8th OEET workshop, December 1-2 2022

Trade and Development Report 2022

Development prospects in a fractured world: Global disorder and regional responses

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The TDR 2022 (part I) in a nutshell

- Document the global slowdown that affects all regions, but impact developing countries most

- Examine the role of policy mistakes. The slowdown has ben triggered by converging crises, but interest rates hikes in AEs are aggravating it

- Propose ideas to restore a global agenda based on “resilience and fairness”

A synchronized slowdown in the global economy affecting all regions

- UNCTAD expects the world economy to grow 2.5% in 2022 and to decelerate further to 2.2% in 2023, leaving real GDP still below its pre-pandemic trend by the end of next year and a cumulative shortfall of more than $17 trillion - close to 20% of the world's income

- The synchronized slowdown is hitting more hardly developing countries, where the average growth rate is projected to drop below 3%, a pace insufficient for sustainable development, further squeezing public and private finances and damaging employment prospects

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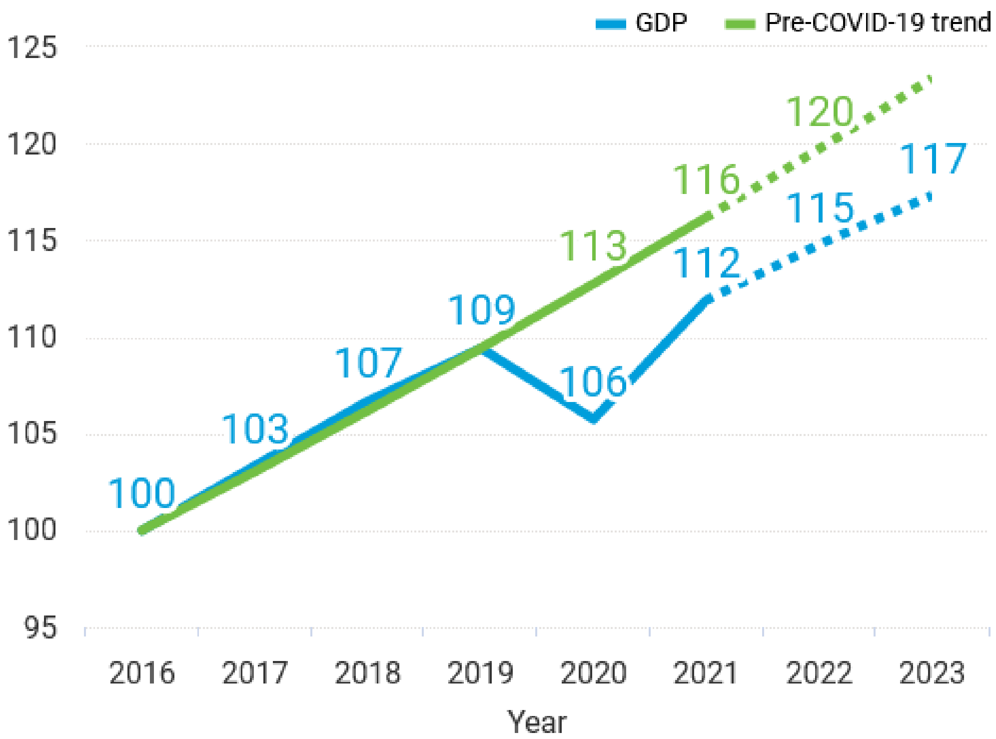
The long COVID of the global economy

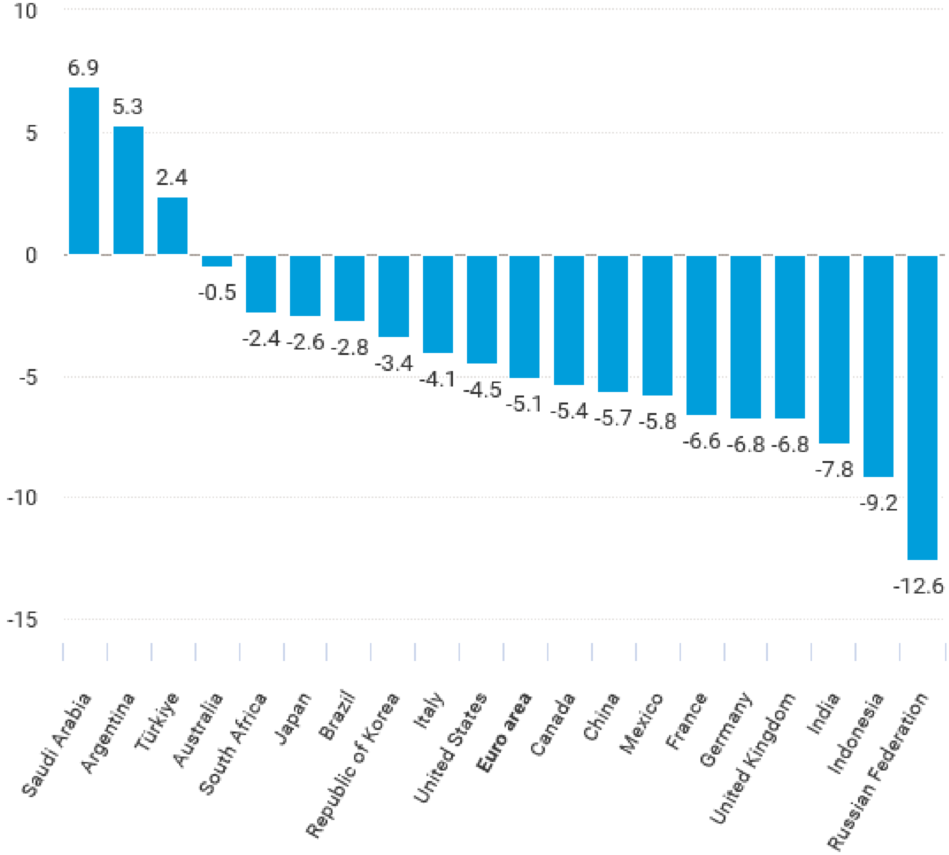
COVID-19 recovery compared to pre-COVID-19 trend, Index numbers, 2016=100, 2016–2023



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

Lost economic potential

Expected output gap in 2023, G20 countries, Percentage



Source: NCTAD secretariat calculations based on the United Nations Global Policy Model.

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…but impact developing countries most

- Middle-income countries in Latin America, as well as low-income countries in Africa, will register some of the sharpest slowdowns this year

- Countries that were showing signs of debt distress before Covid are taking some of the biggest hits (Zambia, Suriname, Sri Lanka) with climate shocks further threatening economic stability (Pakistan)

Inflation and Monetary tightening

- Compared to the global financial crisis, the COVID-19 recovery has been more inflationary for AEs. This has triggered since March a spiral of interest rates hikes by FED and other CBs
- BUT we are not in the 1970s: the surge has not come from a loosening of fiscal policy or wage pressure, instead it derives largely from cost increases, particularly by commodity prices – especially energy – and sluggish supply response due to a prolonged history of weak investment
- Inflation measures that exclude energy are considerably lower than consumer price inflation

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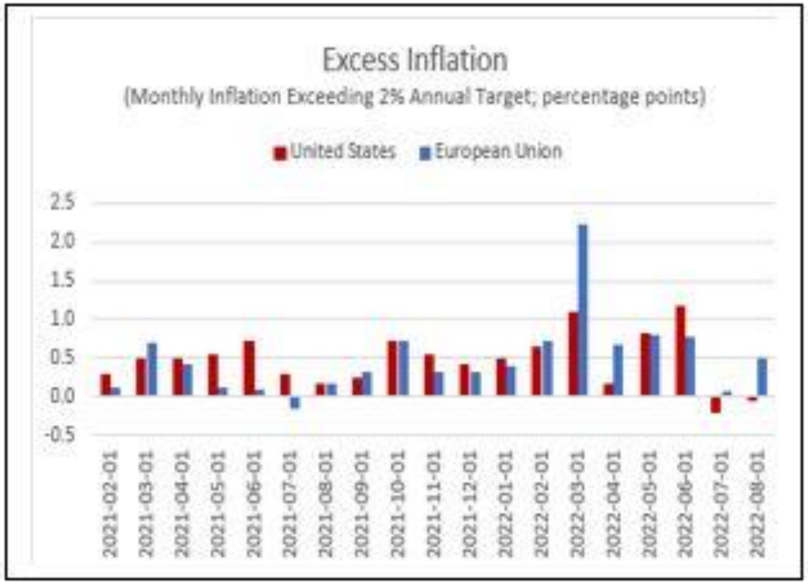
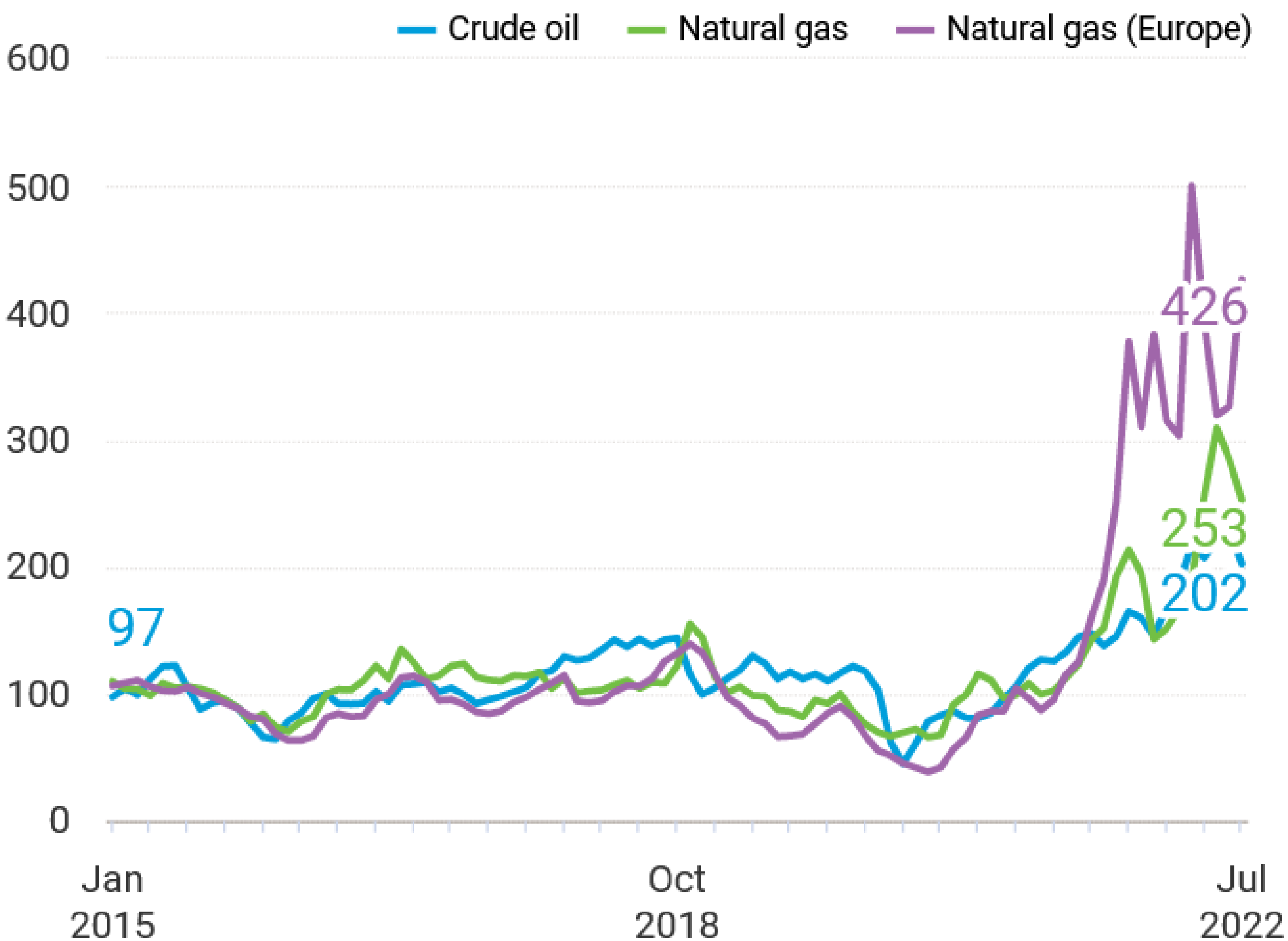

Excess Inflation
(Monthly Inflation Exceeding 2% Annual Target; percentage points)
United States
European Union
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
2021-02-01
2021-03-01
2021-04-01
2021-05-01
2021-06-01
2021-07-01
2021-08-01
2021-09-01
2021-10-01
2021-11-01
2021-12-01
2022-01-01
2022-02-01
2022-03-01
2022-04-01
2022-05-01
2022-06-01
2022-07-01
2022-08-01


CPI Year-on-Year Median for 50 developing countries
CPI YoY
10.0
8.0
6.0
4.0
2.0
0.0
3.4
6.8
9.7
9.7
Jan 2021
Mar 2021
May 2021
Jul 2021
Sep 2021
Nov 2021
Jan 2022
Mar 2022
May 2022
Jul 2022

Energy price indices

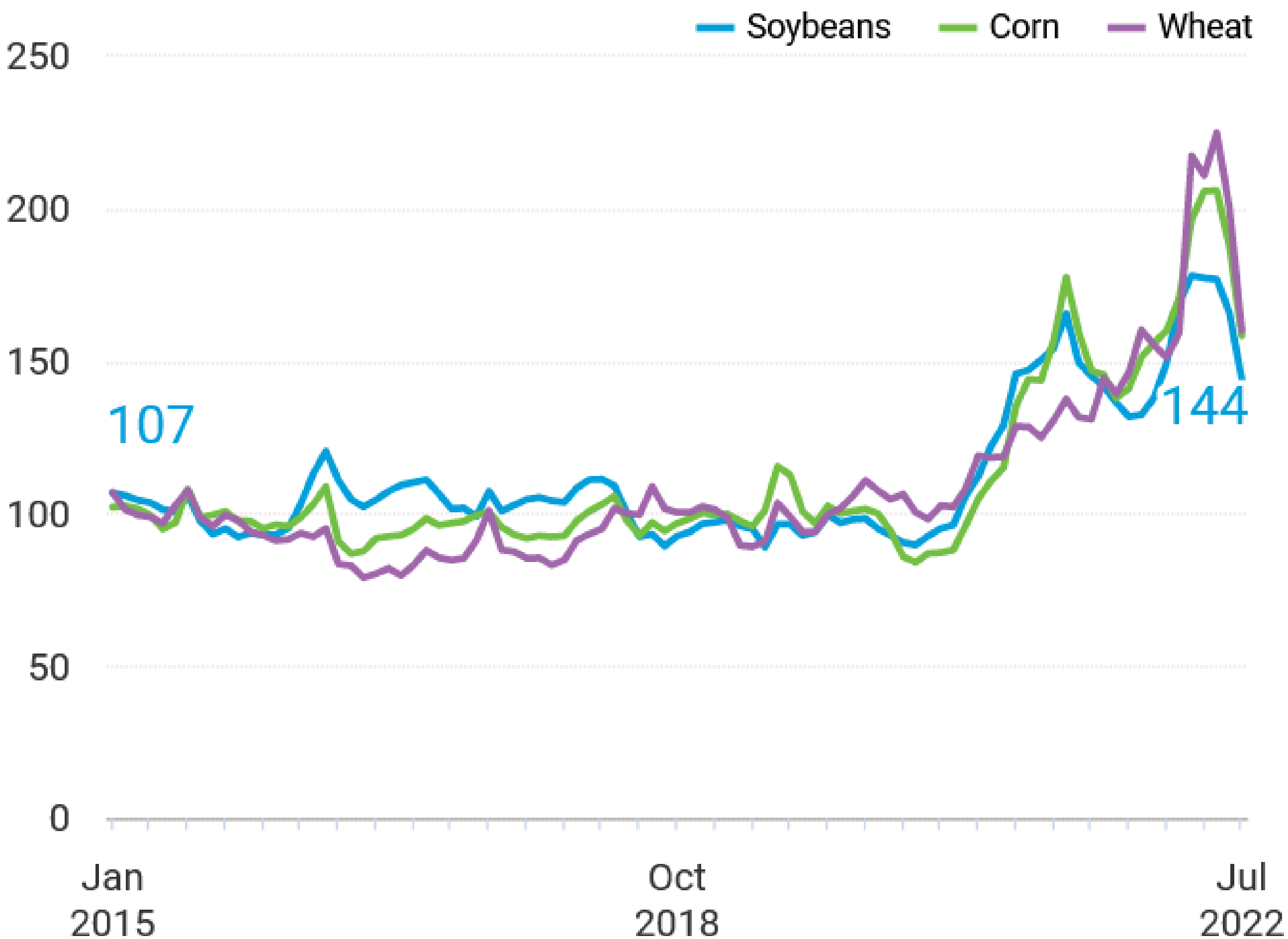
Index numbers, 2015=100, January 2015–July 2022



Source: UNCTAD secretariat calculations based on Refinitiv data.
Note: Price indices correspond to Dow Jones Commodity Index, except "Natural Gas (Europe)" which corresponds to Ham- burg Institute of International Economics (HWWI) Natural Gas Europe price index and "Iron Ore" which corresponds to Credit Suisse Commodity Benchmark (CSCB) iron ore TR index.

Grain price indices

Index numbers, 2015=100, January 2015–July 2022



Source: UNCTAD secretariat calculations based on Refinitiv data.
Note: Price indices correspond to Dow Jones Commodity Index, except "Natural Gas (Europe)" which corresponds to Ham- burg Institute of International Economics (HWWI) Natural Gas Europe price index and "Iron Ore" which corresponds to Credit Suisse Commodity Benchmark (CSCB) iron ore TR index.

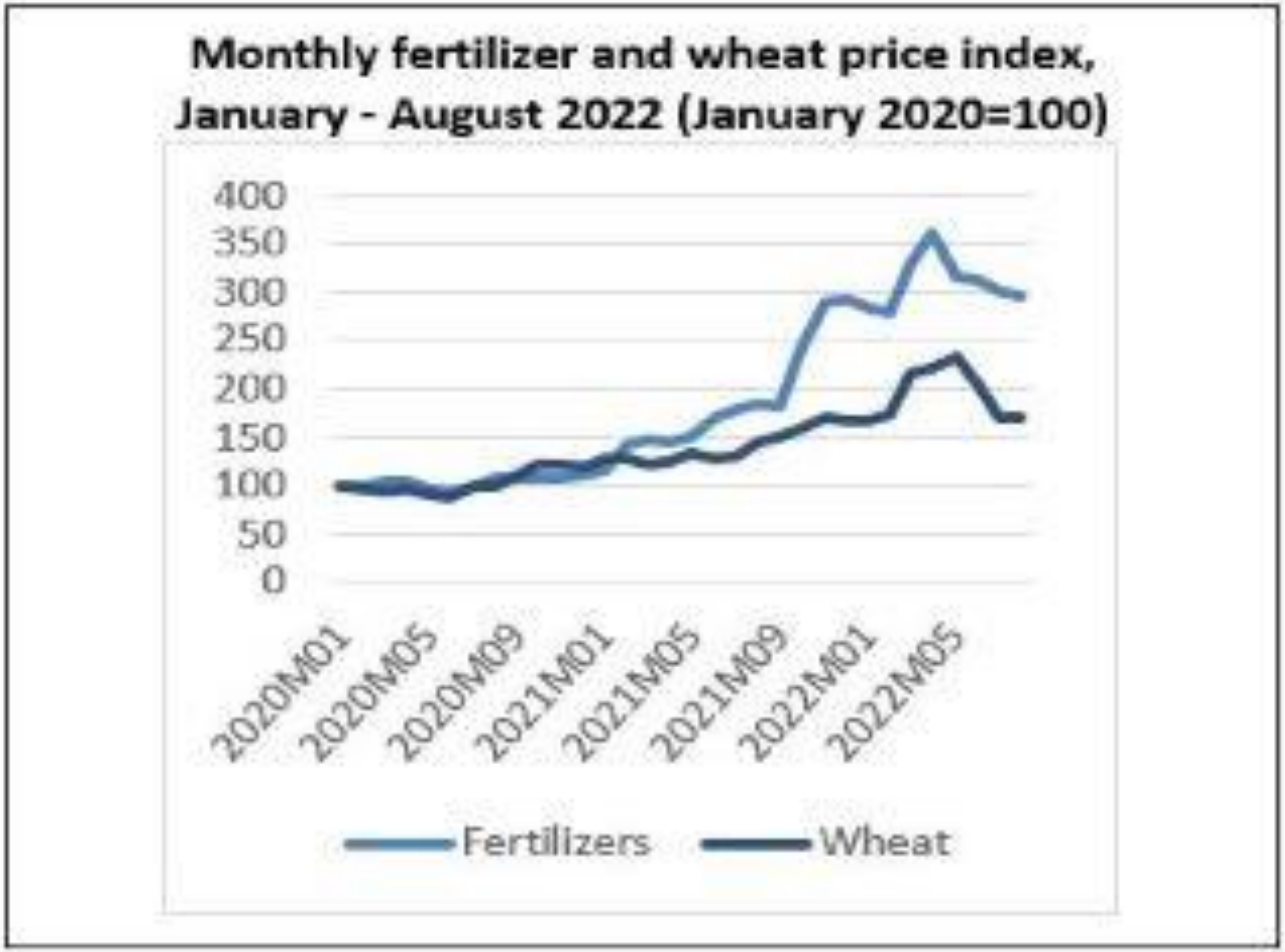

Monthly fertilizer and wheat price index, January - August 2022 (January 2020=100)
400
350
300
250
200
150
100
50
0
2020M01
2020M05
2020M09
2021M01
2021M05
2021M09
2022M01
2022M05
Fertilizers
Wheat

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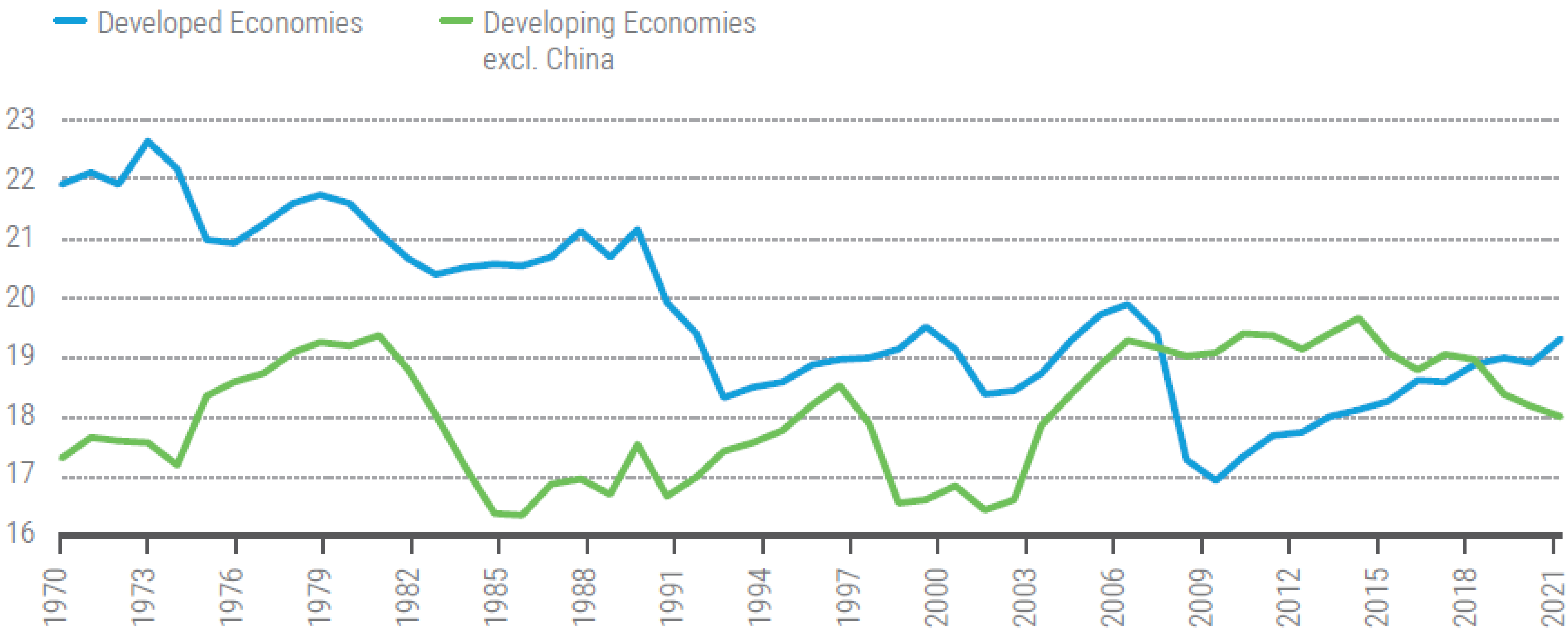
Figure 3.9 Private investment, developed and developing economies, 1970–2022
(percentage of GDP)



Source: UNCTAD secretariat calculations based on United Nations Global Policy Model.
Note: Aggregates are computed using PPP weights.

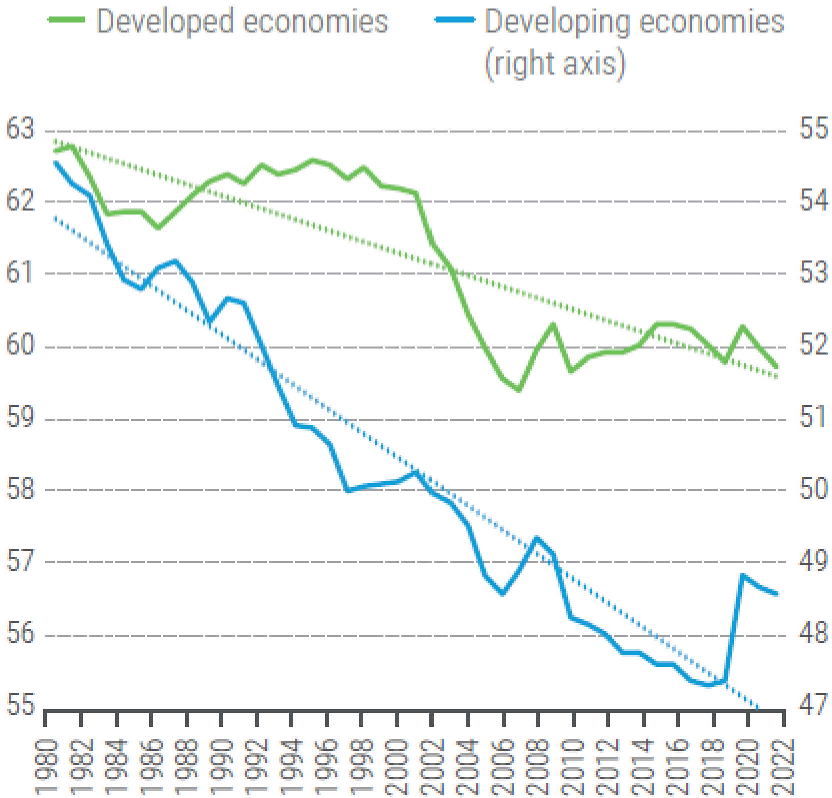
Winners and losers

- Large multinational corporations with considerable market power appear to have taken undue advantage of the current context, raising markups to boost profits (distributional crisis more than classic inflation crisis)

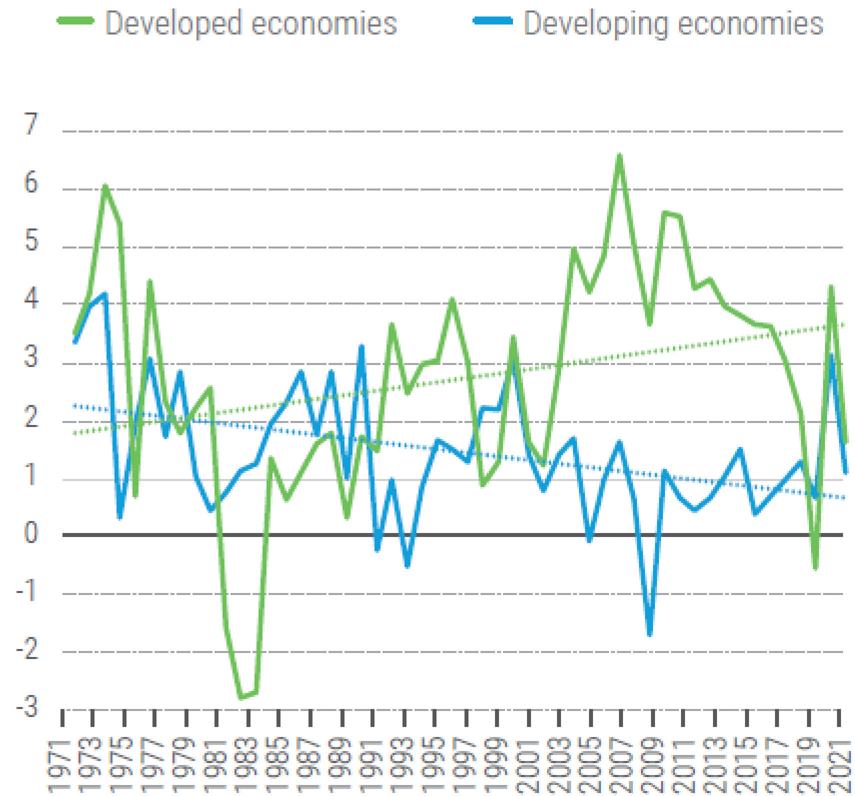
- Under these circumstances, harking back to the 1970s or to later decades marked by austerity policies and interest rates hikes in response to today's challenges is a dangerous gamble

Figure 3.2 Primary income distribution, developed and developing economies, 1971–2022
(percentage)

A. Labour shares



B. Growth rate of average worker compensation



Source: UNCTAD secretariat calculations based on United Nations Global Policy Model.
Note: Labour shares are total income from employment (as a share of GDP) Aggregates are computed using PPP weights.

Strong dollar and consequences

- Net capital flows to DCs have turned negative with the deterioration of financial conditions since the last quarter of 2021. On net, DCs are now financing AEs
- Some 90 DCs have seen their currencies weaken against the dollar this year – over a third of them by more than 10%; foreign exchange reserves are falling and bond spreads are widening
- DCs have already spent an estimated $379 billion of reserves to defend their currencies this year, almost double the amount of new Special Drawing Rights (SDRs) allocated to them by IMF
- 80% of LICs and 30% of emerging markets are at high risk of debt distress
- The hikes could cut 360$ billion of future income in DCs

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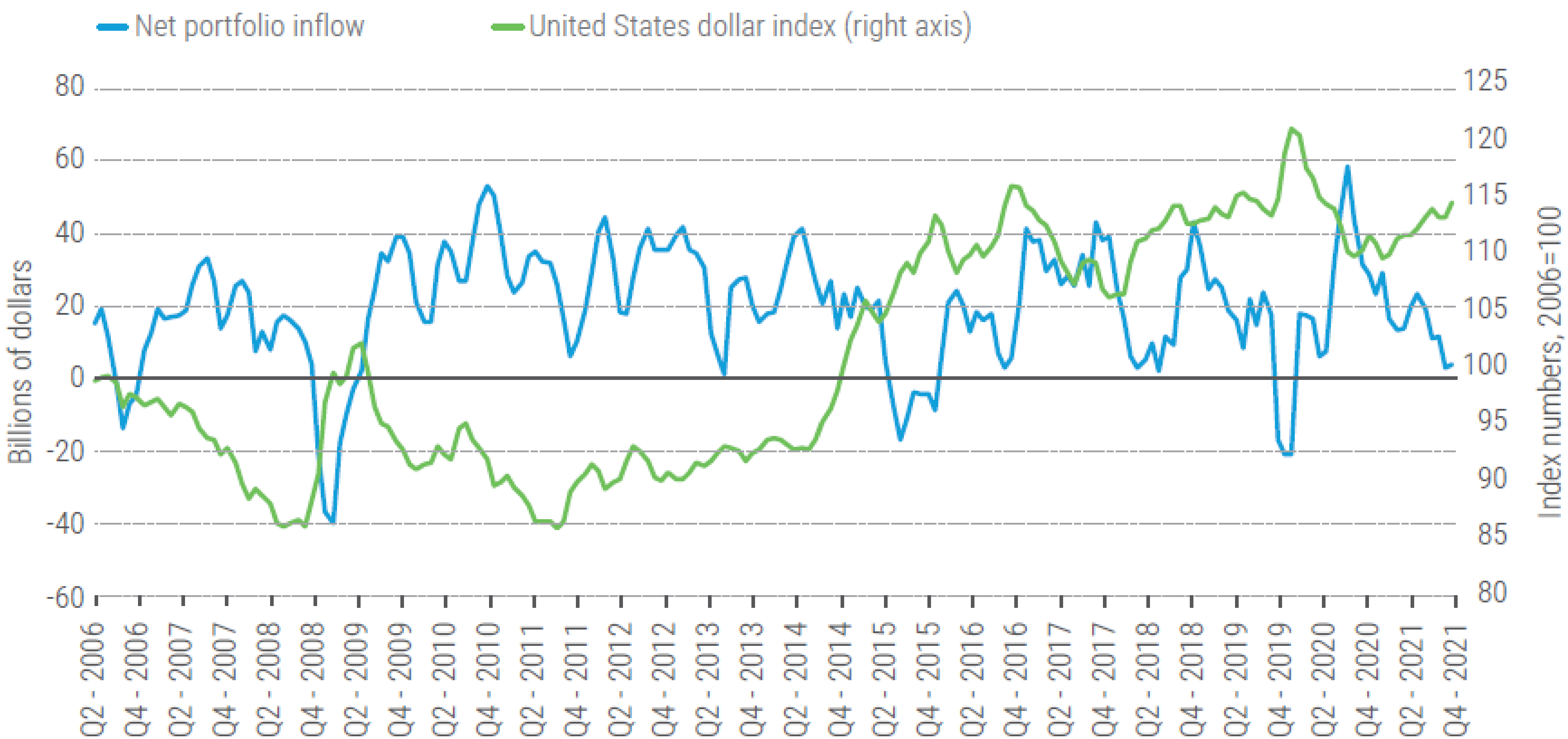
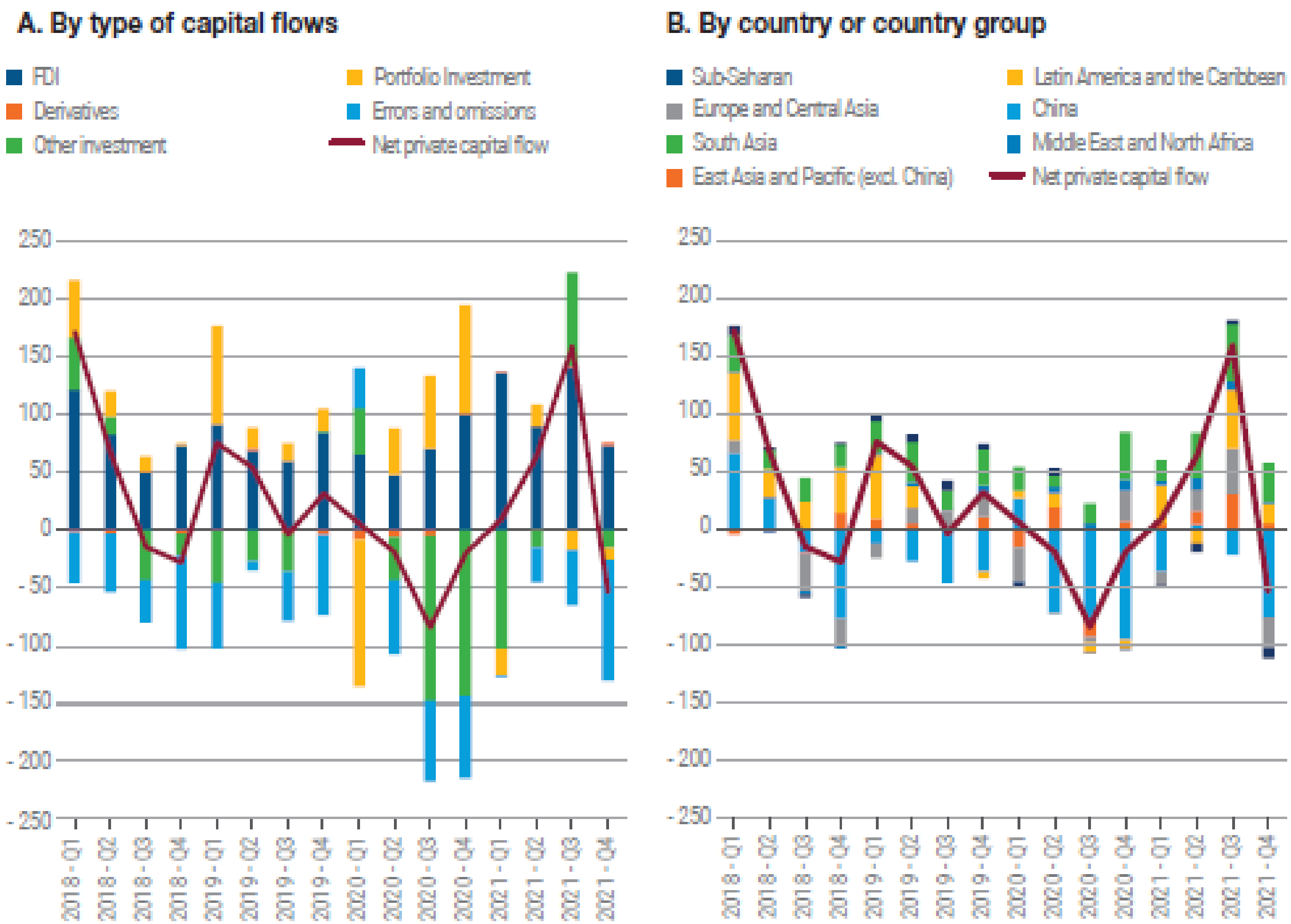
Figure 3.6 Net portfolio flows to emerging economies and Nominal Broad Dollar Index, 2nd quarter 2006–4th quarter 2021



Source: IMF (2020) Global Financial Stability Report and Institute of International Finance Capital Flows Tracker.
Note: Net portfolio inflows are a three-months moving average (smoothed).

Figure 2.2 Net capital flows to developing countries, 2018-2021 *(billions of dollars)*



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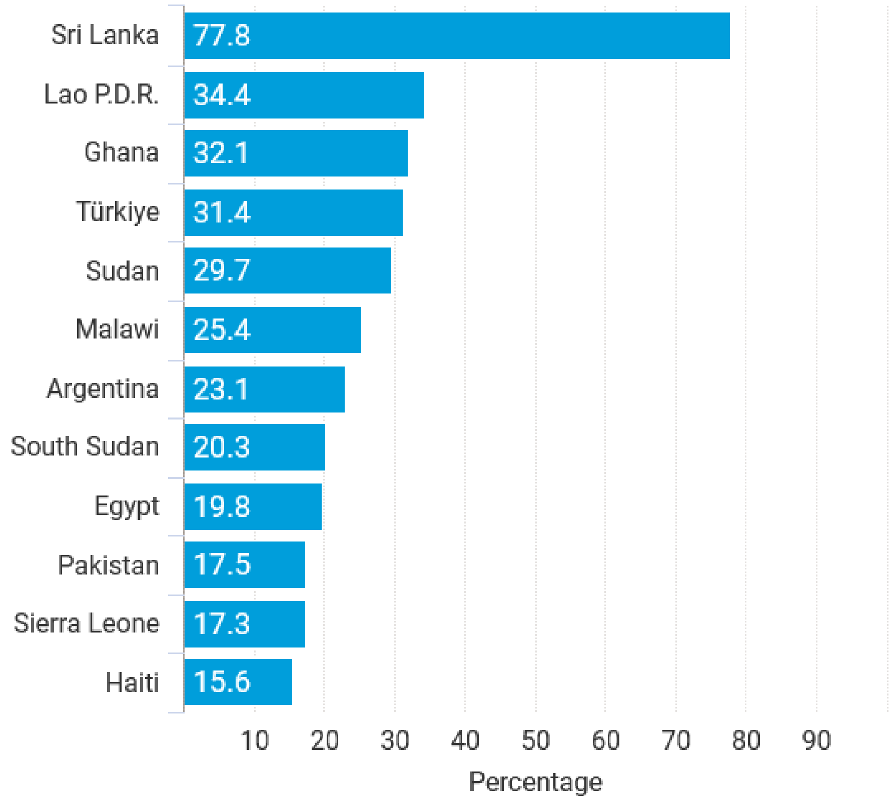
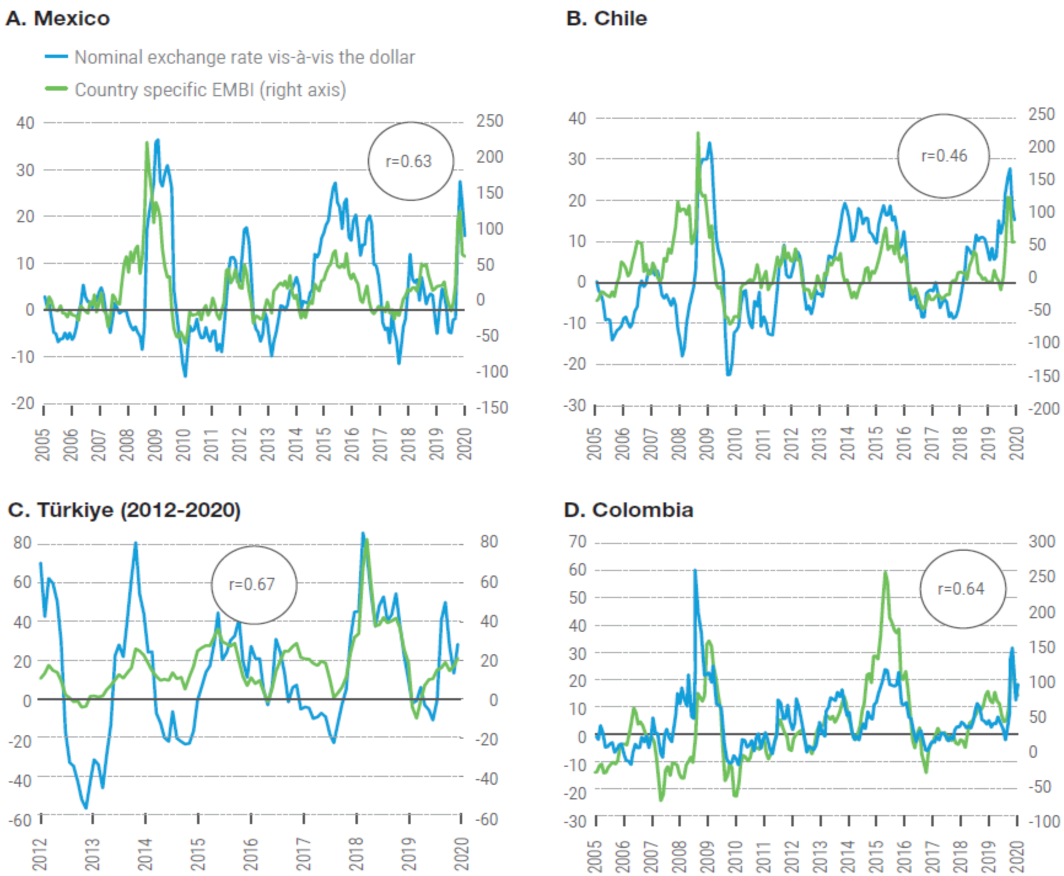
Nominal exchange rate depreciations

Selected developing countries, Against the United States dollar, Percentage, January–July 2022



Source: UNCTAD secretariat calculations based on Refinitiv.
Note: Estimated change in per cent of the nominal exchange rate against the United States dollar between 1 January 2022 and 8 July 2022.

Figure 3.11 Annual variations of the nominal exchange rate and Emerging Market Bond Index (EMBI), selected countries, 2004–2020 *(percentage)*



Source: Abeles et al., 2020.
Note: For the nominal exchange rate, an increase corresponds to a depreciation of the domestic currency vis-à-vis the dollar. The correlation between the two series under the considered period is reported within the circle.

Table 2.1 Developing countries considered in or close to debt distress, mid-2022

	In default as of 30 June 2022	**Undergoing sovereign debt restructuring** as of 30 June 2022	**Bond yields close to or above 10 percentage pointsrelative to 10-year United States Treasury bills** as of 30 June 2022	**IMF debt sustainability assessments (in debt distress or at high risk of debt distress) for PRGT-eligible countries** as of 31 May 2022
Low-income countries (LICs)	Zambia	Chad, Ethiopia, Mozambique	Uganda, Zambia	Afghanistan, Burundi, Central African Republic, Chad, Republic of Congo, Ethiopia, The Gambia, Guinea-Bissau, Malawi, Mozambique, Sierra Leone, Somalia, South Sudan, Sudan
Lower middle-income countries (LMICs)	Lebanon, Sri Lanka		Egypt, Pakistan	Cameroon, Cabo Verde, Comoros, Djibouti, Ghana, Haiti, Kenya, Kiribati, Lao P.D.R, Mauritania, Micronesia, Papua New Guinea, Samoa, São Tomé and Príncipe, Tajikistan, Zambia, Zimbabwe
Upper middle-income countries (UMICs)	Suriname			Dominica, Grenada, Maldives, Marshall Islands, St. Vincent and the Grenadines, Tonga, Tuvalu
Not classified	Venezuela (Bolivarian Republic of)			

Source: UNCTAD secretariat calculations based on IMF Debt Sustainability Framework (as of 31 May 2022), Refinitiv and World Bank income classification 2022-2023.

Notes: As of 30 June 2022, Brazilian sovereign bond (10-year maturity to keep comparison with 10-year United States Treasury bills) saw a spread of 9.9 per cent and Colombian bonds of 8.4 per cent (both up from previous year-on-year for date of 30 June).

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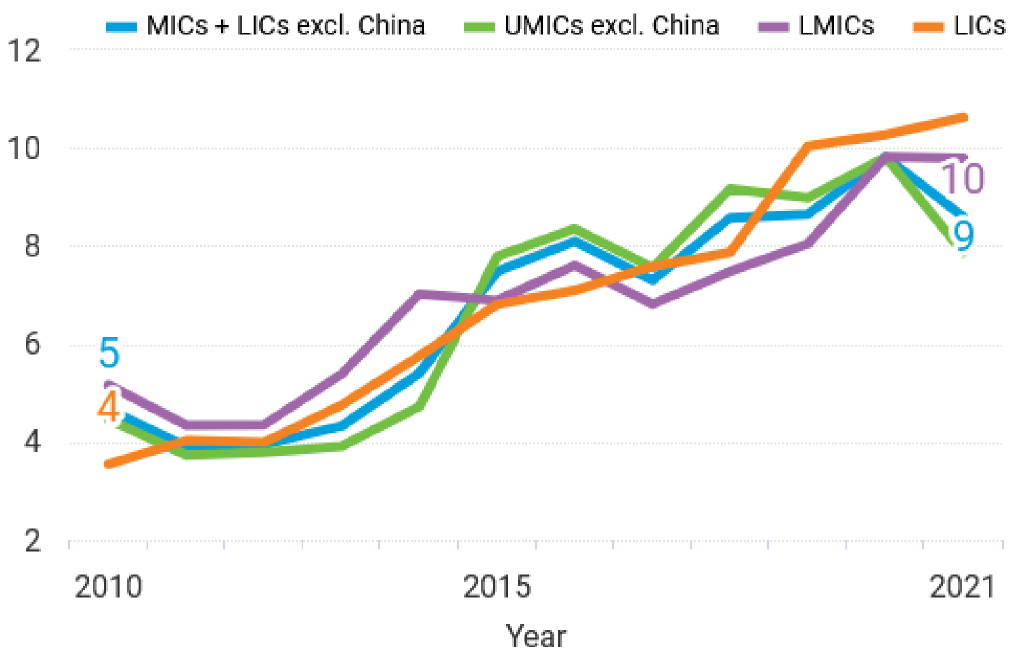
Servicing costs on public and publicly guaranteed external debt to government revenues

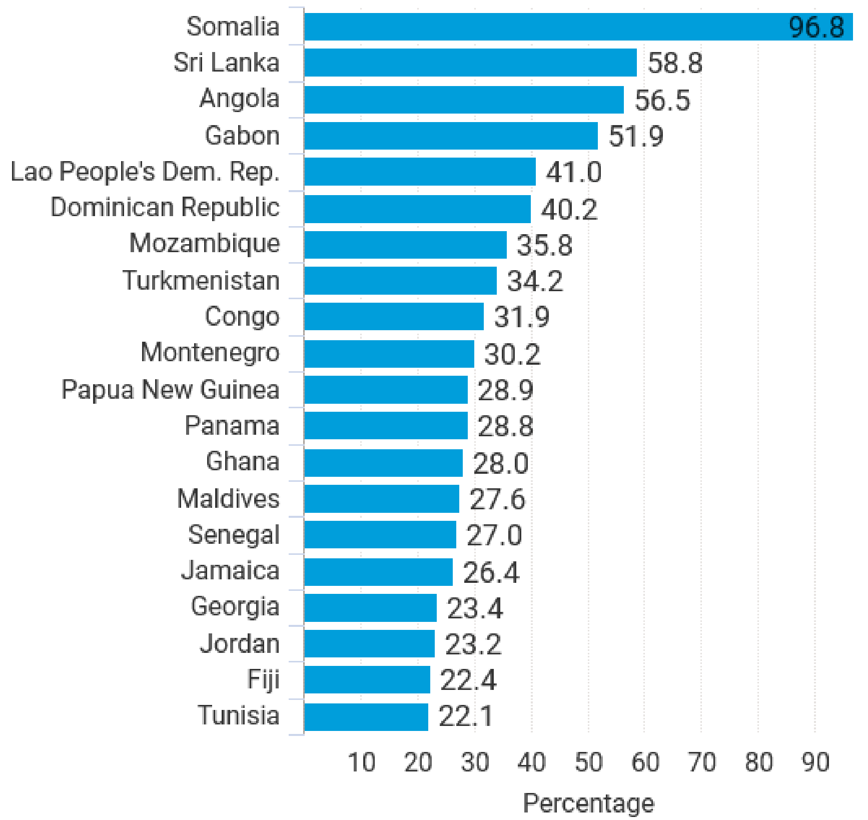
Developing countries and groups, Income group averages, Percentage, 2010–2021



Source: UNCTAD secretariat calculations based on World Bank data.
Note: LMICs=Lower middle-income countries, LICs=Low-income countries, MICs=Middle-income countries, UMICs=Upper middle-income countries

Servicing costs on public and publicly guaranteed external debt to government revenues

Top 20 countries in 2020, Percentage, 2010–2021



Source: UNCTAD secretariat calculations based on World Bank data.

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Restoring a "resilience and fairness" agenda

- The multiple crises the global economy currently faces are connected by a policy agenda that has failed on its major promises to deliver economic stability and boost productive investment, both public and private
- Revert course of action, adopt a pragmatic approach
  - Strategic price controls targeting energy, food and other vital areas directly
  - Windfall taxes, anti-trust measures and tighter regulations on commodity speculation
  - Support for vulnerable groups, including lower-wage workers and households in financial distress

- Multilateral support for liquidity and policy space
  - Increase of ODA, larger and fairer use of SDRs, and hedging mechanisms to deal with exchange-rate volatility
  - Progress on a multilateral legal framework for handling debt restructuring should be made a priority
  - A developmental trade agenda (TRIPS, Digital, SDT)

Developmental regionalism

- DR aims at economic diversification and the creation of regional infrastructure, IP, and legal frameworks that can successfully mediate btw global economic forces and regional needs
  - Stability. Stable macro and financial framework to support the creation of productive capacity and employment by avoiding exchange-rate instability and fostering long-term investment (e.g. South-South clearing unions and commodity reserve currencies)
  - Infrastructure. Provision of regional physical infrastructure (customs, transport, energy, and communication networks)
  - Industrial development and support to RVCs. Opportunities, advantages & regional distributive challenges
  - Digitalization. Building regional data economies (regional sharing of data to reach critical mass needed for app developers w/o losing data ownership and regional cloud computing to exploit cost-saving opportunities)

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