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The Covid-19 shock

Global economic shocks have become more frequent and damaging since the turn of the century. While they have been triggered by varying factors – financial, health, environmental and technological – they share a common underlying thread: the advance of inequality in all its forms (both within and among countries) and the weakening of multilateral coordination in key areas of action related to sustainable development.

As a result, the phases of recovery that have followed each crisis have reduced policy space and have produced more fragility as measured by our capacity to both withstand shocks and find common responses to them. This has made global crises increasingly contagious and harder to contain and reverse, as UNCTAD's numerous *Trade and Development Report* have shown over years. This year's edition takes up the risks of the post-Covid recovery phase. It argues that, despite strong growth in 2021, uneven access to vaccines, health care and financial resources, as well as persistent asymmetries in global trading and financial systems, have skewed the recovery towards advanced economies, widening inequalities further, and leaving many countries with the prospect of a lost decade.

This is therefore a make-or-break moment. If we don't take the steps necessary to end the health crisis everywhere and re-orient the world economy away from its structural weaknesses, this recovery will soon wane, failing to heal the deep fractures the crisis has brought to light in both developed and developing economies, and lead us to a world that is less equal and multilateral, and therefore much more fragile in the face of future shocks.

Growth divergence in an uncoordinated global economy

Assuming no further shocks this year, global growth is projected to reach a record 5.3 per cent in 2021, falling back next year to 3.6 per cent. As mentioned, these high figures are the result of demand stimulus in advanced economies, and economies issuing global currencies, but still reflect incomplete reactivation of the productive capacity idled in the recession of 2020. Growth performance by region is, moreover, very uneven (Table 1). Only developed countries show the expected growth spurt, while many developing economies will remain below pre-pandemic averages.

Table 1: World output growth, 1991–2022

(Constant USD at market rates, annual percentage change)

Country groups	1991-2000[a]	2001-2008[a]	2009-2018[a]	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020[b]	2021[b]	2022[b]
World	**3.0**	**3.6**	**2.9**	**-1.3**	**4.5**	**3.3**	**2.8**	**2.7**	**3.1**	**3.1**	**2.7**	**3.4**	**3.2**	**2.5**	**-3.5**	**5.3**	**3.6**
Africa	**2.5**	**5.7**	**3.0**	**3.9**	**5.6**	**-1.0**	**8.0**	**0.7**	**3.3**	**2.6**	**1.7**	**3.4**	**3.3**	**2.9**	**-3.4**	**3.2**	**2.9**
North Africa (incl. South Sudan)	3.1	5.4	1.0	3.7	4.7	-11.1	13.3	-6.8	-0.3	1.7	2.7	5.1	4.1	3.2	-5.2	4.2	3.1
South Africa	2.1	4.4	1.8	-1.5	3.0	3.3	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.2	-7.0	4.0	2.3
Sub-Saharan Africa (excl. South Africa and South Suda	2.1	6.5	4.8	5.7	7.1	5.7	6.1	5.5	5.9	3.4	1.5	3.0	3.5	3.4	-1.5	2.5	2.9
America	**3.5**	**2.8**	**2.0**	**-2.5**	**3.3**	**2.3**	**2.3**	**2.1**	**2.2**	**2.3**	**1.1**	**2.2**	**2.6**	**1.7**	**-4.4**	**5.6**	**2.9**
Latin America and the Caribbean	3.2	3.9	1.9	-2.1	6.2	4.6	2.7	2.9	1.1	0.3	-0.9	1.3	1.1	0.1	-7.1	5.5	2.6
Central America (excl. Mexico) and Caribbean	3.1	4.8	3.3	-0.7	3.5	3.9	3.6	3.3	3.3	4.2	2.9	3.0	3.1	2.1	-8.1	3.9	2.9
Mexico	3.2	2.2	2.6	-5.3	5.1	3.7	3.6	1.4	2.8	3.3	2.6	2.1	2.2	0.0	-8.3	6.2	2.8
South America	3.2	4.3	1.5	-1.3	6.9	4.9	2.3	3.3	0.3	-1.1	-2.5	0.8	0.4	-0.2	-6.5	5.5	2.5
of which:																	
Argentina	4.0	5.0	1.2	-5.9	10.1	6.0	-1.0	2.4	-2.5	2.7	-2.1	2.7	-2.5	-2.1	-9.9	6.7	2.9
Brazil	2.8	3.7	1.1	-0.1	7.5	4.0	1.9	3.0	0.5	-3.5	-3.3	1.3	1.8	1.4	-4.1	4.9	1.8
North America	3.6	2.5	2.0	-2.6	2.6	1.7	2.2	1.9	2.6	2.9	1.7	2.4	3.0	2.1	-3.7	5.7	3.0
of which:																	
Canada	3.0	2.5	1.9	-2.9	3.1	3.2	1.8	2.3	2.9	0.7	1.0	3.0	2.4	1.9	-5.4	5.1	2.9
United States	3.6	2.6	2.0	-2.5	2.6	1.6	2.3	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.5	5.7	3.0
Asia (excl. Cyprus)	**4.3**	**5.9**	**5.2**	**2.4**	**7.8**	**6.0**	**5.0**	**5.4**	**4.9**	**4.9**	**4.9**	**5.1**	**4.6**	**3.8**	**-1.1**	**5.9**	**4.7**
Central Asia	-3.3	8.5	5.5	3.3	7.6	8.1	6.0	6.9	5.6	3.5	3.2	4.5	4.7	4.7	-0.3	4.3	3.1
East Asia	4.4	5.8	5.3	2.8	8.0	5.9	5.2	5.5	5.0	4.8	4.7	5.2	4.8	4.3	0.3	6.7	4.7
of which:																	
China	10.6	10.9	7.9	9.4	10.4	9.6	7.9	7.8	7.4	6.9	6.7	6.9	6.7	6.1	2.3	8.3	5.7
Japan	1.2	1.2	1.0	-5.7	4.1	0.0	1.4	2.0	0.3	1.6	0.8	1.7	0.6	0.3	-4.7	2.4	2.1
Republic of Korea	6.8	4.9	3.2	0.8	6.8	3.7	2.4	3.2	3.2	2.8	3.0	3.2	2.9	2.0	-0.9	3.9	2.8
South Asia	4.8	6.7	5.9	4.0	8.7	5.6	3.4	5.0	6.1	6.4	8.0	6.6	4.9	3.1	-5.6	5.8	5.7
of which:																	
India	5.9	7.6	7.0	5.0	11.0	6.2	4.8	6.1	7.0	7.9	8.2	7.2	6.6	4.6	-7.0	7.2	6.7
South-East Asia	4.9	5.7	5.1	2.0	7.8	4.9	6.0	5.0	4.5	4.7	4.8	5.3	5.1	4.4	-3.9	3.5	4.7
of which:																	
Indonesia	4.2	5.2	5.4	4.6	6.2	6.2	6.0	5.6	5.0	4.9	5.0	5.1	5.2	5.0	-2.1	3.6	4.9
Western Asia (excl. Cyprus)	4.1	5.5	4.1	-1.3	5.7	8.0	4.6	4.9	3.3	3.8	3.2	2.3	2.1	1.3	-2.9	3.5	3.2
of which:																	
Saudi Arabia	1.7	4.5	3.7	-2.1	5.0	10.0	5.4	2.7	3.7	4.1	1.7	-0.7	2.4	0.3	-4.1	2.7	3.3
Turkey	3.9	6.0	6.0	-4.8	8.4	11.2	4.8	8.5	4.9	6.1	3.3	7.5	3.0	0.9	1.8	3.9	3.6
Europe (incl. Cyprus)	**1.6**	**2.5**	**1.2**	**-4.5**	**2.4**	**2.0**	**0.1**	**0.5**	**1.7**	**1.9**	**1.8**	**2.5**	**2.0**	**1.5**	**-6.2**	**4.3**	**3.0**
of which:																	
European Union (EU 27)	2.1	2.1	1.1	-4.4	2.3	1.9	-0.7	0.0	1.6	2.3	2.0	2.8	2.1	1.6	-6.2	4.0	3.3
of which:																	
Euro area	2.1	1.9	1.0	-4.5	2.2	1.7	-0.9	-0.2	1.4	2.1	1.9	2.6	1.9	1.3	-6.6	4.1	3.4
of which:																	
France	2.0	1.8	1.0	-2.9	2.0	2.2	0.3	0.6	1.0	1.1	1.1	2.3	1.8	1.5	-8.0	5.2	3.4
Germany	1.6	1.3	1.6	-5.7	4.2	3.9	0.4	0.4	2.2	1.5	2.2	2.6	1.3	0.6	-4.9	2.2	3.2
Italy	1.6	0.9	-0.3	-5.3	1.7	0.7	-3.0	-1.8	0.0	0.8	1.3	1.7	0.9	0.3	-8.9	5.5	3.0
Russian Federation	-4.7	6.8	1.3	-7.8	4.5	4.3	4.0	1.8	0.7	-2.0	0.2	1.8	2.5	1.3	-3.0	3.8	2.3
United Kingdom	2.9	2.5	1.7	-4.1	2.1	1.3	1.4	2.2	2.9	2.4	1.7	1.7	1.3	1.4	-9.9	6.7	2.1
Oceania	**3.7**	**3.4**	**2.7**	**1.9**	**2.4**	**2.7**	**3.7**	**2.1**	**2.8**	**2.6**	**2.9**	**2.7**	**2.8**	**1.9**	**-2.4**	**3.1**	**2.8**
of which:																	
Australia	3.8	3.4	2.6	1.9	2.4	2.7	3.9	2.1	2.6	2.3	2.8	2.5	2.8	1.8	-2.5	3.2	2.8
Memo items:																	
Developed (M49, incl. Republic of Korea)	**2.5**	**2.5**	**1.7**	**-3.5**	**2.8**	**1.7**	**1.3**	**1.4**	**2.0**	**2.3**	**1.7**	**2.4**	**2.4**	**1.7**	**-4.7**	**4.7**	**2.9**
Developing (M49)	**4.9**	**6.7**	**5.2**	**3.3**	**8.1**	**6.3**	**5.6**	**5.1**	**4.9**	**4.5**	**4.3**	**4.9**	**4.6**	**3.7**	**-1.8**	**6.2**	**4.7**

Source: Trade and Development Report 2021, table 1.1, with data available up to August 16, 2021.

The unevenness reflects, in part, underlying structural weaknesses but also the different degrees of policy independence enjoyed by developed and developing economies. Most developed countries had, and used, the strong financial firepower afforded by the privileged status of issuers of international-reserve currencies. Overall, this was a necessary response, but it did not lead to the recognition that all other countries, especially developing countries, do not have the same opportunity to implement similar policies.

A few developing countries, including Brazil, Indonesia, and Turkey, did adopt strong fiscal and monetary responses similar to those by developed countries but recent developments suggest they are vulnerable to financial repercussions, particularly the early hiking of interest rates in response to growing inflation fears.

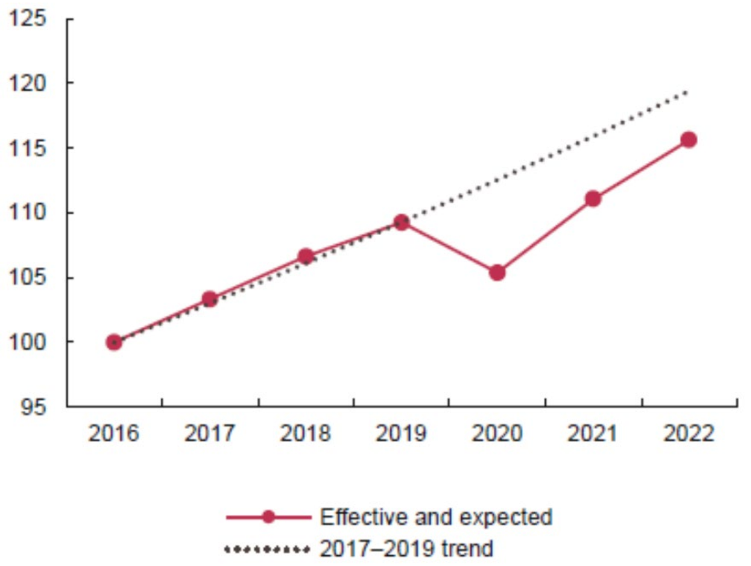
Thus, the expansion of SDRs allocations, necessary to ease some policy constraints in developing economies, while an important step forward, is still insufficient. More work should be done in finding solutions to channel unused SDRs from countries that do not have foreign reserve constraints to countries that do have them. There are many proposals for this on the table, including expanding the Poverty Reduction and Growth Trust at the IMF, which only benefits Low-Income-Countries; creating a new Trust for Resilience and Climate Adaption at the IMF, which could include Middle-Income-Countries; finding ways for Multilateral Development Banks to leverage SDRs, including through using them for possible recapitalizations. All options should be explored, and it is very important developing countries are included in these negotiations, as their perspectives on time-constraints and possible conditionalities cannot be ignored.

Also in the advanced economies, public-private partnerships allowed the development of vaccines at record speed, but manufacturers have not been able to produce enough doses for the world population and have so far resisted calls to waive critical patents or otherwise find solutions for low-cost vaccine production in developing countries. By slowing down immunization, this stance aggravates the loss of life, facilitates the spread of new variants and compounds vaccine scarcity. The expectation of most developing countries that patent waivers in the World Trade Organization to help boost world production remains unfulfilled. This failure is, in some respects, even more dramatic than the asymmetries of the financial system because health infrastructure in developing countries is far weaker in comparison to most developed countries, and 'lockdowns' to contain the virus spread are more difficult to implement, given widespread informality of jobs and inadequate social protection.

The current performance of the world economy is insufficient to regain pre-covid trends (which in turn, were considerably lower than pre-2008 trends). As shown in Figure 1, the global economy faces a cumulative income loss of about USD 13 trillion in 2020–22. If the global economy were to grow as in the early 2000s (approximately 3.5 per cent per year) it would return to its pre-pandemic trend only by 2030. Considering that global growth in 2017-2019 was already insufficient to reach the Sustainable

Figure 1: World output levels, 2016–2022

(Index numbers on constant USD at market rates; 2016 = 100)



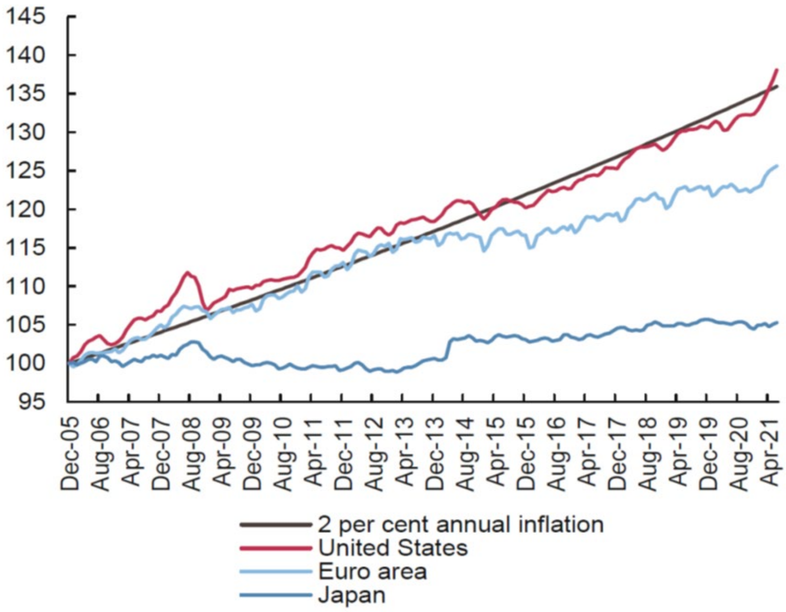
Development Goals, reaching them in the current conditions requires unprecedented action, in terms of multilateral support and coordination.

According to our research, global investment flows declined by 35% in the aftermath of the COVID-19 crisis. Developing countries are bearing the brunt of this downturn. According to UNCTAD, announced greenfield investment projects in developing countries fell by 44% in 2020. What is more worrisome is that the decline was not limited to foreign investment. Domestic public and private investments were also seriously affected, particularly in sectors key for achieving the SDGs. These contracted by up to 2/3rd in 2020. As a result, the pandemic has largely undone the progress made in promoting such investment since the adoption of the SDGs in 2015, and has widened the annual investment gap to achieve the SDGs in developing countries from around $2,5 trillion pre-pandemic to more than $4 trillion for 2021, according to recent estimates by the OECD and others.

The figurative and the palpable constraints to a resilient recovery

Prospects for longer-term demand stimulus and transformative public investment programs are clouded by the returning spectre of inflation, in both developed and developing economies. Although this is still debatable, and the final jury is still out. On the one hand in the United States inflation has recently surpassed the 2 per cent target, recent inflation spikes in the Euro Area and in Japan have remained and will likely remain below target.

Figure 2: Price gap from a 2 per cent inflationary trend
(Index numbers; December 2005 = 100)

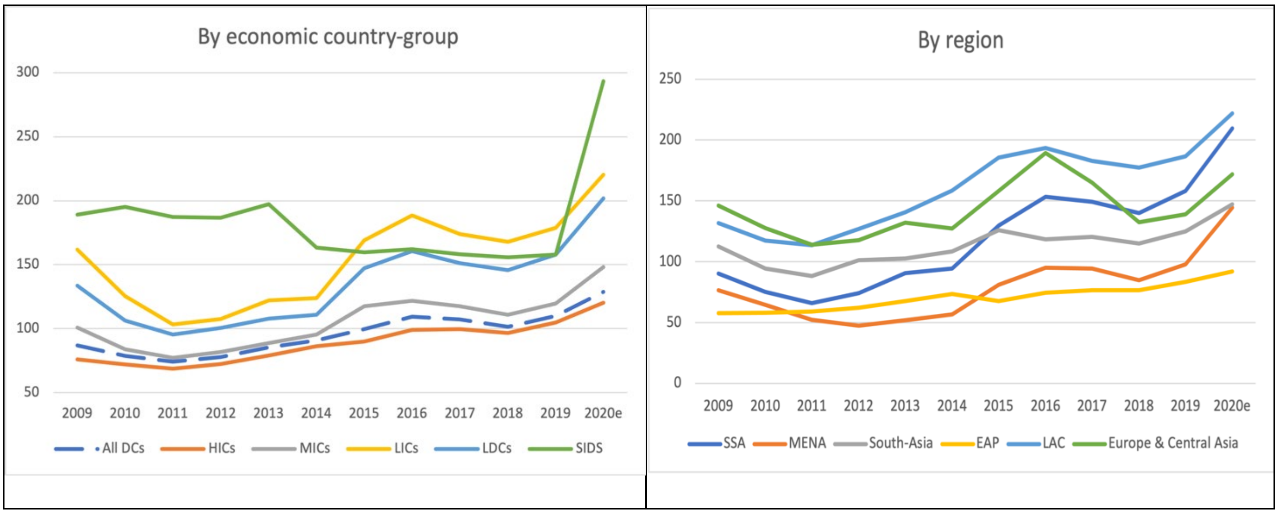


Evidence points to supply shortages as the main cause of the recent inflation spikes implying that appropriate remedies depend on targeting the specific markets being rationed. Where inflationary shortages affect the labour market, establishing better working conditions, including wages and social protection, can help ease the shortage by attracting more workers and contain costs by stimulating productivity growth (which is positively correlated to high wage growth and good working conditions). Wage repression to contain inflation, which may drive down productivity and lead to higher real unit labor costs, is not recommended. Instead, in cases where inflationary shortages affect other inputs or commodities, as is often the case in developing economies, sensible responses should focus on engineering a strong recovery of investment, incomes and production worldwide; including devising well-tailored policies to support MSMEs, affront higher input costs in the short-term and avoid insolvency. However, this distinction of causes and the respective responses are not being discussed enough in policy circles, which have focused on demand stimulus packages. But in many countries, slowing demand growth by terminating the stimulus packages would not stop inflation deriving from imported inputs, including commodities.

The disregard of the binding constraints on global growth is puzzling given the well-known bottlenecks faced by developing countries. Revamping production and reviving development require reliable channels of income generation by exports, to pay for imported inputs and ensure economies of scale, as well sustainable finance. Absent these conditions, policy space is significantly reduced, and policy priorities easily yield to budget-cutting demands by international private investors, jeopardizing prospects of sustainable development, and especially the structural transformation away from commodity dependency and towards diversification.

A synthetic indicator of these constraints is captured in Figure 3. Both regional and income groups have experienced rising external debt compared to export revenues. With the exception of some successful manufacturing exporters in East Asia, including China, and a few oil exporters in the Middle East and North Africa, debt burdens across the developing world are too high and export revenues too low (see figure 3). For almost all developing countries commodities are not a reliable source of income because their export revenues fluctuate due to price swings.

Figure 3: Total external debt to export revenues, developing countries, 2009-2020.
(Per cent)

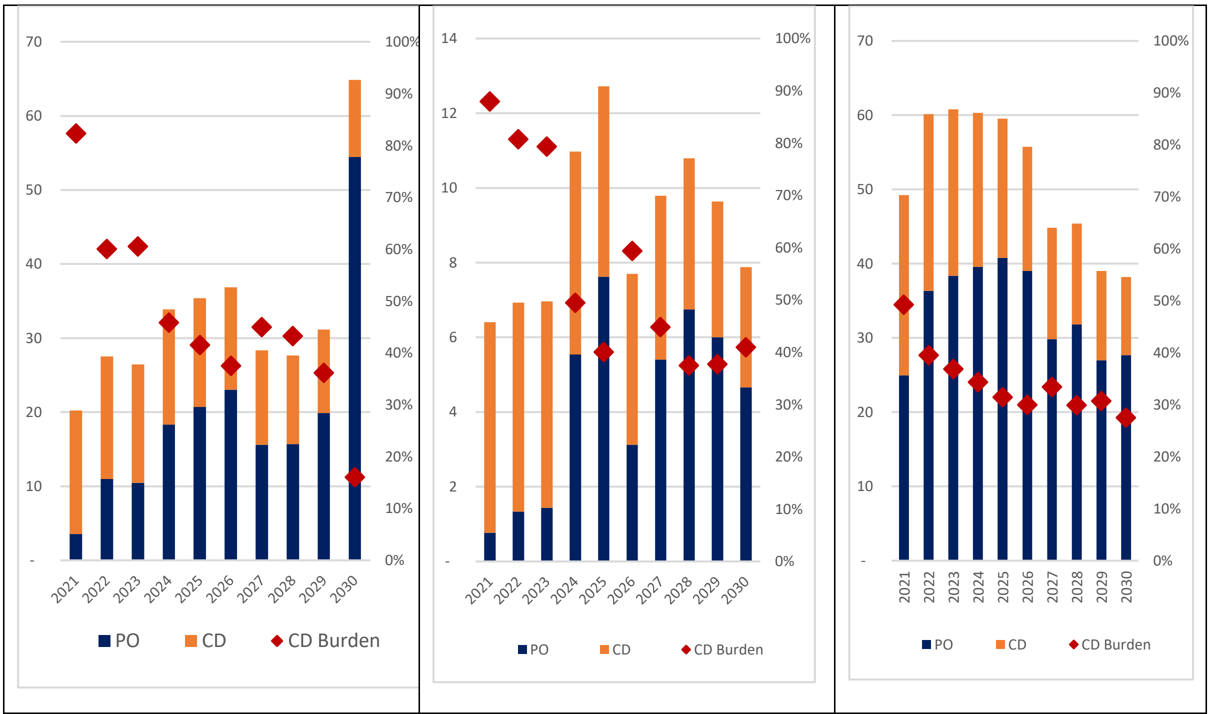


Source: UNCTAD secretariat calculations based on World Bank International Debt Statistics.
Note: 2020 = estimates

Building protection against the volatility of global trade and finance is critical for developing countries. It should start with a proper evaluation of their external debt burdens and repayment profiles, which affect development strategies but also crisis response. Recently, in our 15th Ministerial Conference, Secretary General Guterres unveiled his four-point debt plan, which consisted on: first, rechannelling unused SDRs, as mentioned; second, seriously undertaking the conversation about debt restructuring and relief, through the creation of robust multilateral mechanisms; third, expanding and prolonging the G20's Debt Suspension Initiative; and fourth, leveraging private capital.

It is important we seek these solutions. External debt vulnerabilities are set to remain high over the coming years, not least since many developing countries face a wall of repayments on sovereign bond debt in international bond markets. Servicing this debt in developing countries, excluding China, will generate payments of almost $1 trillion by 2030, the year earmarked for achievement of the Sustainable Development Goals (SDGs), including $571 billion in repayments of principals and $365 billion in interest (Figure 4). The total amount far exceeds the estimated investment target of 2 per cent of GDP required for the structural transition needed to deliver the Agenda 2030. Clearly, debt reprofiling and relief, including debt cancellation, are necessary. But so far agreed measures have been insufficient. The only lasting multilateral relief was provided by the IMF through the cancellation of debt service obligations in 29 of the poorest countries, amounting to $727 million between April 2020 and October 2021.

Figure 4: Sovereign bond repayment profiles, selected regions, 2021-2030
(Billions of current USD (LHS) and per cent of total debt service (RHS))

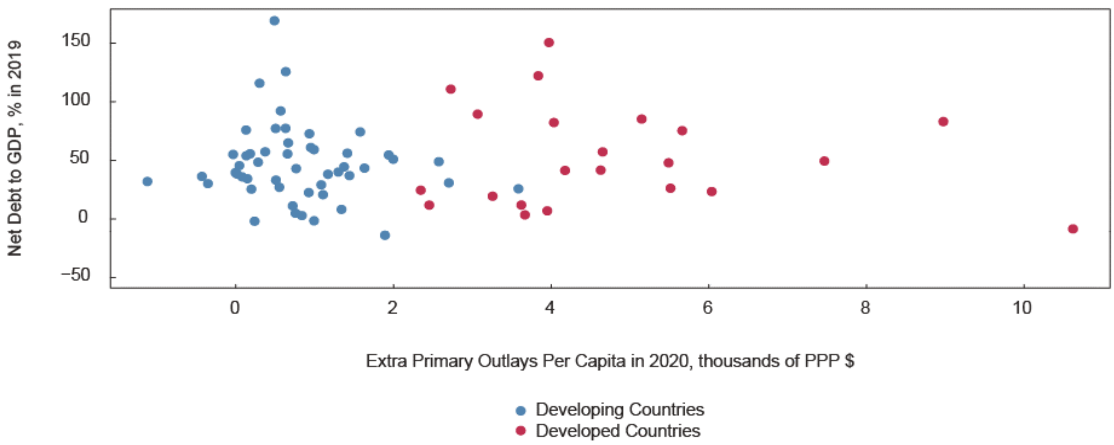


PO= Principal outstanding and maturing. CD=Coupon disbursement (LHS). CD Burden = Coupon disbursement burden (% of average coupon discursements in total repayments on sovereign bonds (RHS)

Source: UNCTAD Trade and Development Report 2021, figure 1.16 (calculations based on Refinitiv). Note: Sovereign bonds included are those issued in foreign currencies.

The past experiences of developed and developing countries with similar or lower debt burdens relative to their GDP have been very different: Smooth functioning in the former, especially when issuers of reserve currencies, and 'lost decades' for the latter. This has carried over to the current crisis. The pandemic offered one more test-case (figure 5), in which governments of developed countries were able to enact larger spending measures than developing countries with generally lower debt-to-GDP ratios. In the latter, domestic liquidity creation does not necessarily improve access to foreign currency, while fiscal deficits act as a deterrent to private foreign investors.

Figure 5: Additional primary outlays in 2020 relative to inherited debt-to-GDP ratios in developing and developed economies



Source: Trade and Development Report 2021, figure 1.12 (calculations based on IMF database).

A more detailed analysis provides critical insights into fiscal constraints (table 2). Actual spending stimulus is measured as the sum of spending on goods and services (G) and transfers to the private sector (net of taxes and contributions to social security) (T), relatively to pre-pandemic standards. While stimulus packages implemented by governments have often fallen short of their original announcements, developed countries were able to provide much larger stimulus than developing countries. Yet developed countries were not chastised by the bond markets for their spending announcements, as developing countries were.

How stringent the constraints to fiscal policy really are in all countries becomes clear when considering the prevalence in the stimulus packages of transfers compared to direct government spending. In many cases, government spending on goods and services contracted during the pandemic. While cash transfers have provided a critical lifeline in some developing countries, especially in the absence of robust social protection systems, austerity in direct spending continued to affect policy decisions even during the pandemic.

Table 2: Estimated size of Covid-19 fiscal stimuli, 2020
(Per cent of GDP)

	Government Spending (G)	Government Transfers (T)	G + T	Announced measures
Argentina	-0,8	4,1	3,3	3,8
Australia	0,2	10,0	10,2	16,1
Canada	-0,5	8,8	8,3	14,7
France	-1,3	4,6	3,3	7,6
Germany	0,4	3,0	3,3	11,0
India	-1,0	3,4	2,4	3,3
Italy	0,5	4,9	5,4	6,8
Japan	0,5	7,5	8,0	15,5
Mexico	0,3	1,8	2,0	0,7
Rep. of Korea	-0,2	2,0	1,8	3,4
South Africa	0,0	4,2	4,2	5,3
Spain	0,2	4,7	4,9	4,1
Turkey	-0,3	1,7	1,4	1,0
UK	1,4	5,6	7,1	16,3
USA	-0,1	9,2	9,1	10,6

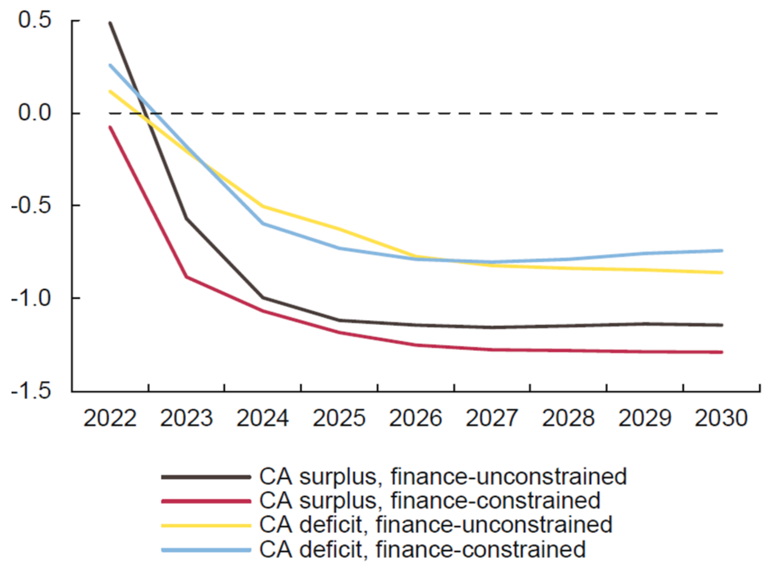
Note:
G refers to general government gross fixed capital spending and consumption spending in goods and services (excluding payments or transfers) and is estimated as that above the trend over the recent past (2017-2019).
T refers to net transfers from the government to the private sector. It encompasses transfers, including subsidies and all payments to other sectors (including unemployment benefits and direct income transfers), minus government revenues (including personal current taxes and contributions to government social security); and it is estimated as the difference with its past average (2017-2019) as a proportion of GDP applied to 2020 GDP.

The Siren calls of business-as-usual

The budding global recovery appears to have lost some steam in the second half of this year and is now threatened by a possible repeat of the post-2008 playbook, with strong fiscal tightening chocking off growth before incomes have recovered and balance sheets repaired. The pressures to contain government direct spending (and thus intervention in economic activities) have never really subsided and calls to enact new cuts have already returned, generally with the stated intention of reducing debt burdens. Current debates about the threat of inflationary pressures also contribute to the bias against fiscal spending. Fiscal austerity and downward pressure of labour income shares are supposed to help countries tap global demand with more competitive exports. But three decades of experiments in this direction have amply demonstrated just how faulty this strategy has been. Instead, more effort should be made to support development, to reorient the global financial and payments system toward productive investment, to establish a debt workout mechanism, and to make trade more conducive to development.

Projections reflecting the continuation of these conditions into 2030 point to insufficient growth across the board (Figure 6).[1] All economies will slow down, with the growth loss ranging between 0.6 and 1.2 percentage points per year. Deflationary measures in each country establish a global deflationary bias with negative feedbacks on all.[2] What is more, economies that have typically recovered thanks to exports and fiscal prudence will be among the main losers since global trade will decelerate due to sluggish global demand, greater financialization and weaker wage growth (further constraining productivity growth). Also, the faster pace of financialization and the growth of speculative investment will raise the cost of government borrowing, especially in finance-constrained economies, thus deepening the pro-austerity measures. Disappointing growth aside, in this context

Figure 6: Projected growth performance according to macro-financial patterns, 2022–2030
(Per cent losses relative to average performance of past periods of recovery)



developing economies will experience the greater vulnerabilities: deficit economies subject to external bottlenecks and forced to rely on commodities, and surplus economies subject to double boom-bust cycles of commodity prices and of exchange rate and domestic price shocks. Finally, these trends in trade and finance run counter to the climate stabilization goals undermining the prospects of actual decarbonization of the global economy, which requires multilateral agreement on natural resource management and, therefore, alternative source of income for developing countries.

[1] The groups include all world economies, except China which no longer fits the characterization of surplus/ deficit and whose financial conditions are mostly shaped by domestic policy management. The economy therefore follows a more sui-generis, structural transformation pattern determined by their policy priorities.
[2] It ought to be underscored that while financial vulnerabilities of considerable degree emerge through various model indicators, no attempt was made to impose a financial shock, which even if most plausible would be imposed ad hoc. In other words, by design financial crises during the scenario were avoided.

These projections invite a long overdue reflection on effective ways of sustaining growth and promoting structural transformation and economic development by internationally coordinated injections of effective demand, promotion of productive capacities and investment, enhancement of physical and social infrastructure and curbs on speculative finance. Global challenges require multilateral responses.