Globalization, current developments in the world economy

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“The global economy is being held back by a shortfall in demand, while addressing supply constraints is key to lifting potential growth.”
- Flexible fiscal strategies for putting debt on a sustainable path
- Global Investment Initiative, Global Infrastructure Hub
- Trade and competition are powerful drivers of growth and jobs creation

Supply-side measures would add 2.1 per cent to global GDP by 2018 (OECD-IMF dixit)

Resiliency of global economy
- Additionally loss absorption capacity for sistemically important banks
- Regulating shadow banking

Global institutions: WTO + FTA agreements, IMF (quotas)
The world economy in 2014: still in the doldrums

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

[Graph showing spreads on sovereign debt vis-a-vis German bonds from Jan 2006 to Sept 2013, highlighting SMP, LTRO, and OMT periods.]
Spillovers of monetary policies in the North

- The global financial cycle is driven mainly by developed countries’ policy decisions guided by the needs of their own domestic economies, but have disruptive effects on developing countries.
- “Our monetary authorities have committed to support the recovery and address deflationary pressures when needed. We will be mindful of the global impacts of our policies and cooperate to manage spillovers” (G20)
- We reiterate our commitment to move more rapidly toward more market-determined exchange rate systems to reflect underlying fundamentals.

Capital inflows, 2007 Q1–2013 Q3 (Billions of current dollars)
«Big fish in a small pond»

Net capital inflows, billions of dollars

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

- Developed economies
- Developing economies
- Transition economies

- Net private inflows
- Net private inflows, excl. equity outflows
UNCTAD’s view on 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 policy space to protect themselves from instability and develop new growth drivers, strengthening domestic demand and expanding productive capacity
- Trade will not restart overall growth by itself
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 (%)
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
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)
Per capita income and different income classes, selected countries, 2005

Income distribution deciles within countries

United States
Russian Federation
Brazil
China
Indonesia
India
Nigeria
Development strategies require greater policy space

- 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 a different global economic governance

- Economic globalization has progressed more rapidly than the mechanisms for governing it, especially in financial markets

- Global mechanisms exist, but are not adequate. They:
  - Do not avoid lasting imbalances
  - Have a recessionary and pro-cyclical bias
  - Do not control destabilizing finance
  - Do not provide enough long term finance
  - Lack political legitimacy
  - Undermine national policy space
Current mechanisms of global governance do not prevent imbalances and have procyclical/recessionary bias

- They have no grip on major economies, which are either in surplus or issue an international currency
- All the burden of adjustment on small deficit countries
- BIS rules promoted credit during booms and discouraged it during recessions
- IMF systematically overestimates the effectiveness of recessionary adjustments
Current account imbalances (% of world output)
IMF programmes underestimate their negative impact on GDP growth and fiscal balances.
Global governance mechanisms have a problem of legitimacy

- Bretton Woods IFIs are controlled by developed countries
- BIS have 58 members (17 of them are « emerging economies ») but its rules tend to be applied to all countries
- G-20 is an informal “club” that excludes 150 countries and in which some points of view have a larger space
- Countries are asked to accept smaller policy space in exchange for market access and FDI (WTO, GATS, FTA, BIT)
Distribution of voting rights in the IMF, and shares in world population and income.
Some improvements?

- Base Erosion and Profit Shifting (BEPS)
- Automatic exchange of tax information (2017 or 2018)
- Facilitate sovereign debt restructuring against litigation: market-based (G-20) vs. Multilateral mechanism (UN General Assembly)
- Adjusting IMF quotas (if GOP accepts...)