UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
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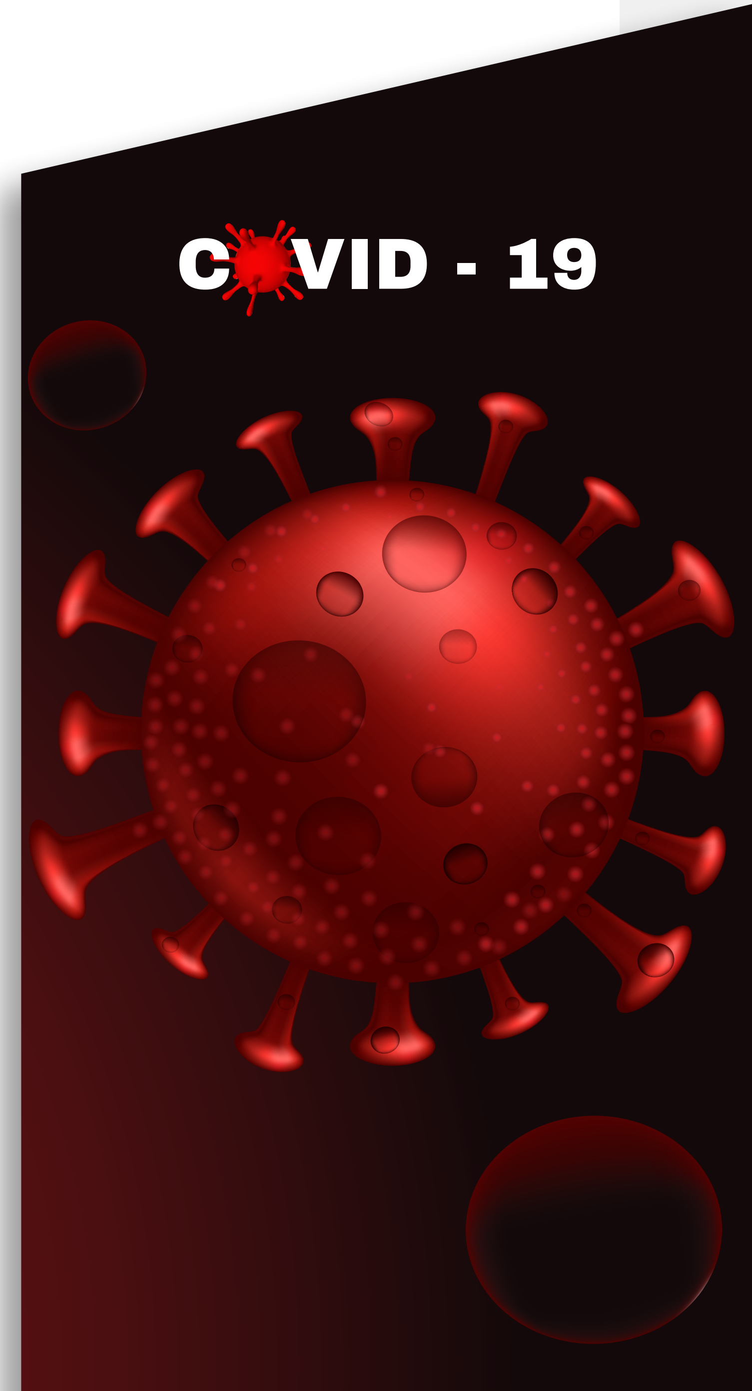
TRADE AND DEVELOPMENT REPORT UPDATE

MARCH 2021

Out of the frying pan ... Into the fire?



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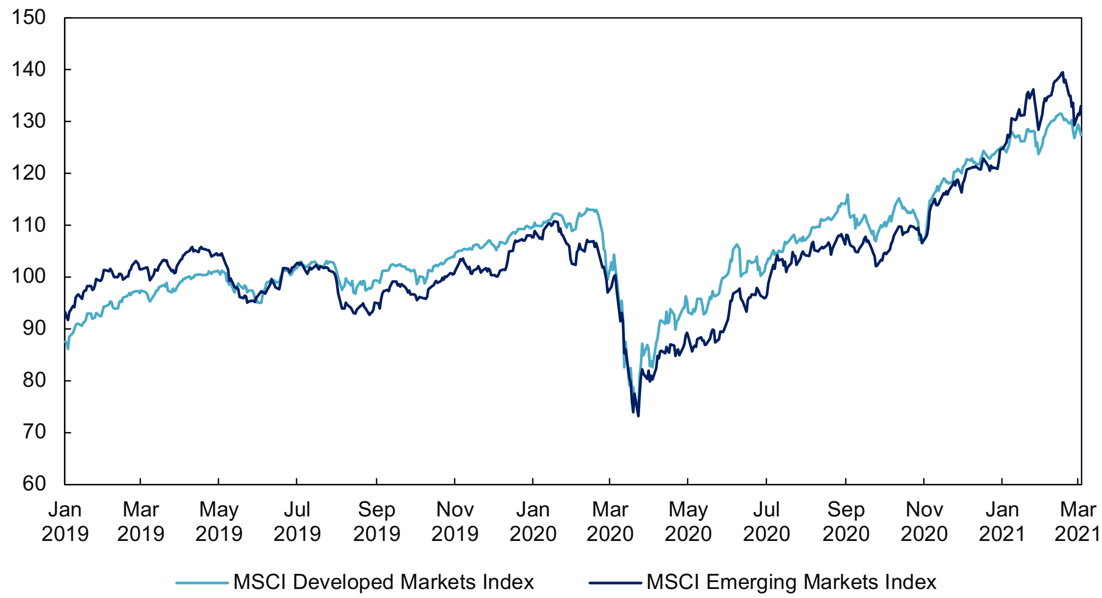
A. 2020: Annus horribilis

Although warnings about the spread of viruses have become more frequent in recent years (Davis, 2020), nobody anticipated the arrival of Covid-19 or its dramatic global impact. However, since the coronavirus' initial spread in the first two months of 2020, and the great lockdown in the second quarter, the global economy has exhibited a more predictable trajectory, albeit one marked by variability at the country and regional levels.

In March 2020, an initial threat of a financial meltdown was quickly averted by massive monetary injections from leading Central Banks following a pattern already witnessed after the dot com crisis in the early 2000s and the 2008 global financial crisis, but on an even larger scale (BIS, 2020; *TDR 2020*). Their willingness to keep the monetary spigot open saw financial markets bounce back quickly from the lows of March/April with many ending the year at an all-time high (figure 1). Outside of the financial sector, lockdowns – mostly in advanced economies – had a dramatic impact on output and employment through combined supply and demand-side effects that spilled over across the global economy (see figure A1 in Annex).

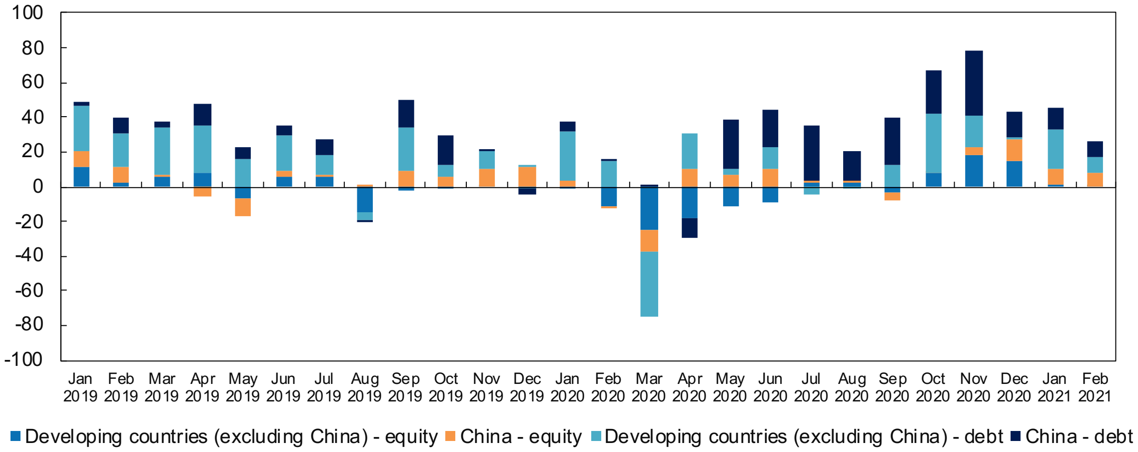
Figure 1 MSCI equity market indices, 1 January 2019–3 March 2021
(Index numbers, average 2019 = 100)



Source: UNCTAD secretariat calculations, based on Refinitiv *Eikon* data.
Note: MSCI Developed Markets Index, officially referred as MSCI Global Market Index, comprises 23 economies: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong (SAR, China), Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. MSCI Emerging Markets Index comprises 27 economies: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Kuwait, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Republic of Korea, Russian Federation, Saudi Arabia, South Africa, Taiwan (Province of China), Thailand, Turkey and United Arab Emirates.

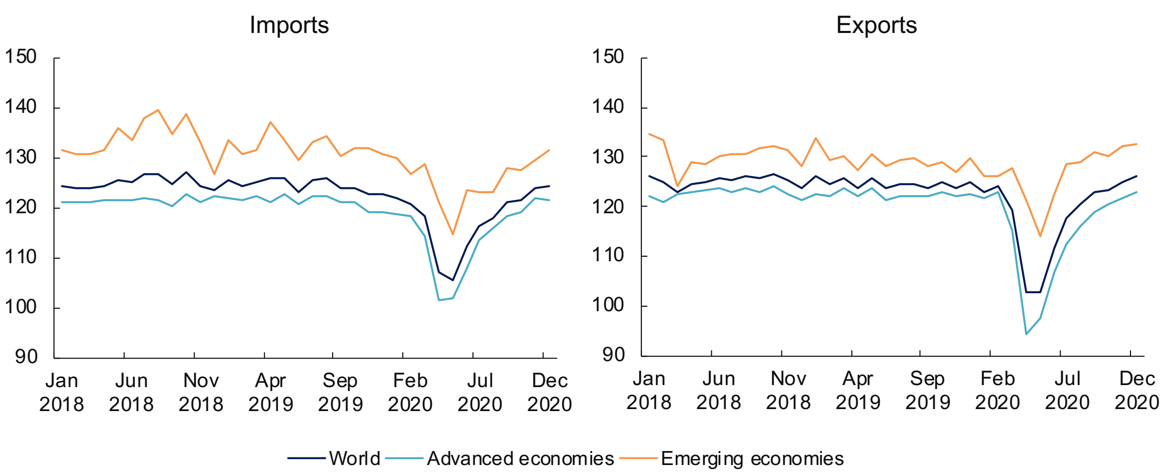
Investor anxieties, transmitted through pronounced capital flight, did have an immediate impact on emerging markets during the first half of 2020 (*TDR 2020*). The surge in net non-residential outflows was short-lived but brought lasting damage and the subsequent reflux of funds has been dominated by a few larger markets such as Brazil, China and India (figure 2). Elsewhere flows have been volatile, particularly in the case of portfolio flows with a number – including Chile, Mexico, South Africa, Thailand and Turkey – experiencing episodes of negative net flows (see figure A2 in Annex). Scarcity of foreign exchange in many developing countries, necessary to make debt and import payments, including for medical supplies, was compounded by a sharp fall in export earnings following the lockdowns, the rupture of supply chains and, for commodity exporters, the collapse of commodity prices. International trade dropped, quarter-on-quarter, by around 12 per cent in the second quarter of 2020 but has had an immediate V-shaped recovery (figure 3) with variations across developing countries and regions.

Figure 2 Net non-resident purchases of emerging market stocks, equity and debt, January 2019–February 2021
(Billions of dollars)



Source: UNCTAD secretariat calculations based on IFF *Monthly Emerging Market Portfolio* database.

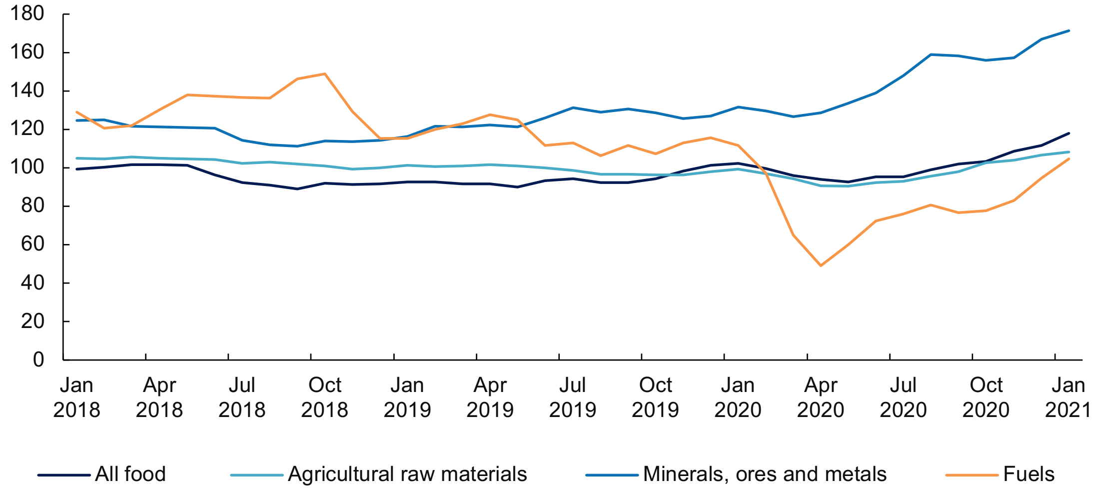
Figure 3 World trade volumes, January 2018–December 2020
(Index numbers, 2010 = 100)



Source: CPB Netherlands Bureau for Economic Policy Analysis, *World Trade Monitor* (Release on 25 February 2021).

The recovery in commodity prices in the second half of 2020 (figure 4) has helped a number of developing countries manage the crisis better than might otherwise have been expected. However, there are concerns that more volatility may be emerging, particularly in markets of some agricultural commodities, with a threat to food security in several countries (see box 1).

Figure 4 Monthly commodity price indices, selected commodity groups, January 2018–January 2021
(Index numbers, 2015 = 100)



Source: UNCTADstat.

Overall, the global economy posted its sharpest annual drop in output since statistics on aggregate economic activity were introduced in the early 1940s, with no region spared. ILO (2021) has estimated that the crisis triggered an effective loss of 255 million full-time jobs worldwide. While the bounce back in the third quarter, as countries started to lift restrictions, was sharp and in line with expectations, a second wave of the virus hit earlier than expected in the final quarter of 2020 dampening the recovery, most notably in Western Europe. However, an earlier than expected breakthrough with vaccines and improved management of lockdown measures have been offsetting factors in terms of Covid-19's overall economic impact.

The forecasts made by the *Trade and Development Report* (TDR) for 2020 proved generally correct, with East Asia and Latin America doing a little better than expected but Europe, India and South Africa doing worse. The positive surprises have been Brazil, Turkey and the United States, where larger than expected relief measures attenuated the recession and rising commodity and asset prices had a beneficial impact on growth. Several African economies also benefited from the rebound in commodity prices and the region as a whole experienced lower-than-expected pressures on public health systems. Table 1 presents the revised numbers for the world and the G20 economies.

Table 1 World output growth, 2016–2021
(Per cent)

	2016	2017	2018	2019	2020[a]	2021[b]	Rev. from TDR 2020: 2020	Rev. from TDR 2020: 2021
World	**2.7**	**3.3**	**3.2**	**2.5**	**-3.9**	**4.7**	**+0.4**	**+0.6**
Developed countries	**1.7**	**2.4**	**2.3**	**1.7**	**-5.2**	**4.0**	**+0.6**	**+0.9**
of which:								
Japan	0.8	1.7	0.6	0.3	-4.8	2.1	**-0.3**	**+0.2**
United States	1.7	2.3	3.0	2.2	-3.5	4.5	**+1.9**	**+1.7**
Europe (incl. EU and non-EU european countries)	2.0	2.8	2.1	1.5	-7.4	4.0	**-0.1**	**+0.4**
of which:								
Euro area	1.9	2.6	1.9	1.3	-7.3	4.0	**-0.3**	**+0.6**
France	1.1	2.3	1.8	1.5	-8.3	5.3	**-0.2**	**+1.9**
Germany	2.2	2.6	1.3	0.6	-5.3	3.3	**-0.4**	**+0.4**
Italy	1.3	1.7	0.9	0.3	-8.9	4.1	**-0.3**	**+0.9**
New EU member States after 2004	3.2	4.9	4.5	3.8	-5.1	3.6	**+0.1**	**-0.3**
United Kingdom	1.7	1.7	1.3	1.4	-9.9	4.4	**-0.0**	**0.0**
South-East Europe and CIS	**0.8**	**2.4**	**3.2**	**2.6**	**-2.9**	**3.3**	**+1.4**	**-0.2**
South-East Europe[c]	3.2	2.6	4.1	3.5	-3.8	4.5	**-0.6**	**+0.9**
CIS incl. Georgia	0.7	2.4	3.2	2.6	-2.9	3.2	**+1.4**	**-0.2**
of which:								
Russian Federation	0.2	1.8	2.8	2.0	-3.1	3.0	**+1.2**	**-0.4**
Developing countries	**4.3**	**4.8**	**4.4**	**3.6**	**-2.1**	**5.8**	**-0.0**	**+0.1**
Africa	1.7	3.4	3.3	2.8	-3.8	3.1	**-0.9**	**-0.4**
North Africa (incl. South Sudan)	2.8	5.0	4.1	3.1	-5.8	4.2	**-2.4**	**+0.5**
South Africa	0.4	1.4	0.8	0.2	-7.0	3.0	**-1.0**	**+0.0**
Sub-Saharan Africa (excl. South Africa and South Sudan)	1.4	3.0	3.4	3.3	-1.9	2.5	**+0.1**	**-1.1**
Latin America and the Caribbean	-1.2	1.0	0.8	-0.2	-7.4	3.8	**+0.2**	**+0.8**
Caribbean	2.1	2.2	3.6	1.9	-8.3	4.1	**-2.0**	**+1.9**
Central America	3.8	4.0	2.8	2.5	-6.4	3.8	**-1.2**	**+1.3**
Mexico	2.9	2.1	2.1	-0.1	-8.5	4.0	**+1.5**	**+1.0**
South America	-3.0	0.4	0.0	-0.6	-7.1	3.7	**+0.0**	**+0.6**
of which:								
Argentina	-2.1	2.8	-2.6	-2.1	-10.0	4.7	**+0.4**	**-0.0**
Brazil	-3.3	1.3	1.8	1.4	-4.1	3.1	**+1.6**	**-0.0**
Asia	6.0	5.8	5.4	4.5	-0.9	6.4	**+0.0**	**+0.1**
East Asia	6.1	6.3	6.1	5.4	1.6	7.5	**+0.5**	**+0.0**
of which:								
China	6.8	6.9	6.7	6.1	2.3	8.1	**+1.0**	**0.0**
Republic of Korea	2.9	3.2	2.9	2.0	-1.0	4.0	**-1.1**	**-0.3**
South Asia	8.6	6.5	5.1	3.2	-6.2	5.0	**-1.4**	**+1.1**
of which:								
India	9.0	6.6	6.8	4.9	-6.9	5.0	**-1.0**	**+1.1**
South-East Asia	4.8	5.3	5.1	4.4	-3.9	5.1	**-1.7**	**+0.8**
of which:								
Indonesia	5.0	5.1	5.2	5.0	-2.1	4.5	**-2.1**	**+0.0**
Western Asia	3.2	2.3	2.0	0.9	-5.0	3.0	**-0.5**	**-0.6**
of which:								
Saudi Arabia	1.7	-0.7	2.4	0.3	-4.1	3.2	**+0.7**	**-0.0**
Turkey	3.3	7.5	3.0	0.9	-3.0	4.0	**+1.6**	**-0.0**
Oceania	3.2	3.2	0.9	3.6	-4.0	3.2	**-0.5**	**+0.4**

Source: UNCTAD secretariat calculations based on official data and estimates generated by United Nations Global Policy Model.
Note: Calculations for country aggregates are based on GDP at constant 2015 dollars.
a Actual data for Argentina, Brazil, China, France, Germany, Indonesia, Italy, Japan, Mexico, Republic of Korea, South Africa, United Kingdom and United States. Estimates for India, Russian Federation, Saudi Arabia and Turkey.
b Forecasts.
c Albania, Bosnia and Herzegovina, Montenegro, Serbia and the Republic of North Macedonia.

For the global economy the overall cost of the crisis has been exorbitant. Gross domestic product (GDP) growth does not begin to measure it, but the estimated 3.9 per cent drop in output (0.4 percentage points better than what we expected in mid-2020 largely due to the stronger performances in China and the United States) reflects the widespread nature of the shock. The loss of global output in 2020 with respect to the pre-pandemic trend meant destruction of income on an unprecedented scale, an estimated 5.8 trillion dollars, and with already vulnerable parts of the population bearing the brunt, at a time when better income distribution had become most urgent. This loss will persist as even the most optimistic projections for the bounce back of growth will not cover the shortfall of income for several years.

For 2021, we now expect a 4.7 per cent expansion, 0.6 percentage points better than our previous forecast. However, this more optimistic scenario hinges on three assumptions:

(i) improved vaccination and disease containment in advanced and middle-income countries;

(ii) a speedy transition from economic relief policies to recovery-policies in the largest economies of the world; and

(iii) no financial crash of global significance.

Public pronouncements suggest a determination of policymakers to ensure all three conditions. But while crisis response has been more pragmatic than in the past, resistance to continued expansionary fiscal policy is already beginning to surface in some countries, based on talk of a possible return of inflation and concerns over sovereign debts.

Prospects for vaccinations are also uncertain, particularly for developing countries. After rapid progress in research and clinical trials, thanks to strong public funding support in some countries, roll out has to date been surprisingly uneven including across advanced economies despite their widespread use of advanced purchase agreements. In developing economies access to vaccines has been limited, and despite concerns over scaling up production capacity in advanced countries, calls at the WTO to waive intellectual property rights on Covid-19 vaccines, to speed up production in some emerging economies, have been resisted.[1] The experience has revealed serious shortcomings in the international health architecture and more generally a reticence to treat the pandemic as a truly global public health and economic challenge.

The swift response of Central Banks to the financial shock at the start of the pandemic and the subsequent willingness of the United States Federal Reserve to extend swap lines, including to select developing countries, have helped ease liquidity constraints and investor anxieties since the outbreak of the crisis. However, dramatic increases in private financial leverage in some countries, especially in the United States over the past 12 months (where price/earnings ratios have soared and the Buffet Indicator is at an all-time high), suggest an inflating "Covid bubble" and the risk of a financial crash if growth prospects do not sufficiently improve, if inflation accelerates or if investor confidence is pricked in other ways (for example by vaccine-resistant virus variants).

[1] *Financial Times* (2021). Most adults in rich countries face long wait for vaccine, distributor warns. 8 March; *The Guardian* (2021). A global vaccine apartheid is unfolding. People's lives must come before profit. 29 January.

B. Regional trends in GDP growth

i. THE AMERICAS

The economy of the United States experienced a less brutal contraction than was expected in mid-2020. On the fiscal side, the relief packages were larger than anticipated and succeeded in attenuating income losses. Monetary policy remained expansionary and, more importantly, the Fed ruled out any early increases of interest rates, even if inflation goes above its 2-per cent target. Together with the early breakthrough in vaccine approval and the stock-market boom (fuelled by lose monetary policy and driven by the strong earnings of large tech companies), these actions resulted in a quick recovery of aggregate income in the second half of 2020, although unevenly and more to the benefit of the wealthy, giving rise to concerns of a K-shaped recovery, including by the newly appointed Secretary of the Treasury (Yellen, 2021).

For this year, we expect the expansion to continue, on the assumption that the $1.9 trillion package of the new Administration will engineer strong job creation, improved consumer confidence and a significant investment in productive capacity. More specifically, cash transfers, extended unemployment benefits and deferrals in tax and mortgage payments will help sustain the momentum of consumption expenditure. Investment and employment programmes will increase both capacity and demand. But the Administration's approach to reducing economic inequalities will be critical to achieving a broad-based recovery. Income inequality has seen a dramatic acceleration last year due to record financial earnings and the significant job losses in low-wage sectors. A federal minimum wage increase would be an important step to reverse this setback and the preceding four decades of increased inequality. Capital spending was fuelled by residential construction later in 2020 and should also see some pick up in 2021 as inventory stocks are replenished.

We expect this expansion to partially spill over to its North American neighbours, with Canada and Mexico growing almost at the same pace as the United States in 2021. In Canada, where the Covid-19 recession was deeper than in the United States because of stricter lockdowns, the downside risk for 2021 is slow vaccination. The Canadian Government ordered enough vaccines for its population, but a slow rollout may hamper the recovery. In Mexico, which contracted slightly less than we expected in 2020 thanks to a milder shock in the United States, the downside risk is an even more stringent fiscal stance than that of last year. In fact, in 2020, the Mexican Government adopted a neutral budgetary response to Covid-19, and it now seems poised to tighten fiscal policy in 2021. Mexico's income growth will therefore depend more on a lasting recovery in the United States and on oil prices not falling.

Moving to other large Latin American economies, our mid-2020 forecast for Argentina was confirmed: a 10-per cent recession because of adverse pre-Covid trends and difficult debt negotiations, aside from the virus' economic effects. In 2021 we continue to expect the Argentine economy to recover only 50 per cent of the income loss. Rising inflation reduces room for compensatory domestic policy in 2021, while scarcity of foreign exchange without proper international assistance risks leading to a currency crisis. The IMF can provide the necessary assistance if it transforms its pro-growth rhetoric into concrete actions.

Brazil did much better than we expected due to a massive fiscal stimulus and monetary accommodation. The latter happened despite the rise in inflation at the end of 2020, and the two things temporarily reduced the Brazilian Treasury's financial cost. As proof that expansionary fiscal policy works, the budget deficit and public debt grew less than initially expected, leaving room for more relief or reconstruction policies in 2021. So far, the Brazilian Authorities do not seem willing to use their fiscal space, preaching, instead, a quick return to austerity. Because of the latter and the gradual monetary tightening to fight the recent rise in inflation, we maintain our initial growth forecast for 2021. The "upside risk" is a more gradual fiscal consolidation and a stronger pull from the United States and East Asia in the second half of 2021.

As we foresaw in mid-2020, the Andean economies were hard hit by Covid-19, with a double-digit recession in Peru and large falls in Chile and Colombia. However, we continue to expect these economies to recover faster than Brazil, Argentina, and Mexico in 2021, due to the impact of high commodity prices and, in the case of Chile, faster vaccination and lifting of social distancing rules.

ii. EUROPE, RUSSIAN FEDERATION and TURKEY

European countries experienced the largest output contractions among developed economies in 2020. The euro area contracted of 7.3 per cent in 2020 as its largest economies went into lockdown in the first and second quarters, reopened in the third and went back into partial lockdowns in the fourth. The impact on livelihoods was highly unequal. For example, in the second quarter of 2020, wages fell 15 per cent in Spain, 14 per cent in Italy, 10 per cent in France and 4.5 per cent in Germany, compared to the same quarter of 2019. Overall, reality proved slightly worse than our forecast, mostly as a result of unanticipated second lockdowns which were not fully offset by private consumption expenditure. France, Germany and Italy, the bloc's three largest economies experienced a rebound of economic activity in the second half of the year, though Italy registered again negative growth in the fourth quarter. These differences in economic outcomes were due to the unequal impacts of the pandemic but also to weak fiscal responses. Relative to 2019, in 2020 government consumption expenditure increased in Germany and Italy but fell in France. In the European Union it increased on average 1 per cent. In the second quarter of 2020 subsidies fell in France, increased 8 per cent in Italy and more than 300 per cent in Germany, compared to the same quarter of 2019.

Early in 2021, the European Union does not show signs of solid recovery and may experience another quarter of negative growth with prospects for the rest of the year largely depending on how fiscal responses and vaccination programmes evolve. At the moment there is no timeline for universal access to vaccines. Meanwhile, the European Union's fiscal response –centred on the Multiannual Financial Framework, –has not provided, or planned on, the necessary investment and demand support. The centrepiece 'Next Generation EU', a package of spending measures,