UNCTAD's Trade and Development Report 2016:
More inclusive and sustained growth through structural transformation

"In global economic terms, 2016 will be remembered as a year of living dangerously," said UNCTAD's Igor Paunovic in a webinar live-streamed from Geneva to the North-West University's TRADE research entity on 25 November 2016.

Presenting the main findings of UNCTAD's Trade and Development Report 2016, Mr Paunovic, a Senior Economist in UNCTAD's Division on Globalization and Development Strategies, remarked that the world is witnessing growing economic and political discontent, evidenced in rising anti-globalisation and anti-establishment rhetoric. The shock Brexit vote and US election result are clear signs of changing sentiment about international relations and the nature of trade.

Yet this is not an opportune time for countries to retreat behind protectionist barriers. The world economy is still in the doldrums, with global growth in 2016 likely to be less than 2.5% and global trade faring even worse at about 1.5%. Much of this is due to the muted economic performance of the advanced economies. However, even the developing countries' growth rates (4% on average this year) have been far from stellar. In regional terms, it is only South and South-East Asia that have managed to maintain reasonable momentum in their growth rates.

With demand in the advanced economies waning and China also experiencing economic constraints (and its appetite for commodities dropping off), developing country export volumes and revenues have been adversely affected. The commodity cycle is in its second year of a sharp downturn, with mining and oil exporters having been the worst affected. This is a leading cause of Africa's economic slowdown. Developing countries are also vulnerable to volatility in global financial markets, with capital flight inducing macroeconomic uncertainty and disappointing levels of foreign direct investment.

The advanced economies, in turn, are not immune to the prevailing global headwinds and should be putting more money and resources into infrastructure development to encourage more dynamic growth. Real wages in the advanced economies have remained stagnant for decades, while rising inequality — a phenomenon not confined to the developing world — is adding fuel to the fire.

Worryingly, countries are less likely to be able to move from low-income to middle-income status today than in the period 1950-1980. It is only the economies of East Asia that have made noticeable strides in closing the absolute income gap with leading economies. Manufacturing activity and productivity in certain parts of the world also paint a gloomy picture. Whereas the contribution of manufacturing to economic activity in East Asia has been rising steadily since the 1970s, this has not been mirrored in Latin America (where it has fallen from 40% to 20%) and Africa (where it has fallen from 20% to less than 10%).

Mr Paunovic emphasised the pivotal role played by manufacturing in countries' economies, saying that manufacturing (together with 'modern' services) boosts productivity growth and generates profits for reinvestment, thereby helping to expand the job pool.

“Developing countries need to redirect their engines of growth towards local and regional demand,” he said. “Having a robust industrial policy and bringing about the necessary structural transformation of their economies are important elements in this process.”

Africa exports mainly unprocessed commodities to the world (i.e. 57% of the continent’s total exports). In contrast, Africa’s regional exports constitute mainly processed commodities and manufactured goods. Thus, regional trade provides the rationale for Africa to engage in more serious industrialisation drives. At present, Africa’s intraregional trade amounts to about 12% of total trade. This stands in contrast to intraregional trade in Latin America (about 30%), East Asia (about 50%) and Europe (about 70%).

Investment has a major role to play in countries’ industrialisation efforts. China and India, for example, invest between 40%-50% of GDP in their productive sectors, whereas African countries invest on average 20%-25%. This is not high enough to support much-needed structural transformation. For an economy to be dynamic, investment must reach at least 50% of GDP. Another disturbing trend over the years is that as profits have risen, investment has actually declined. In other words, profits have not been used to improve manufacturing methods and productivity.

“Industrial policy has been an ideologically-charged topic for many years,” commented Mr Paunovic, adding that many industrial policy theories and practices abound. “The idea of picking winners/sectors is not the right way to go,” he added, emphasising that governments cannot subsidise a few chosen sectors forever. Rather, the secret to faster and more inclusive economic and job growth lies in ensuring strong backward and forward linkages among the various sectors in an economy. It is the absence of such linkages that prevents many producers from being able to play a more meaningful role in or move up global value chains.

Mr Paunovic went on to say that there needs to be coherence between economic, industrial, trade and other policies, failing which the private sector will simply be incentivised to import rather than engage in manufacturing. To this end, there needs to be “a capable and stable bureaucracy, closely connected to but independent of the business community”.

The Trade and Development Report 2016 stresses the importance of developing countries achieving a ‘developmental state’ in the true sense of the word, characterised by high levels of autonomy, capacity and political commitment to the principles of economic development – all of which are essential for staying on course when faced with a largely unpredictable external environment. Critical, too, is having a clear and realistic economic vision which will steer the policymaking process.

To view the UNCTAD Trade and Development Report 2016, go here.