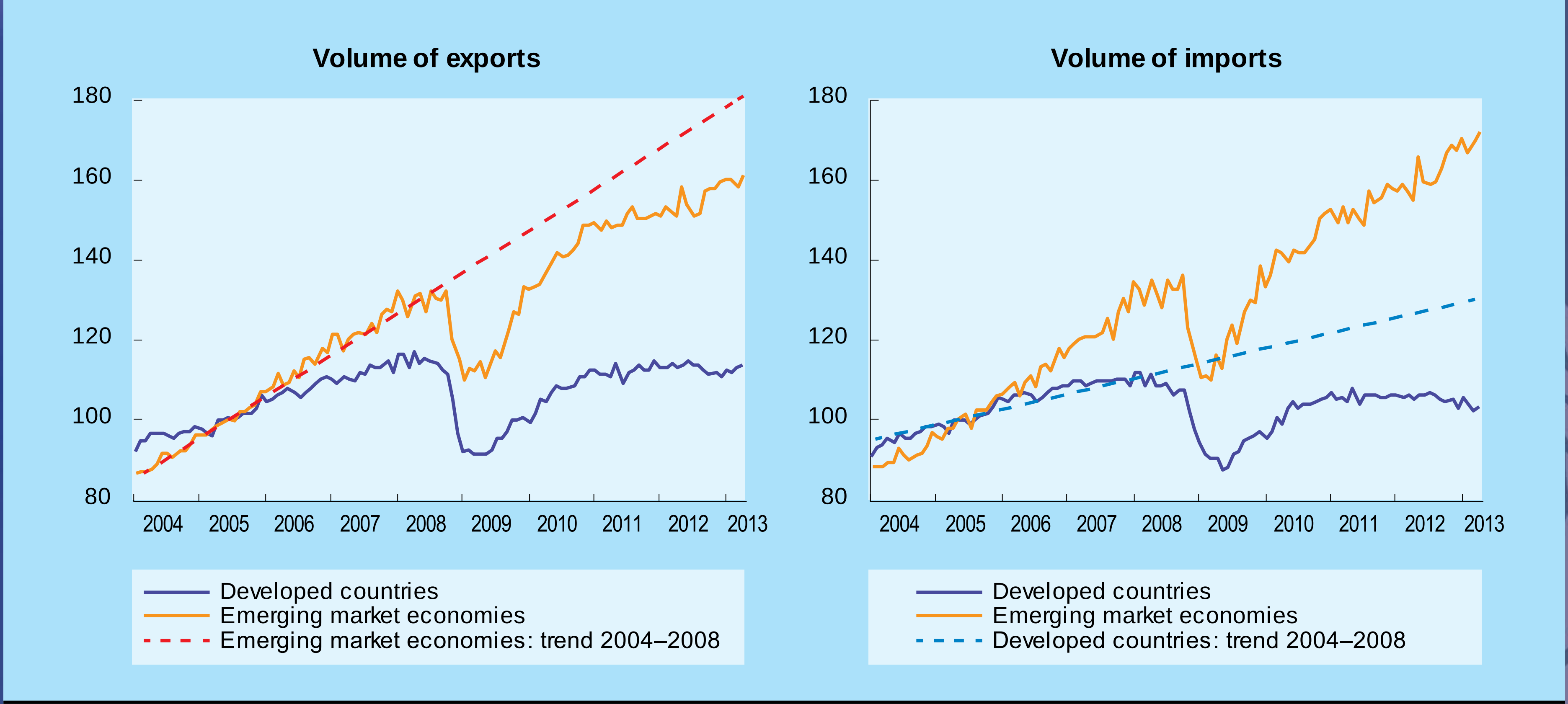
Economic slowdown also affects developing countries

Output growth, selected developing regions, annual percentage change, 2007–2013



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

Volume of export and imports, selected country groups, 2004–2013 (index numbers, 2005–100)

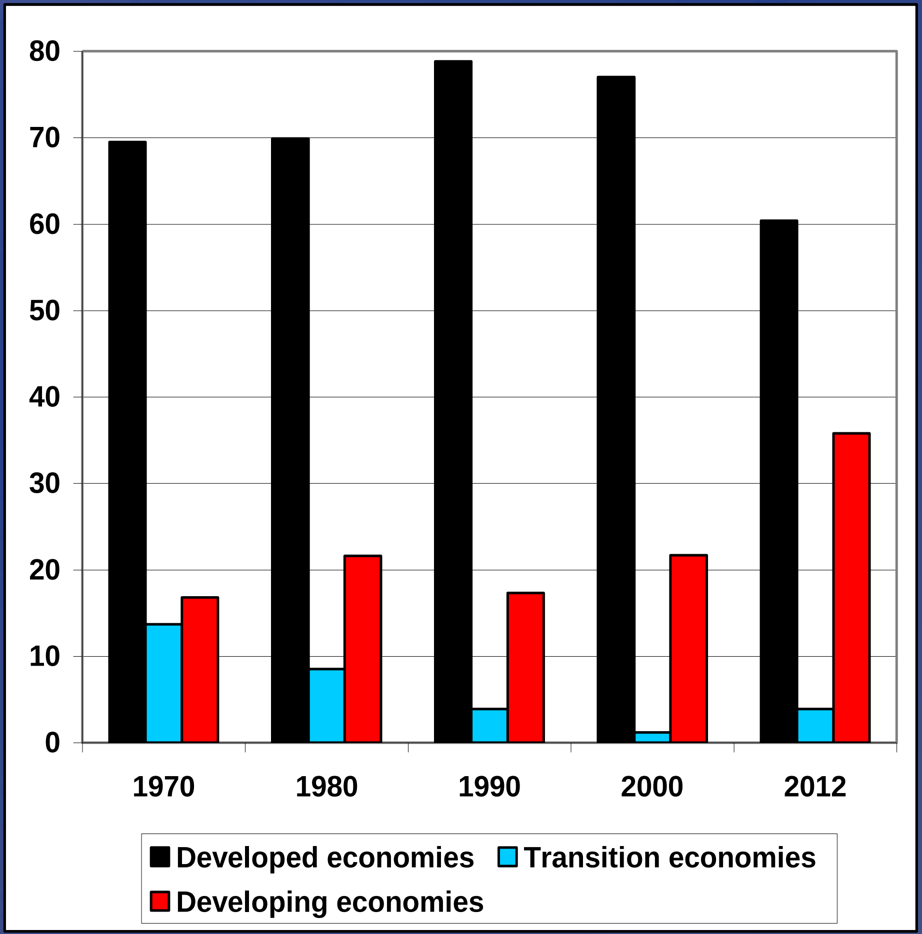


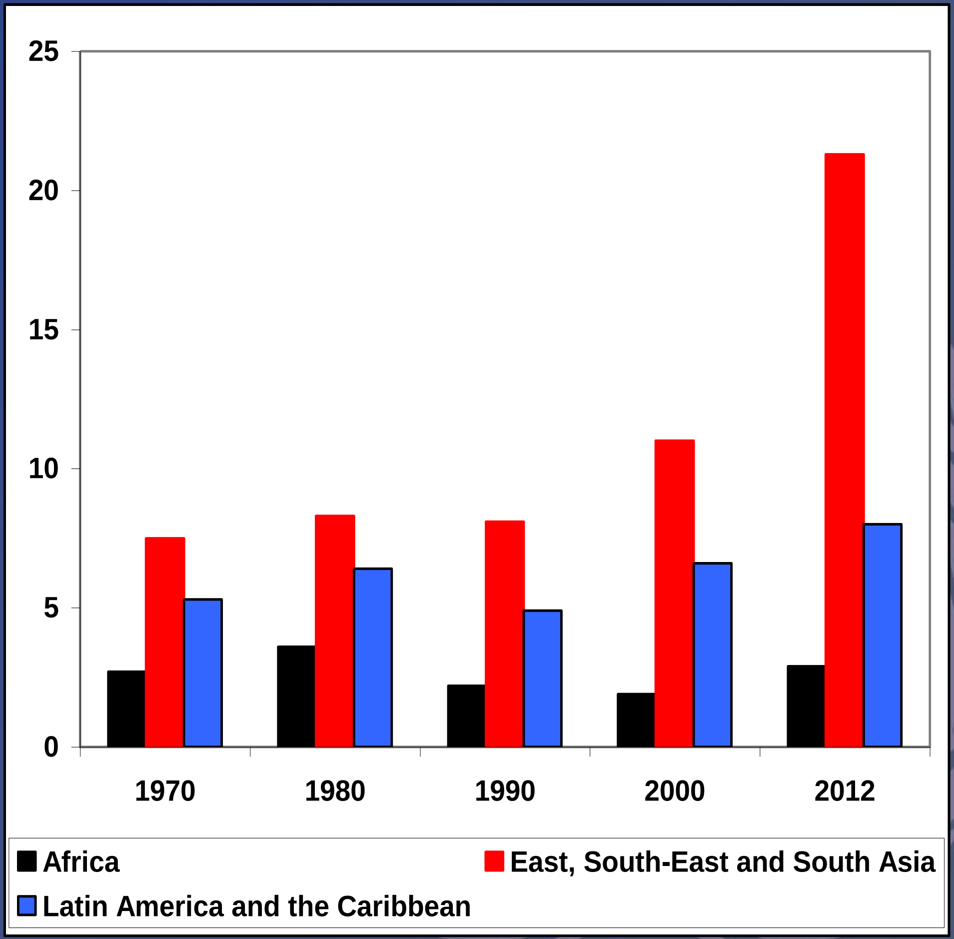
Structural nature of the present crisis is reflected in changing dynamics of the world economy

- Developed countries are going back to 'business as usual' – this presages protracted period of slow growth
- No growth decoupling of developing countries and continued high vulnerability; yet, even if developed countries were to persevere with their current policy stance, developing countries could still improve their economic performance by providing coordinated economic stimuli
- The share of developing countries in global GDP has strongly increased and the economic size of the largest developing countries makes larger role of domestic demand viable
- South-South trade has strongly increased; yet, it has not become an autonomous engine of growth

Strong growth performance over past decade made share of developing countries in global GDP increase strongly

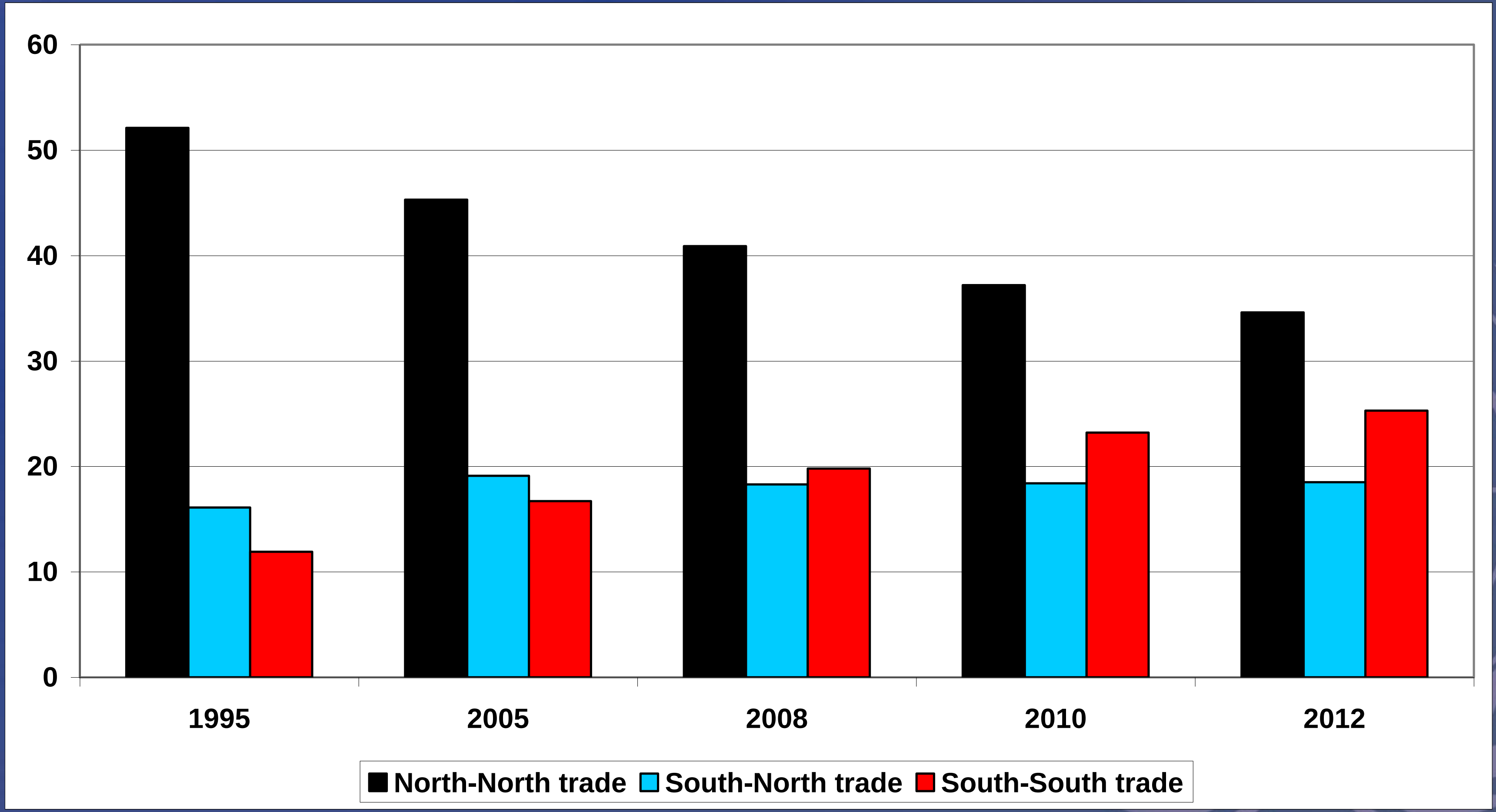
Shares in global GDP at market prices, selected countries and country groups, 1970–2012 (per cent)

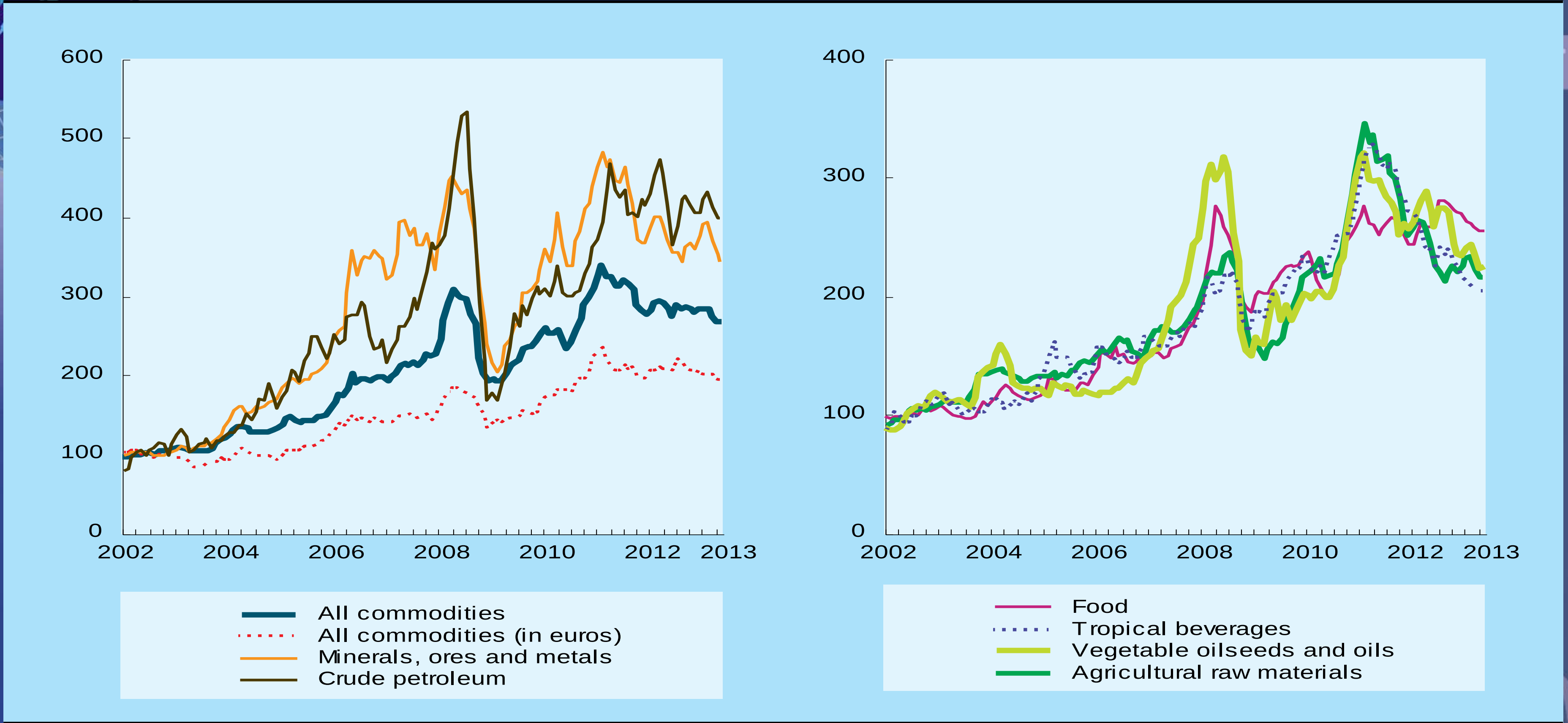




The direction of global trade has shifted towards a greater importance of South-South trade

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





- The rapid rise of commodity prices starting in 2002 has boosted economic growth in commodity producing countries
- The expansionary phase of the commodity price supercycle may have come to an end, but a price collapse is unlikely to occur in the next few years
- 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 industrial production

Prolonged period of slow growth in developed countries would make export-led development strategies unviable – Need for more balanced development strategies with greater role for domestic and regional demand

Key challenges:

- Economic size: some of the most populous countries likely to have large enough domestic markets – others will need to rely more on regional markets

- Switch in growth strategy becomes unsustainable if it triggers unsustainable trade deficits: investment by domestic firms to narrow gap between composition of domestic/regional supply and that of domestic/regional demand

- To realize growth potential of domestic markets, domestic purchasing power must be created, not through increased household debt, but through wage growth and policies that favour the domestic middle class

Financing the real economy for meeting the new patterns of demand

A redesign of development strategies involves an expansion of productive capacities and their adaptation to new demand patters, all of which requires investment and its financing

Key challenges:

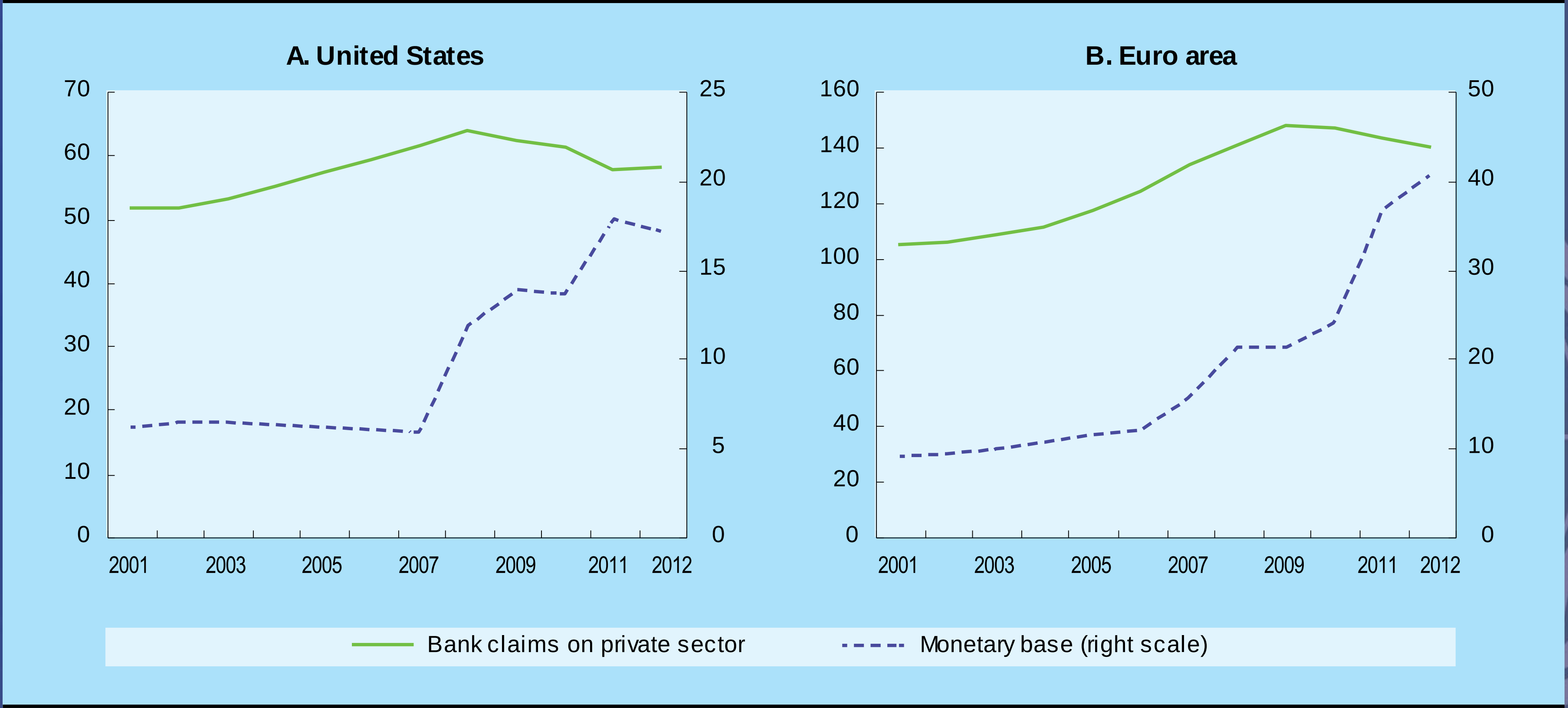
- Capital flows management: pragmatic exchange-rate management and capital-account management needed to reduce vulnerability to external financial shocks

- Domestic financial systems need to channel credit towards productive investment in the real sector: central banks should pursue a credit policy, rather than just a monetary policy

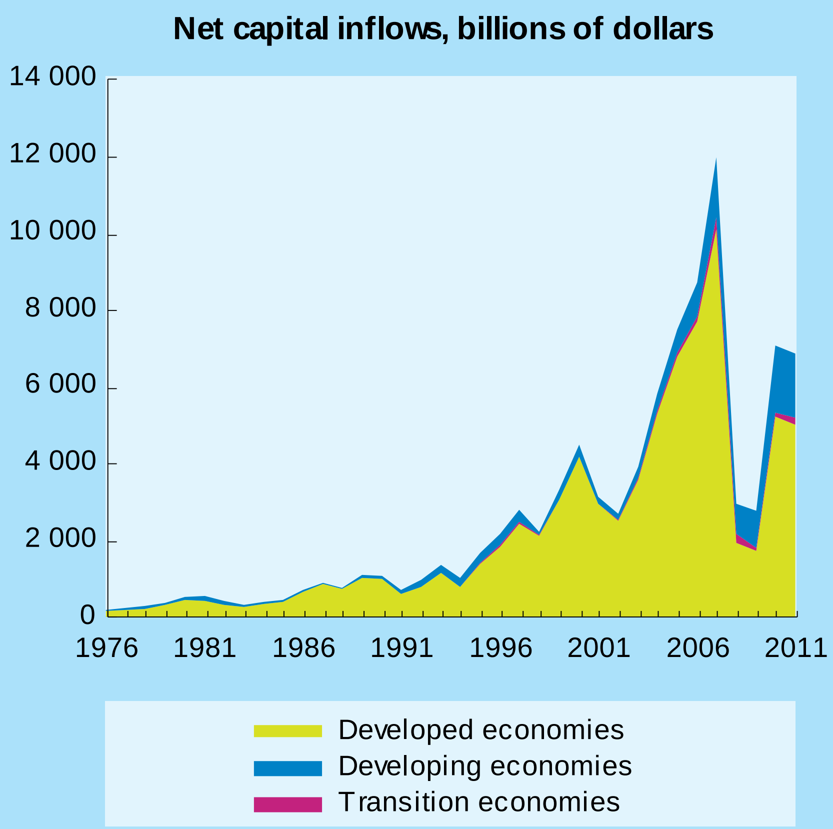
Monetary policies in developed countries did not lead to more domestic credit, but contributed to international financial instability

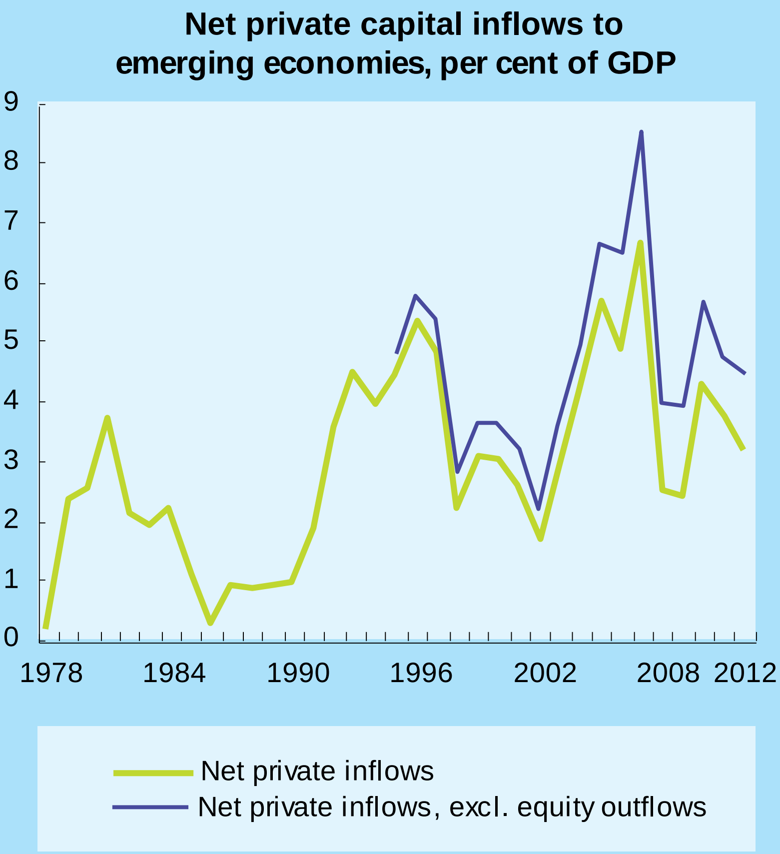
MONETARY BASE AND BANK CLAIMS ON THE PRIVAT SECTOR, 2001–2012

(Per cent of GDP)



International capital flows are highly volatile





Financing the real economy

Policy conclusions

- Monetary policy alone is not sufficient to stimulate investment
- Central banks should play an active role in the implementation of a growth and development strategy through a credit (and not only monetary) policy
- Reform at the national and global levels is needed not only to improve financial and economic stability but to ensure that sufficient investment finance goes into productive activities and helps developing countries address the new development challenges