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CRITICAL REVIEW OF CHAPTER II - TRENDS IN INTERNATIONAL MARKETS: TRADE AND DEVELOPMENT REPORT 2022, (P41-67)

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Abstract: This critical review concentrates on Chapter II of The Trade and Development Report (TDR), which is prepared annually by the United Nations Conference on Trade and Development (UNCTAD) and presented to the General Assembly via the Secretary-General of the United Nations. TDR 2022 provides analysis of global trade trends and policy issues that affect trade and financial flows, and offers recommendations how to make the world economy fairer for all nations. Published in April 2023, the Report relays a warning of economic stagnation which will especially adversely affect developing nations. It cites supply-side disruptions and the war in Ukraine as major factors behind inflation, food and energy price increases and cost-of-living crises. It singles out monetary tightening in advanced economies and appreciating US dollar as main contributing factors in capital retreat from developing nations and increases in cost of their dollar denominated debt. TDR 2022 estimates that after having spent $379 billion of national reserves for the purpose of currency protection in 2022 alone, many developing nations are now left with dwindling central bank reserves. This begs the question, does the supremacy of some economies in relation to the global economy and their outsized influence on the global economy, warrant an attempt at new and improved central bank mission statements that should be looked at by various governments? Perhaps that effort could concentrate at articulating statements that take into account central bank actions that are intended to stabilize, protect, and expand the global economy as a whole, thus evolve today's selfish approach by competing central banks that are single-mindedly focused on domestic circumstances. By concentrating locally, their actions are often seen as simply displacing economic pains rather than attempting to fix them. Therefore, the Report offers some recommendations how to avert negative spillovers from monetary tightening policies in advanced economies and austerity measures that accompany them. Other recommendations pertain to leveling the global economic playing field and include reforming the international legal framework governing debt, windfall taxes on excessive profits, and reigning in speculative activities in commodity markets.

Keywords: trade, debt, developing countries, monetary tightening
Field: Social Sciences, and Humanities.

1. INTRODUCTION

The Trade and Development Report (TDR) is prepared annually by the United Nations Conference on Trade and Development (UNCTAD) and presented to the General Assembly via the Secretary-General of the United Nations. It provides analysis of global trade trends and policy issues that affect trade and financial flows. It offers recommendations how to make the world economy fairer and to the benefit of all nations. While past reports have concentrated on financial crisis, environmental degradation, stagnant wages and inequality, this report focuses on consequences to developing nations caused by high inflation, supply chain issues, increased indebtedness, appreciating US dollar, cost-of-living crisis, commodity and energy prices, etc. Other UN agencies contribute to the report on regular bases. The Report is deemed most appropriate for policy makers, economists, academics, and other researchers.

Published in April 2023, TDR 2022 relays a warning of a looming global recession and economic stagnation which will affect all regions of the world but will have disproportionate effects on developing nations. The Report cites supply-side shocks and the war in Ukraine as major factors behind inflation, food and energy price increases and cost-of-living crisis. It also delineates other disruptions connected to investor and consumer confidence such as capital outflows from developing nations and US monetary tightening, which have exerted depreciation pressures on local currencies of many nations, ultimately resulting in more expensive imports of already expensive commodities, increase in cost of debt, and depleted central bank reserves. UNCTAD projects that global economic growth will slow down to 2.5% in 2022 and decline to 2.2% in 2023, signaling a recession or at least a global downturn. Developing countries will face a "perfect storm" of high debt servicing costs, unstable commodity prices, and inflation.

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These factors are much more destructive if superimposed over a stagnant or declining economy, as is the case with most mid-income countries of Latin America and low-income countries from Africa, all of whom are expected to experience the biggest slowdowns in 2023.

The Report offers recommendations how the world can come back from the precipice of recession. In a quote presented in the press release dated October 3, 2022 and dedicated to TDR 2022, the Secretary-General of UNCTAD Rebeca Grynspan states that averting global recession is a matter of "policy choices and political will." Be it targeted price controls on food and energy to blunt the cost-of-living crises, windfall taxes on excessive profits to deter profiteering and plug budgetary holes, or reversal of monetary tightening policies in advanced economies in order to prevent further depreciation of developing countries' currencies and rising debt distress, the recommendations are plentiful, but their acceptance by the important players remains questionable. Overall, the TDR 2022 paints a detailed picture of a global economy in peril.

2. CONTEXT

TDR 2022 is not a lonely publication intended to shed light on global investment, trade and financial flows. Various international and multilateral organizations like the WTO, World Bank, IMF, World Economic Forum, and so on, prepare their own reports, which are distinct in their concentration, but nonetheless often overlap in certain aspects with the work done by UNCTAD. This year, they all converge on the fact that global growth is declining. The World Trade Report published annually by the WTO, in its 2022 edition, puts an accent on the interplay between climate change and international trade. It states that since the world is exposed to risks, both human and nature caused, it is essential to build climate and economic resilience through trade policy and international cooperation. The report cites the World Health Organization (WHO, 2018) estimate of 250,000 additional deaths per year, and SwissRe's projection of 18% GDP loss by 2050, to warn of the dangers to the global economy caused by inaction on climate. Similar to TDR 2022, the World Trade Report 2022 finds that supply chain issues are major contributors to inflation. It deems action on climate and investment in renewables as key to producing growth. TDR 2022 goes a step further and puts considerable responsibility for price increases on market concentration and speculators, who now control well over 50% of the price movements in commodities thanks to the increased financialization of commodity markets.

The World Bank publishes the Global Economic Prospects (GEP) report twice a year. In its January 2023 edition, it concurs with TDR 2022 conclusion of sharply slowing growth, with a projection of 1.7% for 2023, which is slightly grimmer than 2.2% growth for 2023 predicted by TDR 2022. The GEP puts blame for the slowdown on low international investment which is negatively impacted by the absorption of capital by advanced economies due to their monetary tightening policies, and inflation which those same policies are intended to fight. Growth in advanced economies is projected to fall from 2.5% for 2022 all the way down to 0.5% for 2023 globally, with 0% growth for the EU, foreshadowing a recession. The GEP report offers one glimmer of hope in its projection of 2.7% growth of the global economy in 2024, even though, at the same time it projects that by 2024 GDP levels in emerging and developing countries will be approximately 6% below expected levels calculated before the pandemic. The IMF, a sister organization to the World Bank, publishes its own biannual World Economic Outlook report. In the edition from April 2023, it too offers downward revisions for global growth. It projects a slowdown in advanced economies from 2.7% for 2022 to 1.3% for 2023, with global growth at 2.5% for 2023. It also finds that inflation is unlikely to go back to normal levels prior to 2025.

To add to this body of work, the World Economic Forum, which declares itself an international organization for public-private cooperation, publishes its Global Risks Report (GRR) annually and highlights the most severe risks, such as inflation, cost-of-living crisis, and trade wars, the world may see in the next decade. It differentiates between old risks like capital outflows from emerging markets, social unrest, geopolitical and societal polarization, and new risks like debt crisis, low growth, de-globalization, risk of dual-use (civilian-military) technologies, and climate change. The GRR finds that cost-of-living will be the dominant risk in the next 2 years, whereas inaction on climate will be the biggest risk factor in the next decade alongside large-scale involuntary migration.

In this context, UNCTAD is heavily involved in publishing two more annual reports that make the picture of the global economy even more detailed. First, the World Economic Situation and Prospects (WESP) report, in its 2023 edition, finds that world output growth will decline from 3% in 2022 to 1.9% in 2023, but will recover back to 2.7% in 2024. This report is in agreement with TDR 2022 in viewing growth as being directly dependent on monetary tightening. The WESP warns that further decline in growth

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will adversely affect fulfilment of Sustainable Development Goals (SDGs). The TDR 2022 confirms this, and states that sustainable development is not possible if growth is lower than 3%. Second, The World Investment Report 2023, points out that even though global flows have recovered to pre-pandemic levels, greenfield investment in industry remains low in developing countries, further solidifying the point made by the TDR 2022, that the most vulnerable countries will be hit hardest and experience a long road to recovery.

3. CHAPTER II - TRENDS IN INTERNATIONAL MARKETS

UNCTAD is part of the UN Secretariat, and the UN system at large, and has 195 members. Per its homepage, it operates projects in 76 countries and analyzes and compiles data "to help developing countries use trade, investment, finance and technology for inclusive and sustainable development." Having this in mind, it is unsurprising that the Trade and Development Report(s) might give the impression to be centered on developing countries, giving them outsized importance on the world economic stage, as if there aren't any financially challenged peoples in advanced countries who suffer largely similar problems and difficulties with food and energy prices like the populations of developing countries. Research is yet to show any substantial advantage of being poor in a rich place versus being poor in a poor place, keeping in mind that the mere existence of social safety nets in richer countries does not fully translate in efficient allocation of the right resources in right amounts and quantities to satisfy a given set of needs, nor it assures their allocation to the right recipients. Be that as it may, the Report projects that global trade will grow "at par" with the global economy which will reflect a decline compared to 2021. Vulnerabilities to developing nations are many and require, in the view of UNCTAD, international policy coordination. Even though indebtedness combined with appreciating US dollar poses significant financial danger to developing countries, so does the rise of corporate debt and higher interest rates in advanced economies. Alongside the latest bank failures of SVB and Credit Suisse, advanced economies are far from being safe from recession. In the wake of fighting inflation with the bluntest of instruments such as interest rate hikes by advanced countries, 90 developing countries have experienced depreciation of their national currencies compared to the US dollar, one-third of whom have seen depreciations higher than 10%. For 2022, developing countries had spent $379 billion of national reserves for the purpose of currency protection, which is roughly twice the amount of newly allocated Special Drawing Rights (SDR) by the IMF. This goes to further the perception UNCTAD has that G20 members have little understanding what the rest of the world is going through. Figure 1, below, shows the enormity of currency depreciations that have been experienced by selected developing countries, whereas Figure 2 shows the servicing cost of publicly guaranteed external debt as a percentage of government revenues. It depicts the positions of the top 20 countries for 2020, and the situation for some is dire.

TDR 2022 notes that monetary tightening in the USA alone could cost upwards of $360 billion of future income of developing nations (China excluded). Moreover, the Report estimates that 60% of low-income and 30% of emerging economies are near or in debt distress already and calls for financial institutions to urgently inject liquidity into developing countries and provide serious debt relief, for the IMF to make SDR allocations and use fairer, and it urges countries to work on a multilateral legal framework that will govern debt restructuring by all official and private creditors. TDR 2022 warns that unless monetary tightening and austerity policies are reversed in the largest economies, and commodity prices are stabilized, there is a real possibility of a global slowdown that would affect all regions and may cost the world economy upward of $17 trillion, equivalent to about 20% of global income.

Figure 1

Nominal exchange rate depreciations against the US dollar in percentages (Jan-Jul 2022)

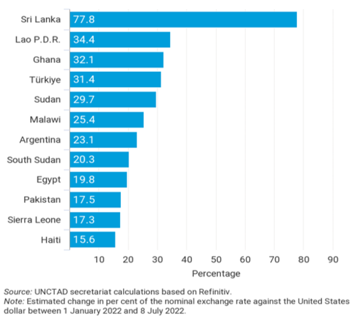
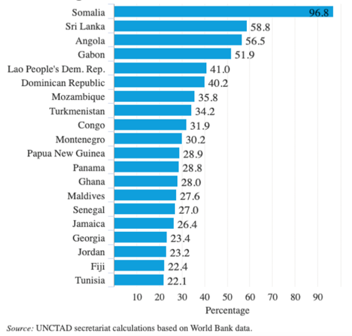


Figure 2

Servicing cost of external debt as percentage of government revenues. (2020)



Apart from the gloomy predictions of slowdown induced losses, the Report points out that supply chain issues have started to subside, with freight prices going down since the third quarter of 2021. This, coupled with increased merchandise imports by the EU, USA and part of the developing countries, has contributed to growth of merchandise trade in the beginning of 2022. Moreover, for advanced economies in Asia exports have been "way above" pre-pandemic levels, for Europe exports were positively flat, while for the US and UK they were below historical highs. The Report cites data by Cerdeiro et al., (2020), which reflects a rebound in all types of sea transport vessels (container, bulk and oil/gas), with the notable exception of foodstuffs transport largely due to the, once resolved and now reimposed, blockade of grain exports from Ukraine. Tourism is noted as being on the rise as well, with most arrivals being registered in Europe and the Americas, who are leading the rebound in the first half of 2022. However, despite the aforementioned rebound, arrivals for Europe are still 36% down from pre-pandemic levels, while for the Americas they are 40% below 2019 numbers. Air transport of passengers and cargo shows diverging results. The report cites data from IATA (2022) which shows that RPK (revenue passenger kilometers) or kilometers traveled by paying customers, had exceeded pre-Covid 19 levels for majority of the main routes by the end of the second quarter of 2022, except for Asia-Europe and Asia-North America. This last fact has an outsized negative effect on total revenues, which for airline passengers in 2019 were $607 billion, and are projected to be $498 billion for 2022. Air cargo, on the other hand, may have revenues reaching as much as $191 billion in 2022, compared to $100 billion in 2019.

Another notable disruptor of the world economy, according to the TDR 2022, are volatile commodity prices, especially those of carbon fuels, grains, fertilizers, and metals. The Report points out that Russia and Ukraine represent 30% of the world's wheat exports, 20% of maze exports, and 50% of sunflower oil exports, while Russia and Belarus are responsible for 20% of world exports of fertilizers. These facts, combined with Russia being the world's largest natural gas exporter and second largest oil exporter, and other global supply chain issues, led to sharp commodity price spikes between April and December 2020, reflected by a 50% rise of the aggregate commodity price index for the same period. The aggregate index gained additional 54.7% in 2021, with energy commodities leading the charge with an increase of 85.8%, followed by food and metals with nearly 30% and 21% respectively. The TDR 2022 cites World Bank (2022) data that shows that even though the aggregate price of food rose by 80% from May 2020 to June 2022, price of fertilizers for the same period rose by staggering 230%. Despite these volatilities, the aggregate price index dropped by 12% between April and July 2022, reflecting a decline of 21% for grains and 28% for industrial metals. By the end of July 2022, with the exception of European natural gas prices, energy prices had retreated by 18% from their peak in June 2022. Around this time, grain prices had returned to the levels from before the Russian invasion of Ukraine. To avoid price hikes such those delineated above, among other proposals, UNCTAD calls for strategic and targeted price controls for commodities, windfall taxes for business entities who show excessive profits, and more scrutiny of speculators and speculative practices that stray from their original purpose of injecting liquidity whenever a need or an opportunity arises.

4. CONCLUSIONS

In Chapter II, TDR 2022 points out three main factors that pose financial risks to developing nations. First, according to the UNCTAD press release from April 12, 2023, monetary tightening in advanced economies (especially in the USA) has contributed to increase of bond spreads all over the world, making cost of borrowing to go up, with sovereign bond yields increasing "from 5.3% to 8.5% for 68 emerging markets." Moreover, the spread for 10 Yr US Treasury Bills has increased over six-fold since 2020, putting upward pressure on the value of the US dollar. The appreciating dollar then started reverberating throughout the world economy, causing financial distress to countries who have dollar denominated debt, who are net importers of commodities such as grain, carbon fuels, fertilizers and minerals, and who have depleted their central bank reserves in order to protect their currencies from depreciating too much compared to the US dollar. Second, the price hikes in commodity markets caused by human made actions such as the war in Ukraine, the financialization of commodity trading, market concentration and speculation, have had a significant impact on every country and have often resulted in social unrest. Third, alongside a global slowdown, the lingering high levels of debt acquired by developing nations during the pandemic have left them open to financial peril.

Though the Report in its entirety calls for sweeping reforms of the international legal framework that governs debt, reversal of tightening and austerity policies by advanced economies, strategic price controls for commodities (food and energy in particular) and greater global support for the UN brokered

Black Sea Grain Initiative, windfall taxes on excessive profits, and South-South cooperation on climate mitigation. Chapter II, in particular, focuses its recommendations on how to avert negative spillovers from monetary tightening policies in advanced economies and austerity measures that follow them globally. The data shows that due to the so called "flight-to-quality" phenomenon, or moving investment to safer economies away from developing ones, partly due to higher central bank interest rates in advanced economies but mostly to avoid geopolitical and indebtedness related risks, has reversed a $93 billion inflow for 2020 to developing countries to a net outflow by September 2021. This outflow according to the Report is largely because of the sell-off of assets in developing countries. Another major issue delineated by the Report is debt-distress, be it related to overborrowing due to the pandemic or due to bad governing, to address this issue TDR 2022 points out that new multilateral legal frameworks are needed to address debt restructuring, for both institutional and private creditors, which will bring more transparency to the process. Even more importantly, real debt relief is deemed urgently needed.

If the purpose of the TDR series is to bring clarity about the global economic situation to policy makers, economists, academics and other researchers, it has succeeded as such. It has accomplished its mission to bring "comprehensive and authoritative analysis of economic trends and policy issues of international concern." It has offered recommendations, number of which might both sound far-fetched and idealistic to some, while sounding logical and straightforward to others, like the aforementioned reformed multilateral framework which will govern over debt and issues around it like restructuring and relief. One thing becomes increasingly clear to most readers of the report and that is that something must be done about the roles central banks are expected to play in the short-run versus the long-run. Central banks, as they are conceived, have mandates bound by national borders, and are guided solely by national interests. However, due to the centrality of some economies in relation to the global economy and their outsized influence over the global financial and trade flows, perhaps new and improved central bank mission statements could be looked at by those governments, particularly ones that take into account central bank actions that are intended to stabilize, protect, and expand the global economy as a whole, instead of today's patchwork approach by competing central banks, which in its essence simply displaces economic pains rather than attempting to fix them. Therefore, one line of future research might be necessary to aid in defining potential new role central banks should play in a global context that will rely on policy coordination and take into account negative spillovers to other countries, while another line might focus on finding answers how to reign in profiteering from speculative activities in the commodity markets, especially in times of global crises.

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