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TRADE AND DEVELOPMENT REPORT 2018

POWER, PLATFORMS AND THE FREE TRADE DELUSION

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

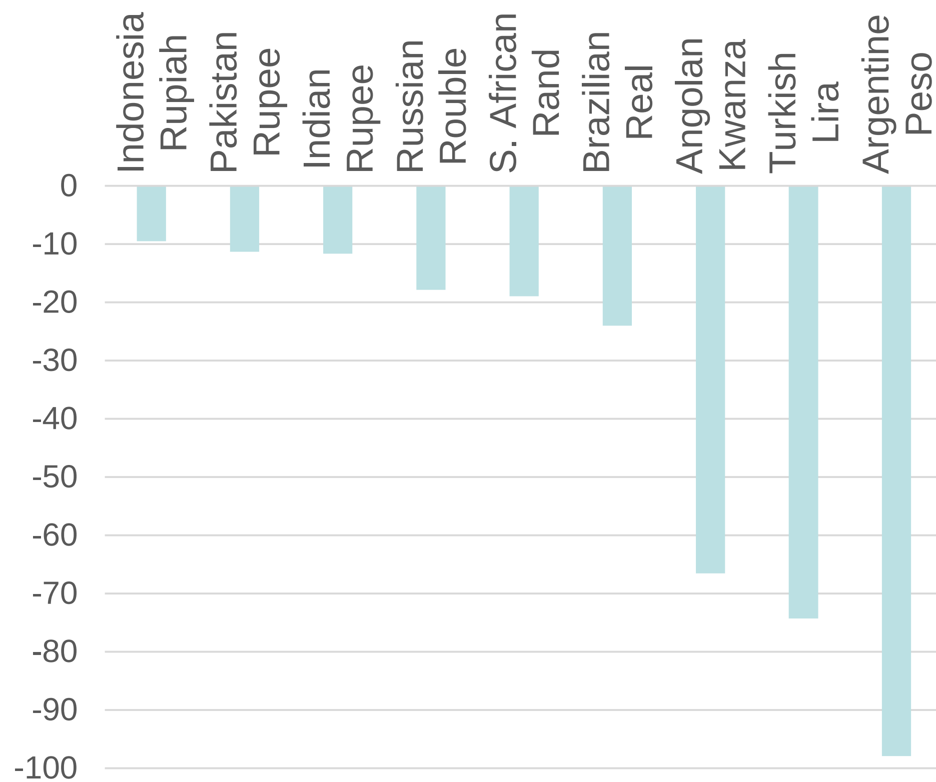
Global Economic Trends

- **The world economy in 2018: Panglossian disconnect**
  - Growth has been synchronized but uneven: a mixed picture in AEs with a sugar rush in US, softening elsewhere; uncertainty dominating emerging markets again with some returning to recession
  - Critical disconnects: falling unemployment but sluggish wage growth; "safer-simpler-fairer" financial system but growing asset bubbles; high profits but low real investment
- **Not enough has changed since 2008**
- Asset market surges: higher synchrony in asset markets across the world: e.g. stocks and real estate
- Debt-fuelled growth in developed and developing countries
- Inequality continues: austerity, wage stagnation and stock market appreciation
- Volatile capital flows:

Policy challenges: moving beyond debt-fuelled growth

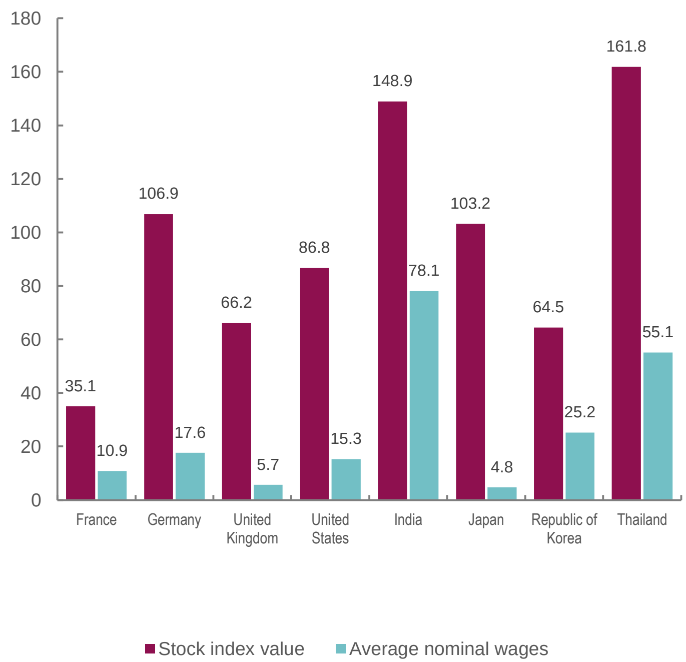
- Global debt is US$247tn, 50% higher than pre-crisis much of it private; footloose capital flowing through shadow banking
- Focus on public debt plus asset bubbles; fiscal consolidation with “normalization” of monetary policies in AEs
- EMs struggling to retain footloose capital (market confidence); managing another round of financial crises …
- As oil prices are rising and US protectionism adding to global uncertainty

US dollar Exchange Rates
(% change Jan-Aug 2018)

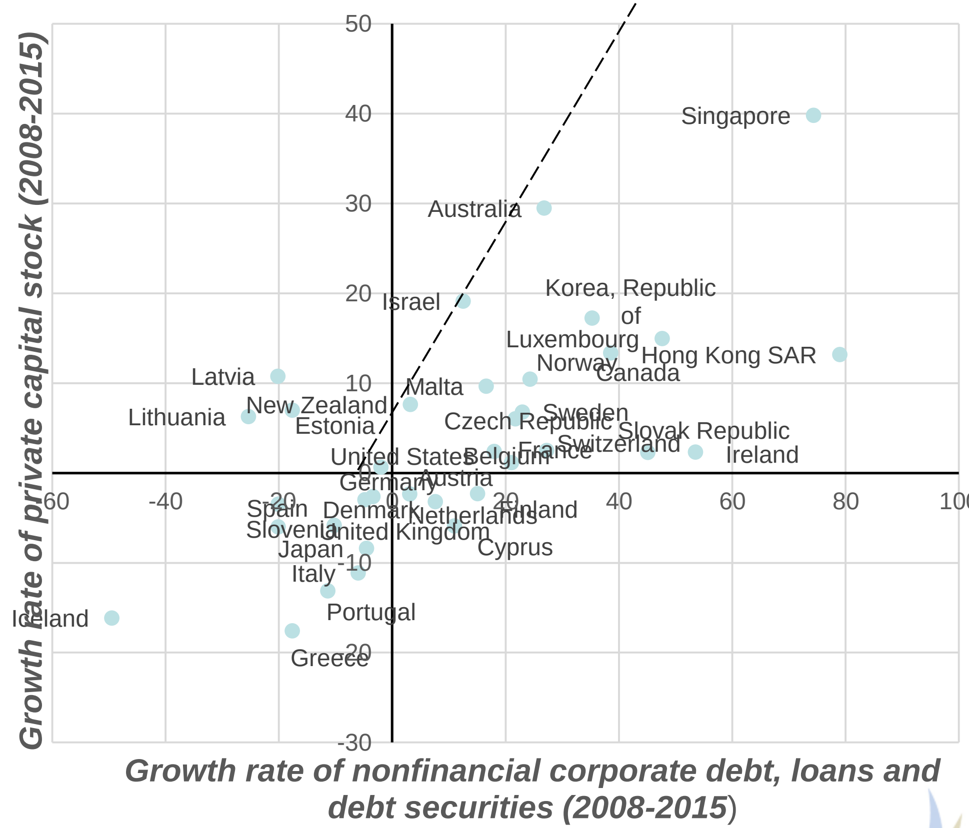


Policy Challenges: Panglossian disconnect

Stock market appreciation and nominal wages increase, selected economies, 2009-2015 (percentage change)



Growth rates of private corporate debt and private capital stock, advanced economies, 2008-2015



Policy Challenges: Drivers of Growth

Table 1.3 Drivers of demand in different countries, 2017–2018

Aggregate supply		Fiscal	Private	External	Relative strength
External demand is main driver					
United Kingdom	1.7	-0.5	0.1	2.1	***
Other transition economies	6.6	0.8	0.8	5.1	***
North Africa	6.9	0.6	1.0	5.4	***
Other East Asia	3.9	0.6	0.4	2.9	***
Republic of Korea	3.6	0.1	0.8	2.7	***
Other West Asia	5.9	1.3	0.4	4.3	***
Non-European Union Europe	2.4	0.2	0.5	1.7	***
Russian Federation	3.4	-0.3	0.9	2.8	***
Mexico	3.1	-0.1	1.1	2.1	***
Japan	1.5	-0.9	0.8	1.6	***
Germany	2.3	-0.1	0.9	1.5	**
Italy	2.0	-0.2	0.8	1.4	**
Caribbean	3.1	0.8	0.9	1.5	**
Other European Union	2.9	0.4	0.9	1.6	**
France	2.2	0.4	0.7	1.1	**
Turkey	6.4	1.4	2.3	2.9	*
Indonesia	5.4	1.0	2.0	2.5	*
Other developed countries	3.6	1.3	0.8	1.5	*
India	7.4	1.5	2.9	3.2	*

Drivers of Growth: Italy

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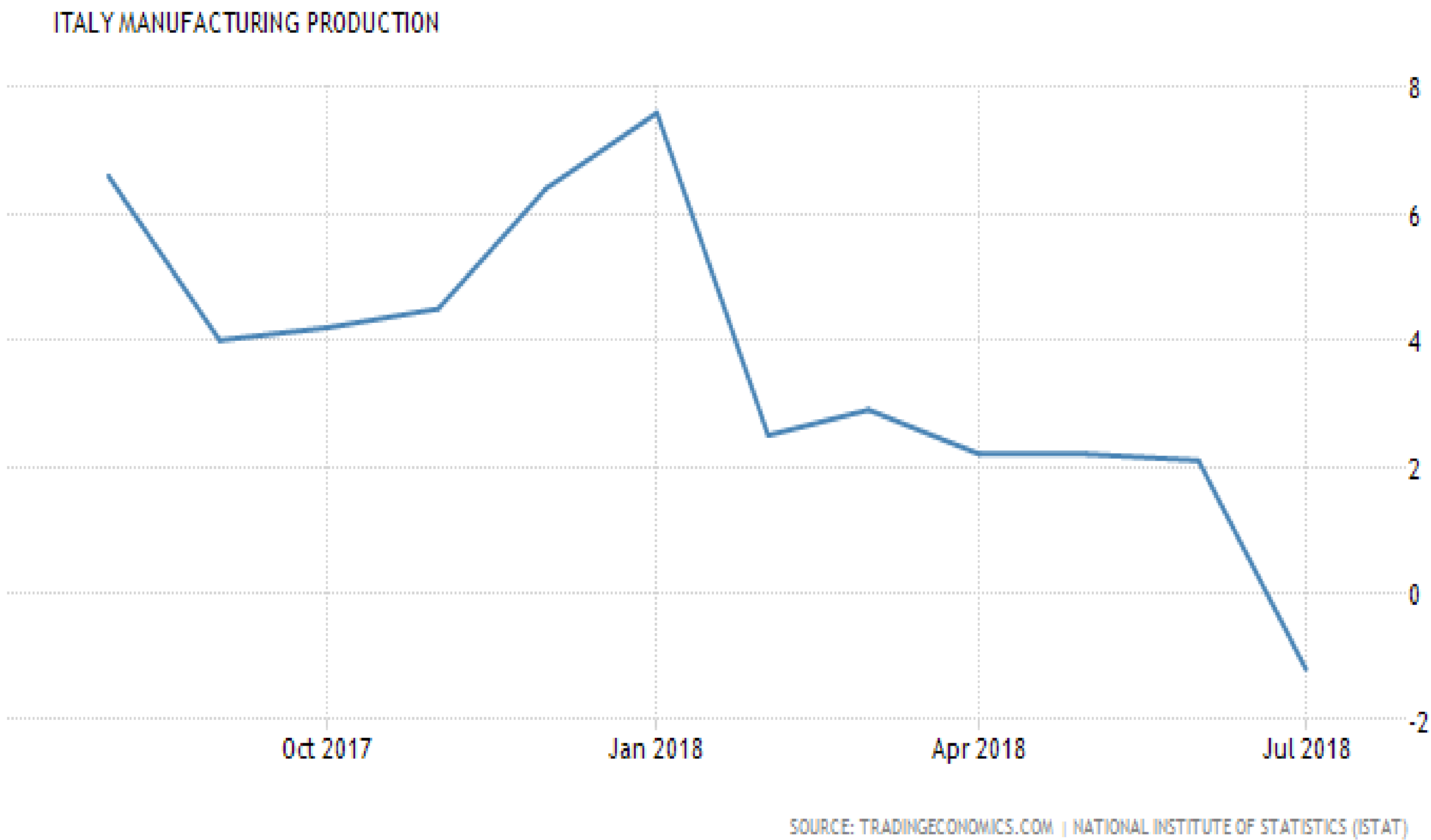
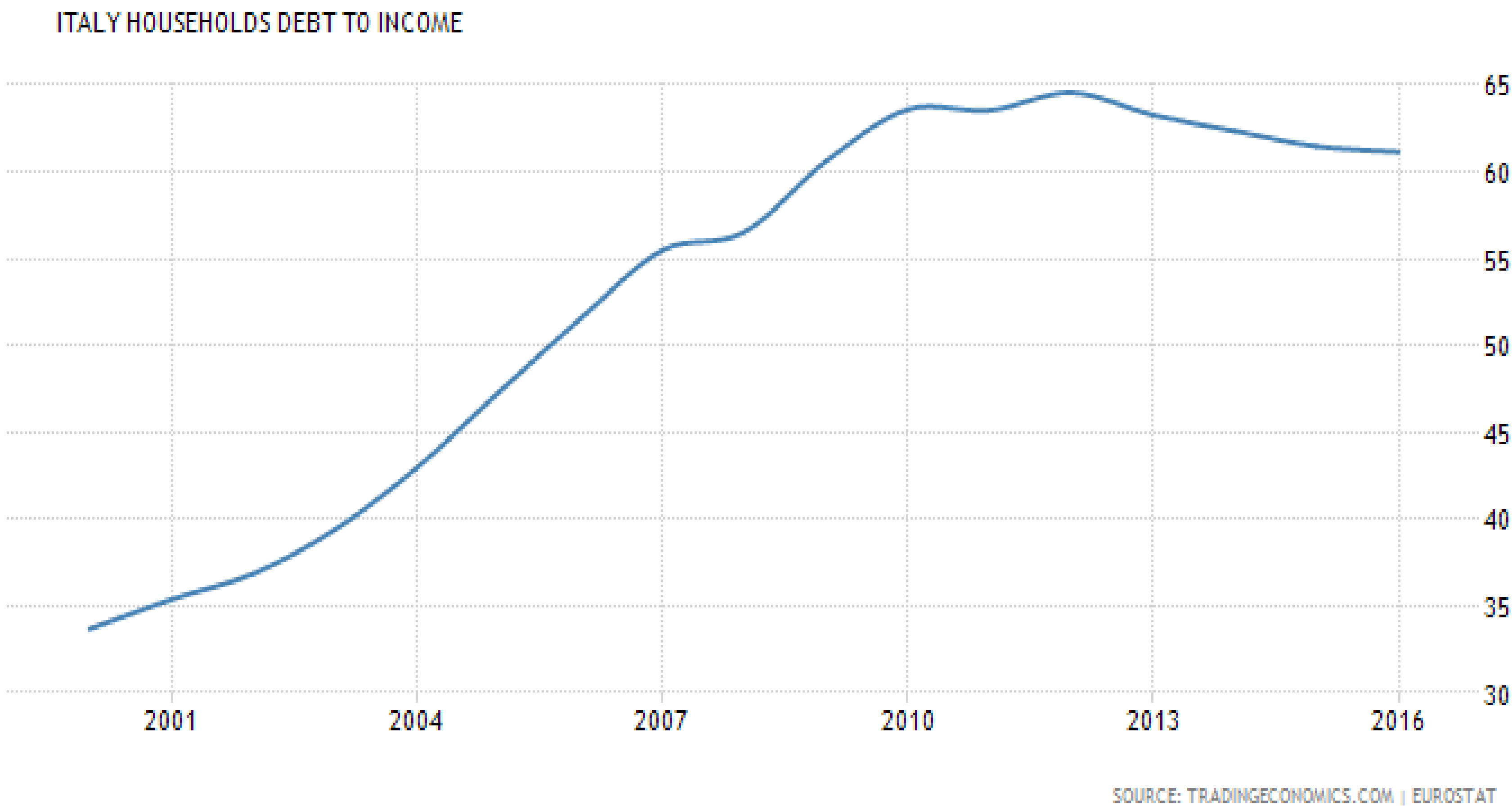
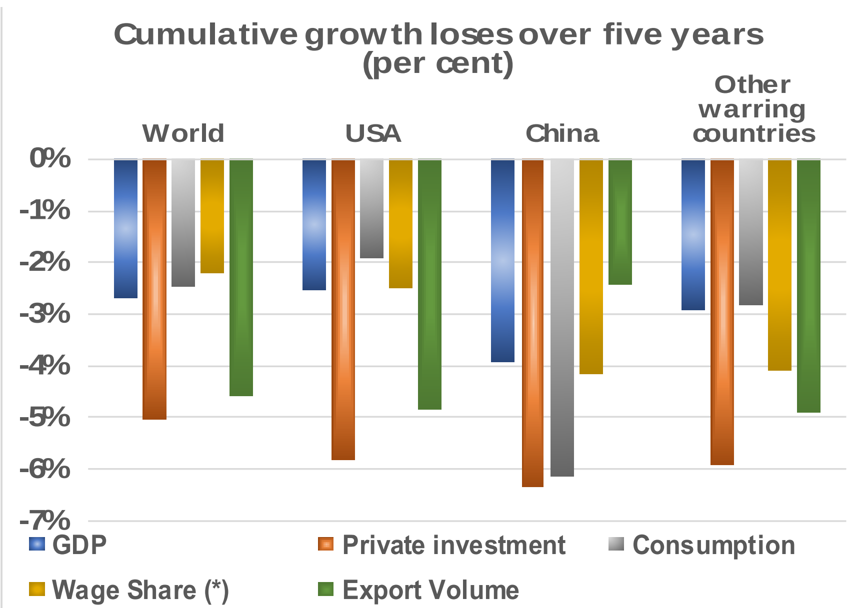


Drivers of Growth: Italy



Policy Challenges: Trade war: all losers, especially wage-earners

- Tariff war unlikely to seriously disrupt trade flows, but investors and consumers' confidence will be shaken
- In a trade war scenario policy-makers are likely to find ways to compensate additional cost of tariff to their exporters
- Wage-earners would be the first in line to be forced upon concessions to avert losing out to trade competitors



(*) Measured in percentage points of GDP; thus negative numbers imply decerelations of wage earnings are sharper than those of GDP

- Consumption growth will slow down; investment confidence will be hit; and output growth will decelerate
- The sluggish growth of GDP affecting all warring countries will weaken import demand and thus everyone's exports
- More serious shock in vulnerable countries where financial conditions are weak

Trade Delusion: Limited trade-induced structural change

- The growing importance of developing countries in international trade – including increased South-South trade; but it remains primarily an East Asian story.
- The growing demand of China, has not triggered significant positive structural changes in the export structure of other developing countries (trade mediated through GVCs)
- Many developing countries are trading more but are more dependent on a narrow range of exports --hyperspecialization has become a feature of the trading system under hyperglobalization – and adding little domestic value (or losing it)
- How did China achieve a different path?

Limited trade-induced structural change

Changes in value added shares in gross exports, 1995–2014

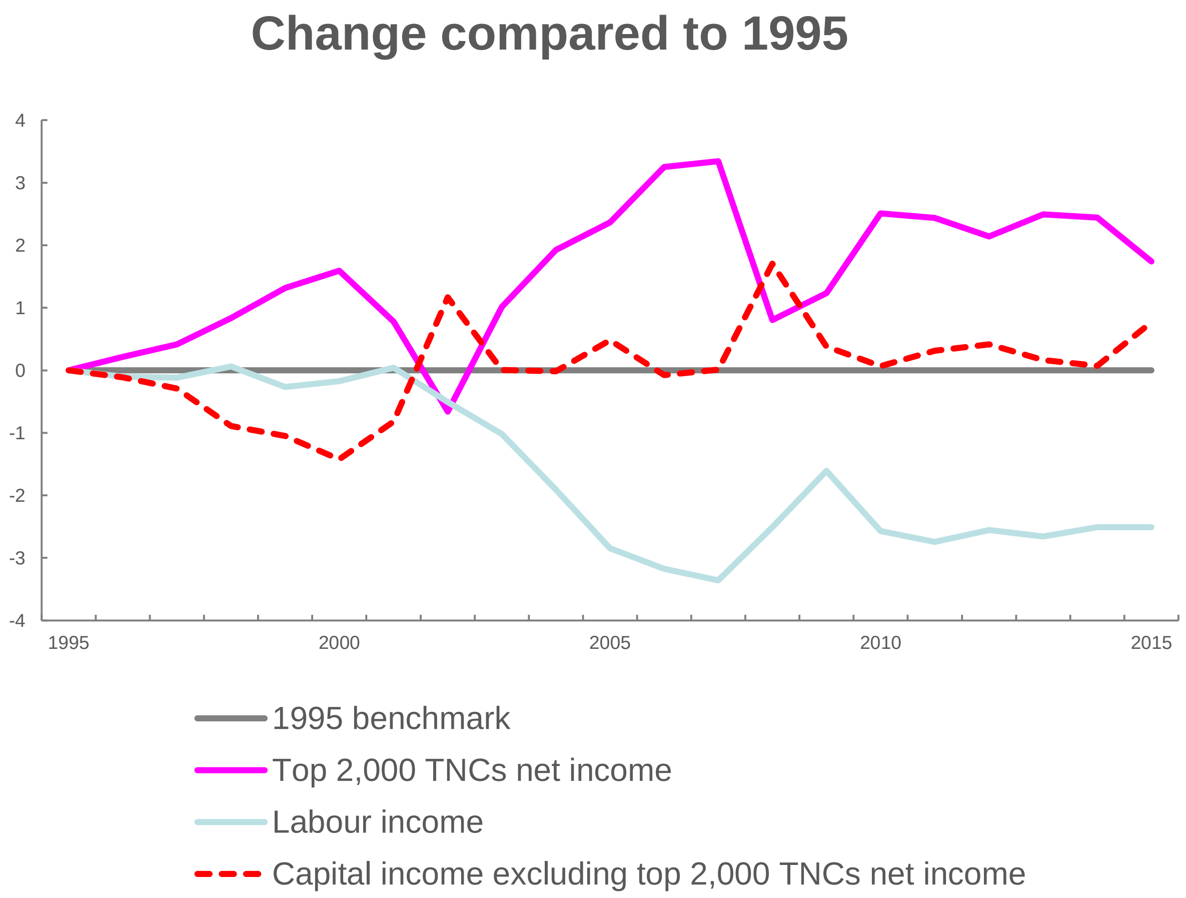
(Percentage points)

	FOREIGN	DOMESTIC		
		Agriculture and extractives	*Manufacturing*	*Services*
Argentina	6.8	1.0	2.3	-10.1
Brazil	4.7	17.6	-16.5	-5.8
China	-1.7	-2.8	11.9	-7.4
India	11.6	-3.5	-12.9	4.8
Indonesia	0.1	3.7	4.3	-8.1
Mexico	6.1	0.0	0.4	-6.5
Republic of Korea	15.5	-0.6	-6.1	-8.8
Russian Federation	0.8	8.7	-6.4	-3.1
Saudi Arabia	-0.6	5.3	-0.3	-4.4
South Africa	7.5	8.3	-12.3	-3.5
Turkey	12.9	-0.3	1.8	-14.4
Rest of the World	-2.8	12.1	-4.9	-4.5
Developing economies	4.2	4.3	-3.5	-5.1
Developed economies	7.2	1.7	-10.1	1.1

Trade as an unequalizing force

- Trade is a big firms game; these firms have been unequalizing at home (superstar firms, monopolisation, etc) but also abroad (lead firms in GVCs)
  - Hollowing out of domestic value added in manufacturing
  - Headquarters and owners gain … producers lose
- The surge in the profitability of top TNCs – which dominate world trade – together with their growing concentration, has acted as a major force pushing down the global income share of labour, thus exacerbating income inequality
- "Phantom trade" involving the movement of TNCs' intangible assets and their related income flows to low-tax or no-tax jurisdictions accentuates this outcome

Top 2,000 TNCs profit and the global labour income share, 1995–2015 (Percentage of world gross product)



Trade as an unequalizing force

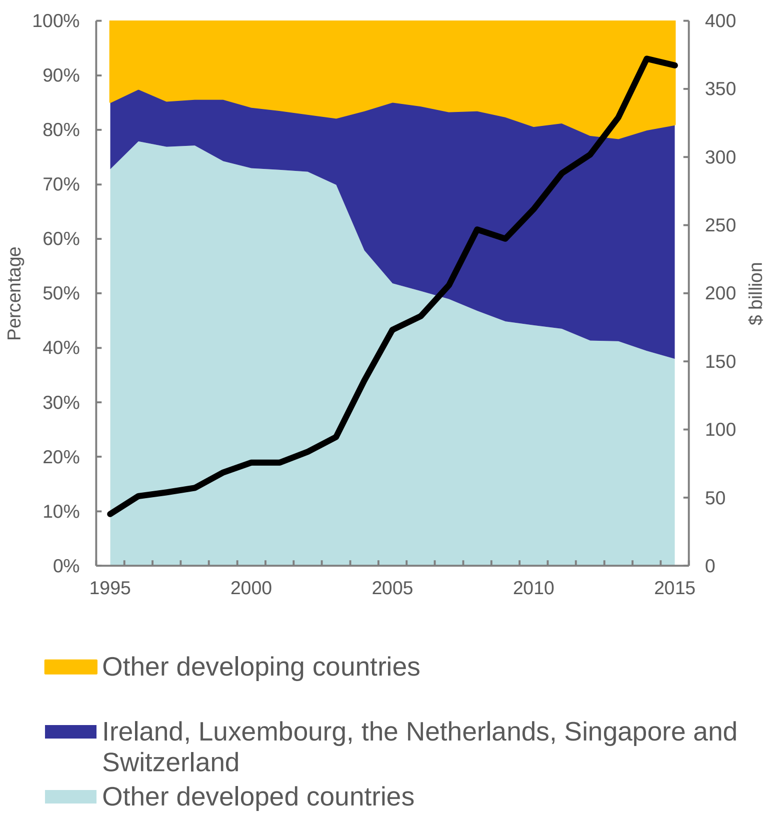
Shares in exported value added in manufacturing GVCs, 2000–2014

	Global level			High income		
	2000	**2014**	*Difference*	**2000**	**2014**	*Difference*
Capital	44.8	47.8	3.0	40.3	42.3	2.0
Labour	55.2	52.2	-3.0	59.7	57.7	-2.0
Headquarter functions	31.7	30.4	-1.3	35.2	37.0	1.7
Fabrication	23.5	21.8	-1.7	24.5	20.8	-3.7

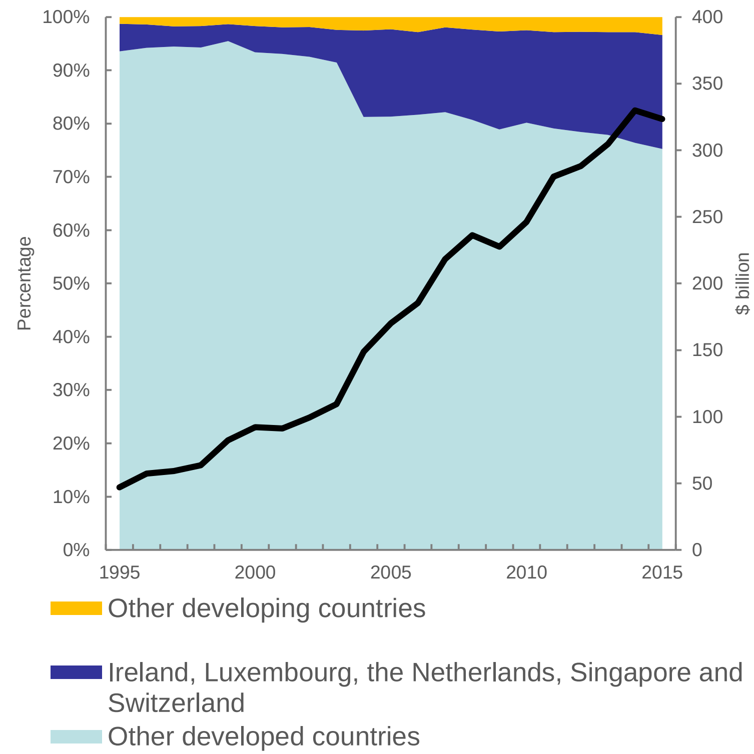
	China			Other countries		
	2000	**2014**	*Difference*	**2000**	**2014**	*Difference*
Capital	57.0	49.6	-7.5	59.2	59.4	0.2
Labour	43.0	50.4	7.5	40.8	40.6	-0.2
Headquarter functions	13.6	19.7	6.0	22.5	23.7	1.1
Fabrication	29.3	30.8	1.4	18.3	16.9	-1.3

Payments and receipts related to the use of foreign IPR, selected country groups, 1995–2015

A. Payments



B. Receipts



New Technologies and Market Power: Potential benefits to developing countries of digital technologies risk being lost to digital monopolies

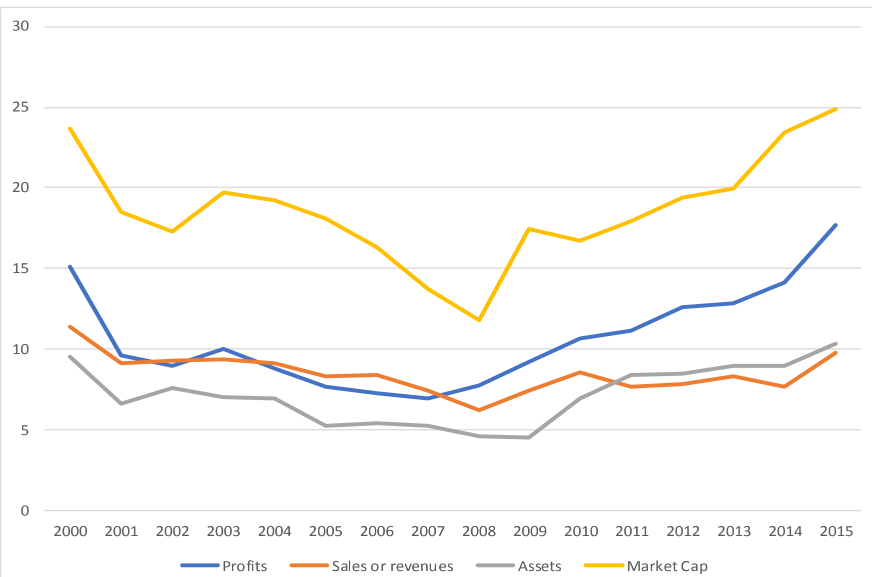
- Big business is turning the mining and processing of data into a rent-seeking cornucopia.

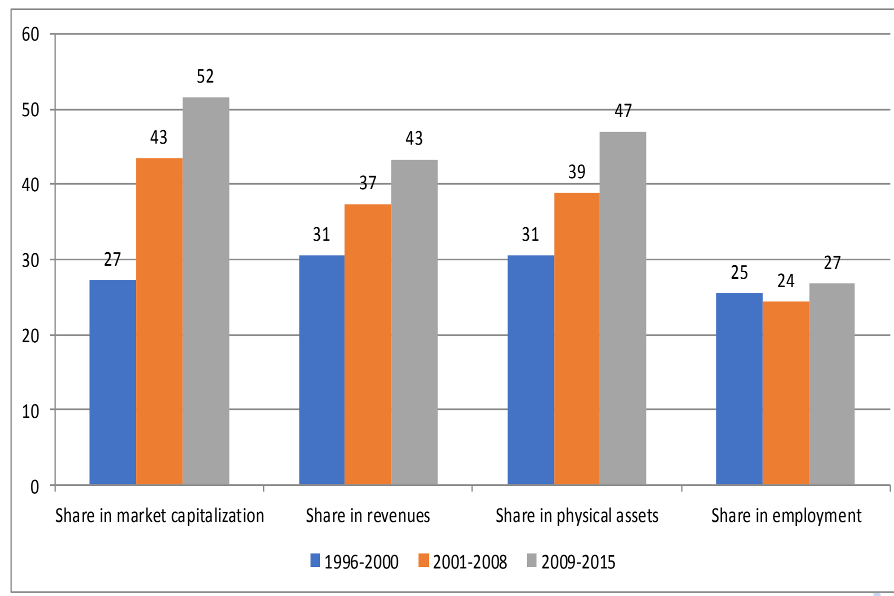
- Key issue from development perspective: How can developing countries integrate into the digital economy and how can a fair sharing of the benefits from digitalization be ensured?

- Investing in intangible capital and digital infrastructure is necessary for developing countries but insufficient without tackling ownership and control of data and its use.

"Big tech" companies are bigger than ever, and also increasingly bigger than most "traditional" TNCs

Concentration within the ICT industry has increased significantly – in terms of capitalization, revenues and assets, but not jobs





Active policies to prevent predatory digital behaviour

- Goal of antitrust & competition policies must go back to concern with market structure and behaviour, with less of an emphasis on maximizing consumer welfare, assessed through price-based measures.
- Tighter regulation of restrictive business practices and even breaking up large firms responsible for market concentration can limit a firm's ability to exploit its dominance.
- Developing countries need national data policies that determine who can own data, how it can be collected, who can use it, and under what terms.
- South-South cooperation can provide mutual support for digital infrastructure and capabilities
- Developing countries need policy space for industrialization strategies that should now include digital policies around data localization, management of data flows, technology transfers, and custom duties on electronic transmissions.

SUMMARY: The fog of (economic) war

The economy is the realm of uncertainty; three quarters of the factors on which economic action is based are wrapped in a fog of greater or lesser uncertainty. A sensitive and discriminating judgment is called for; a skilled intelligence to scent out the truth.

- 10 years after multilateral action saved the global economy from financial meltdown the multilateral system is in crisis
- A fragile global economy walking a tightrope between debt-fuelled growth spurts and financial instability; economic sugar rush in the US? softening elsewhere, recession in some
- Haven't addressed the underlying problems (footloose capital, persistent inequality, rising debt); falling unemployment but stagnant wages; "safer-simpler-fairer" financial system but growing asset bubbles; high profits but low real investment….. debt fueled booms always end badly we just don't know when and how!
- Save the banks, push austerity, encourage mega-mergers, bang the "free trade" drum; provided the economic beat for a "medici vicious circle" and the rise of a rent-seeking economy (TDR 2017)
- Trust is being sucked out of politics; a "trade war" has emerged from the resulting vacuum .. Not the end of 70 year liberal order .. that died 30 years ago

SUMMARY: The wretched spirit of monopoly

- Trade is a big firm game ; these firms have been unequalising at home (superstar firms, monopolisation, etc) but also abroad (lead firms in GVCs)
  - Hollowing out of domestic value added in manufacturing
  - Headquarters and owners gain … producers lose
  - Rising profits, growing inequality
- Intangible assets a pervasive source of rents
- Digital economy is dominated by very big players and possibly even more prone to rent seeking behaviour .. if data is the lifeblood of this economy, giant vampire firms are sucking the economic potential out of many developing countries
- Are the rules rigged in their favour … making more money in Luxembourg than Germany says they are; corporate rent seeking doesn't stop at the border
- Free trade agreements are none of these

CONCLUSIONS: Back to the future

- Need to rethink multilateralism in progressive ways (a plague on the houses of regressive nationalism and corporate cosmopolitanism)
- A Havana Charter for the 21st Century
  - Active macro policy … a healthy trade system emerges from healthy economies that are creating decent jobs (austerity damages trade)
  - Active distributional policy … decent jobs pay decent wages and curtail corporate rent seeking (regressive tax policies damage trade)
  - Active industrial policy … productive investment, technological upgrading and strong productivity growth underpins healthy economies … need policy space to manage these (rigged markets damage trade)
  - Active infrastructure policy … infrastructure is key to sustained growth but there is more to this than bankability of projects (poorly planned infrastructure damages trade)