# Global instability and the development project: Is the 21st century different?

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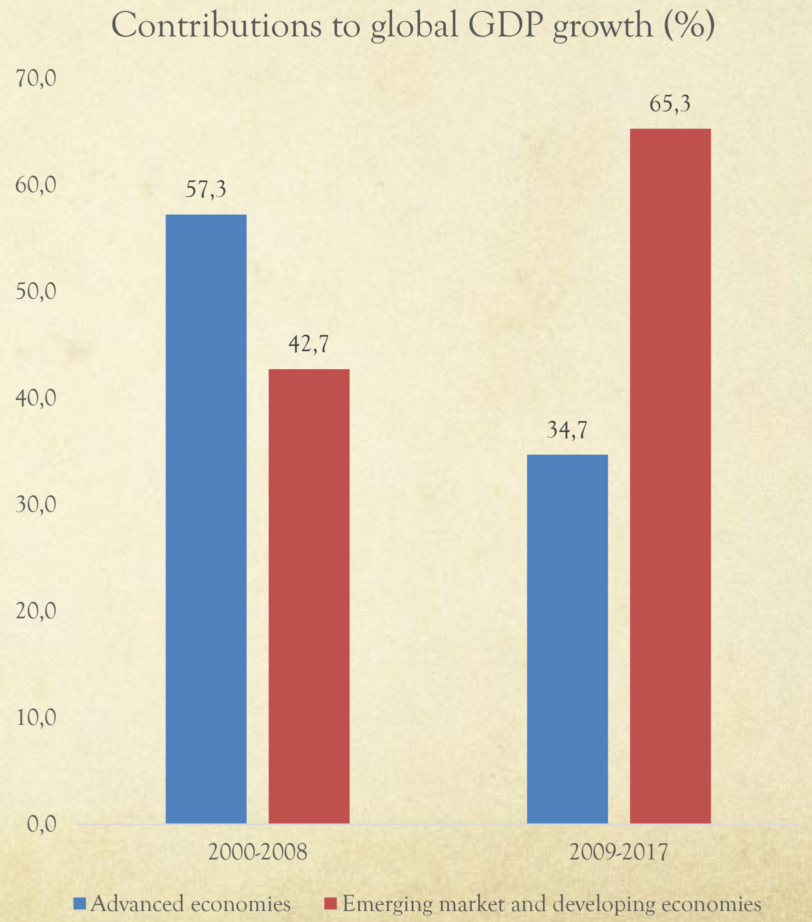
# Stagnant and unstable global capitalism

# “Decoupling” is a myth

# Developing countries' share of global GDP, increased, then stagnated after the global crisis – but they still accounted for nearly two-thirds of global income growth since 2009.

# Recent global growth largely due to China and the US – Europe's net impact negative

# Does global stability help development?

**FOR**

- Global “leader” fulfils Kindleberger’s 3 functions of discounting in crisis, countercyclical credit and market for exports
- Enables expansion of trade and investment within and across nations
- Provides secure and more predictable environment for investment
- Economic growth feeds back into more stability and peace
- This enables advantages of extending division of labour and specialisation

**AGAINST**

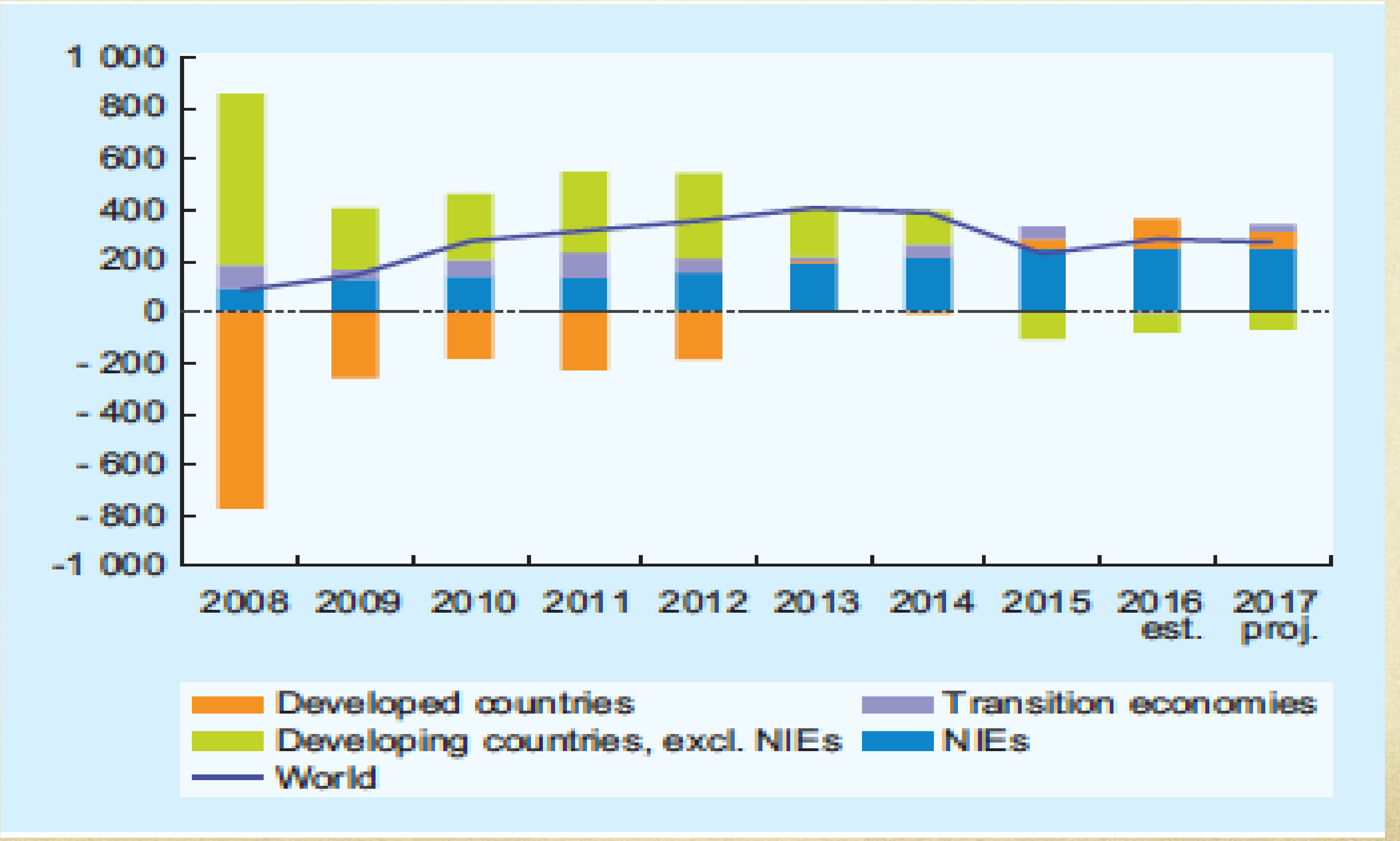
- Absence of clear “leader” and rigid rules allows economies to expand in different ways, through new patterns of production and trade
- Stability cements unequal international division of labour because of effects of static and dynamic increasing returns that favour more industrialised economies
- Uneven development ensures global stability by pushing costs of adjustment on to periphery
- Past phases of late industrialisation occurred during global instability (1930s, 1970s-1980s)

# So will global instability help development now?

- Breakdown or stagnation of trade
  - Helps economies that do not base expansion on exports but on internal markets
  - But in export-led models, lack of demand becomes a critical constraint.
  - So different accumulation model required.
- International financial integration persists
  - Volatility of cross border flows and associated internal instability
  - Loss of independent monetary policy and directed credit
  - Constraints on fiscal policy, especially expanding public expenditure
  - Domestic savings need not finance domestic investment even in poor capital-scarce economies – net flow of financial resources from South to North

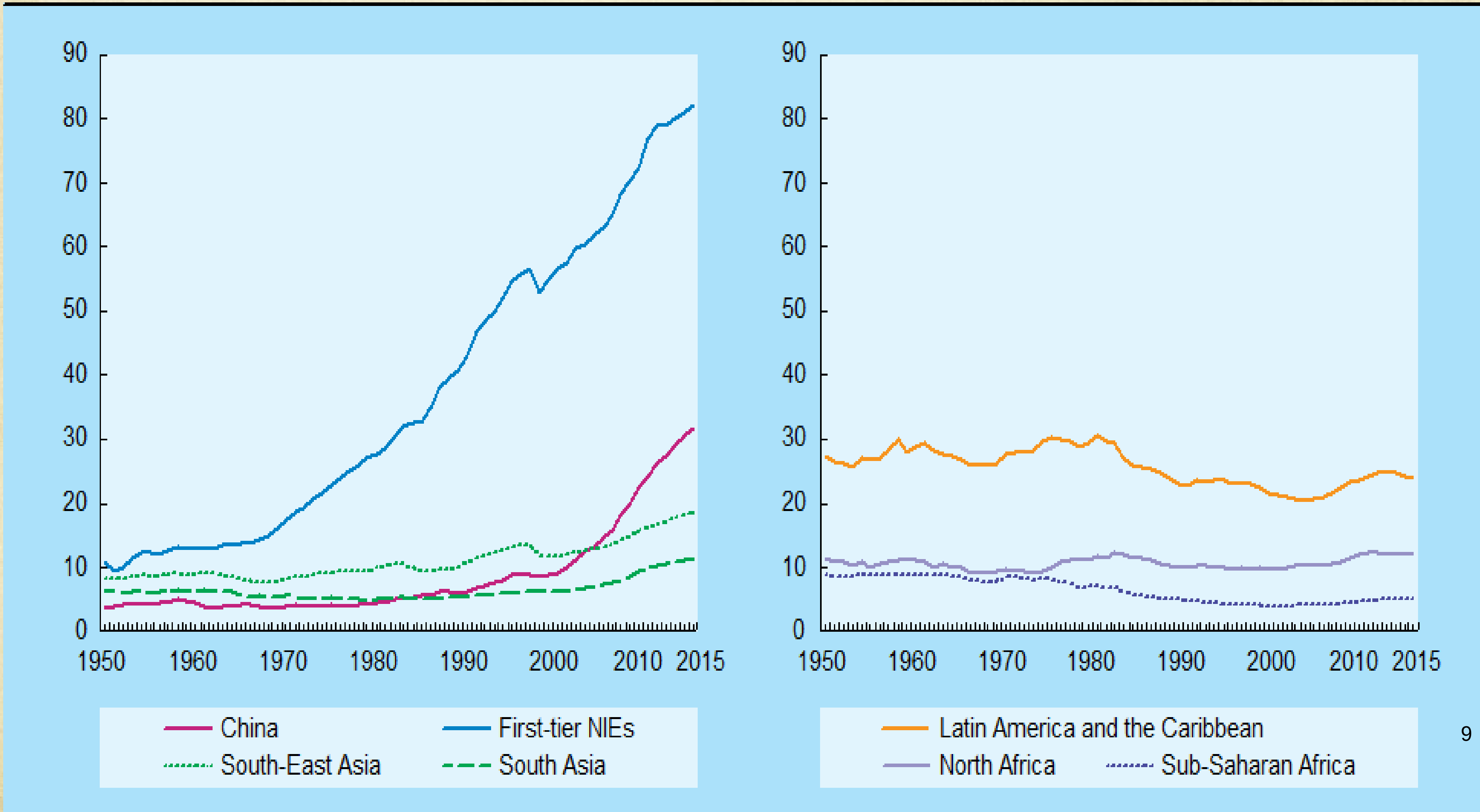
# Developed countries not providing net demand stimulus to global economy, as they run current account surpluses or smaller deficits

(Current account balances, $ bn)



# Convergence is very limited: Only East Asian NIEs are closing the absolute income gap with advanced economies

Ratio of GDP per capita (PPP) to that of US, 1950–2015

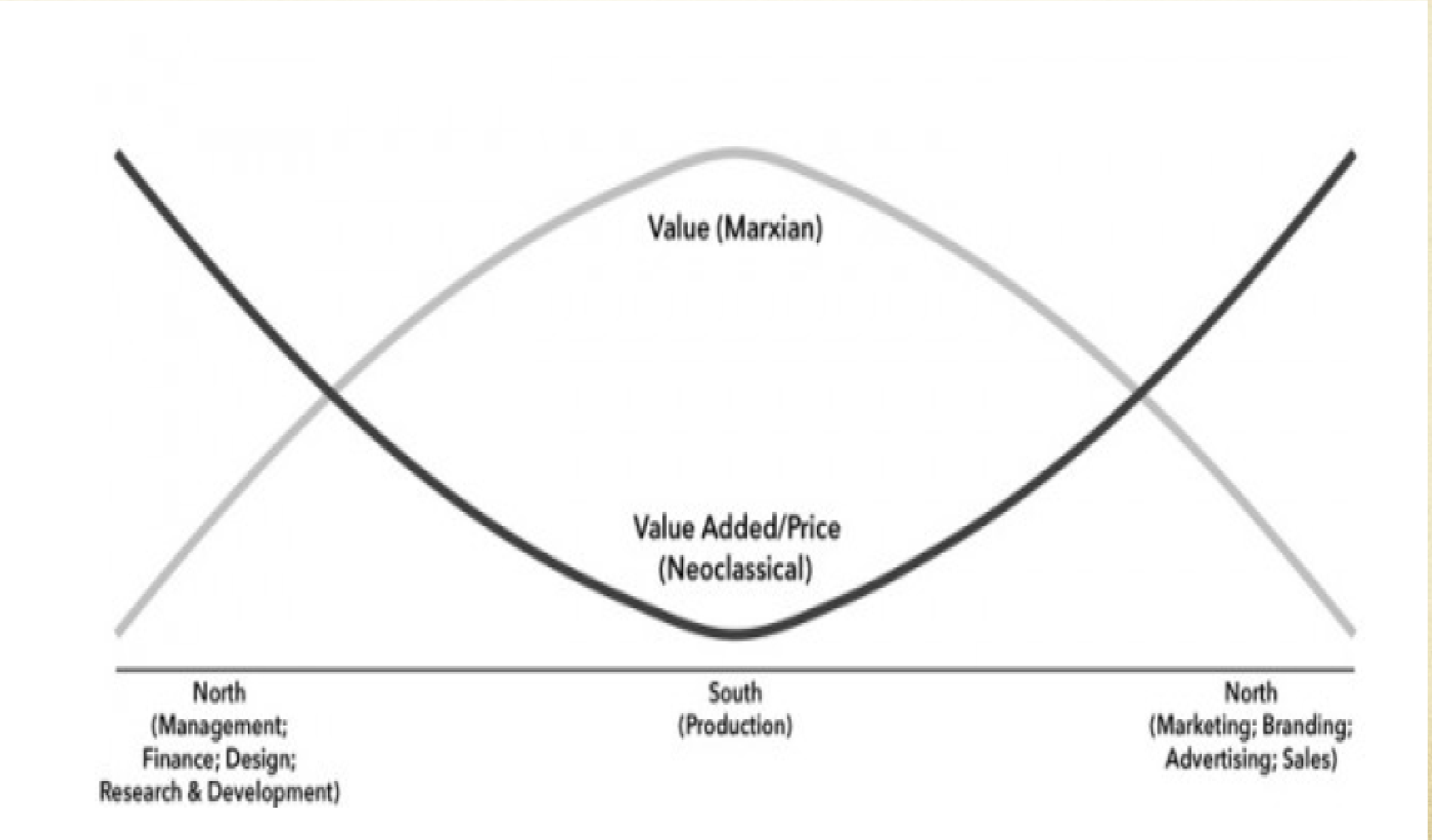


# Why not more convergence?

- Increasing concentration of global production and distribution networks
- Increasing internal economic inequality
- Global Value Chains and the “race to the bottom” in particular stages of production and assembly – women often worst affected.
- Intellectual Property Rights and the monopolies over knowledge that create high profits in the pre-production stage (design etc.) and post-production stage (branding and marketing, etc.) and reduce incomes in the production stage.
- Macroeconomic policies that reduce domestic demand (fiscal austerity) or generate growth based on unsustainable credit bubbles (monetary/financial policies)
- Less ability/willingness to tax the rich.
- Lack of focus on good quality employment creation or social protection or deliver of basic needs

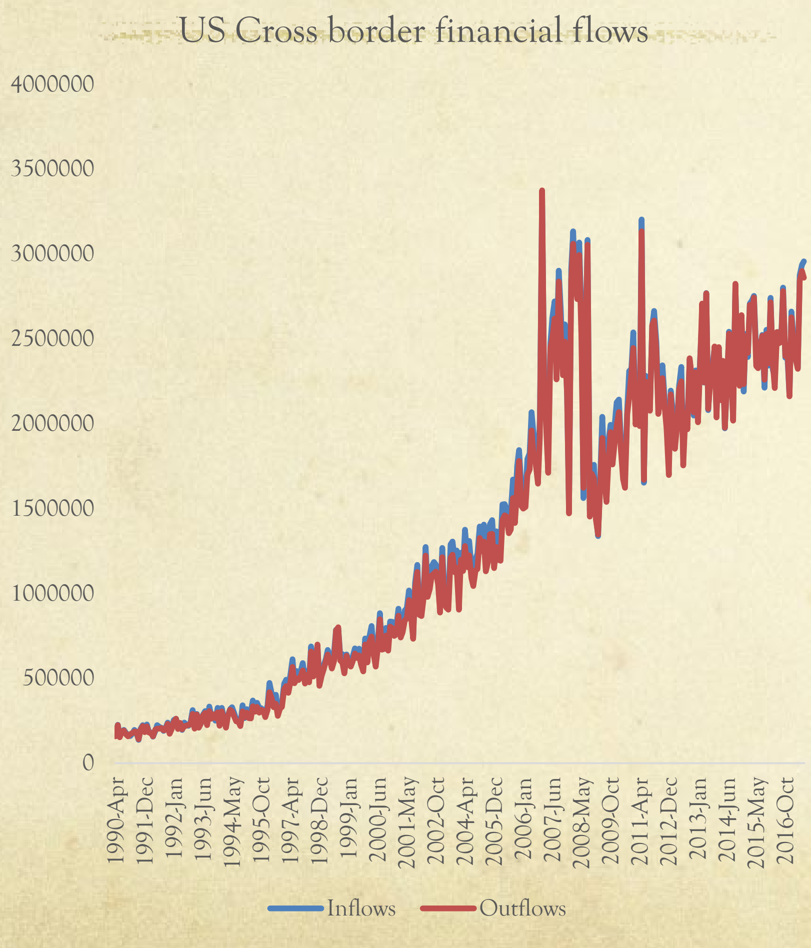
# The "Smiley Curve"

## Wages, value, and price formation along the Global Production Chain

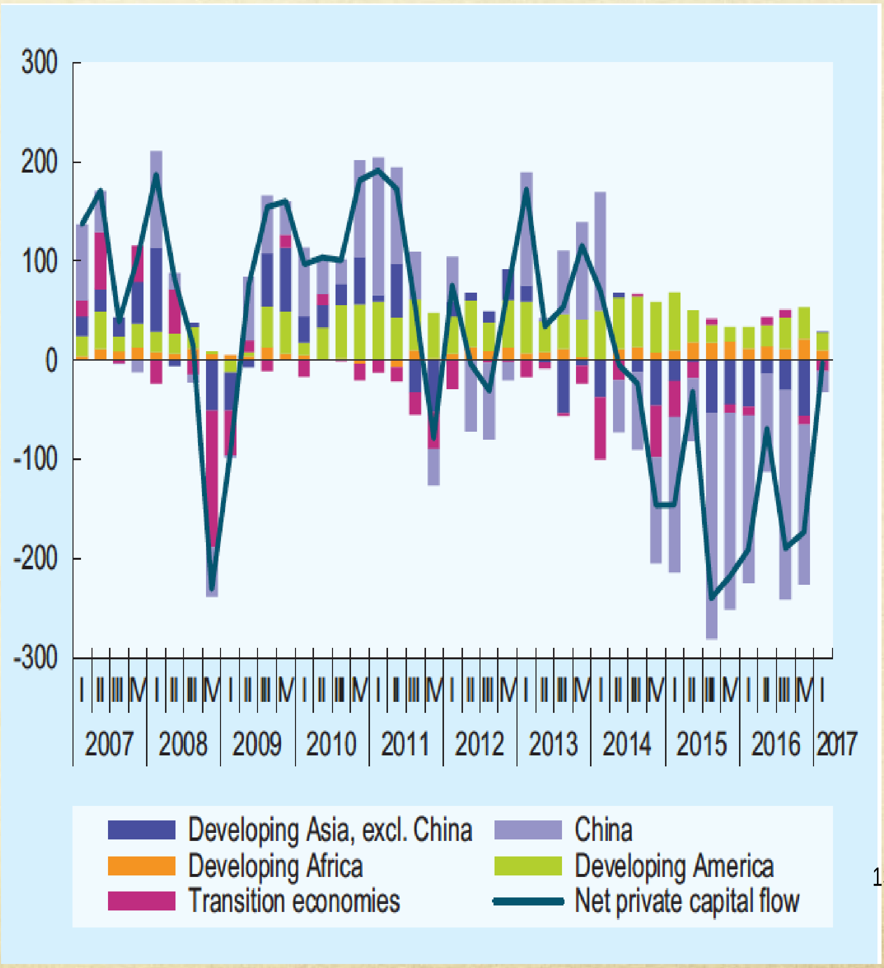


# Finance still makes economies vulnerable

Cross border flows still large and volatile (e.g. US)

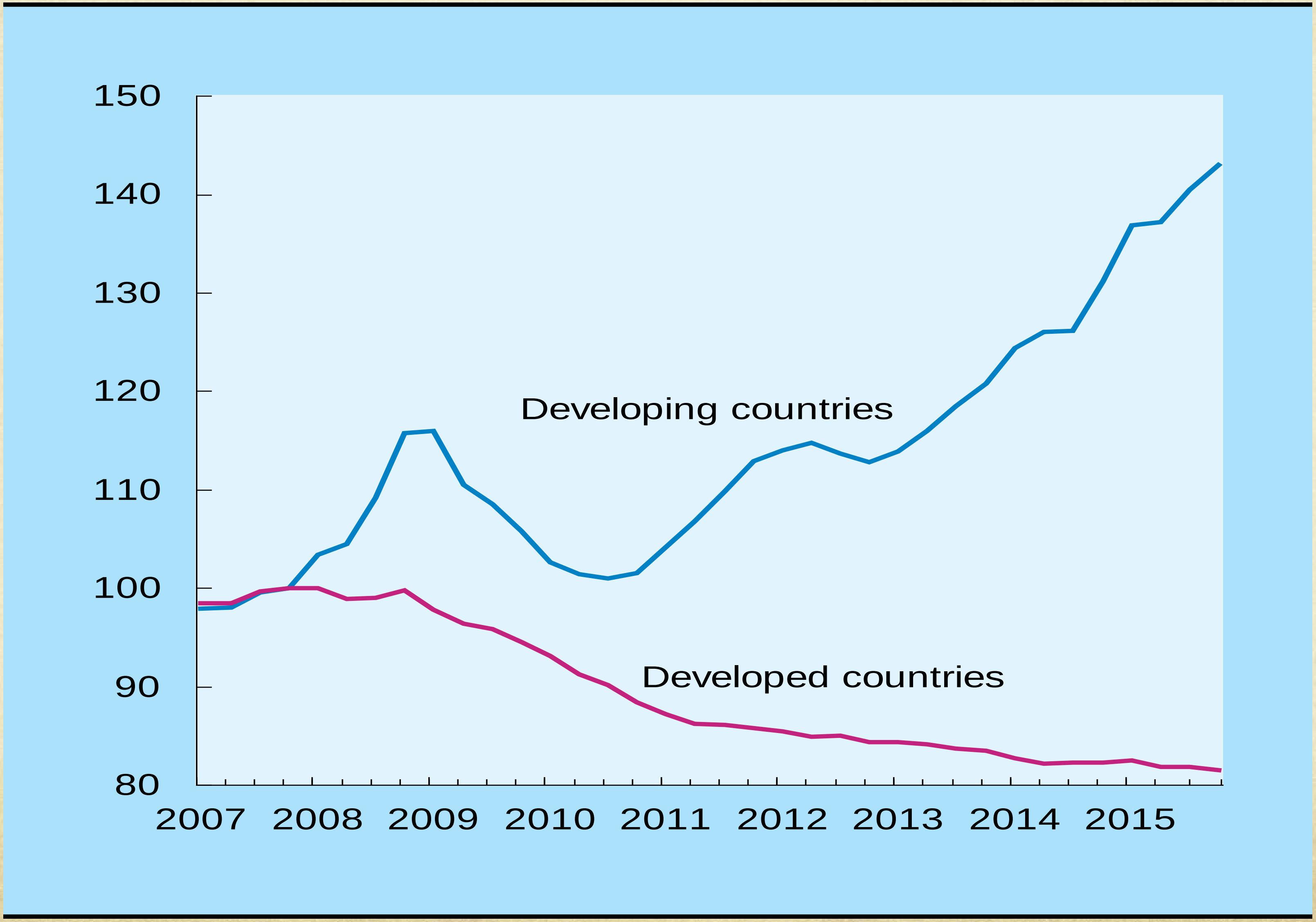



But developing countries no longer get net capital inflows



# Developing countries' recent recovery built on debt:

Index of debt service to income ratios of private sector, 2007=100



# The impact of financialization

- Financial liberalisation may lead to "financial deepening", but it does **not** have a positive effect on investment and real economic growth.

- Rather it can generate savings "surpluses" (or investment collapses) with savings that are then exported.

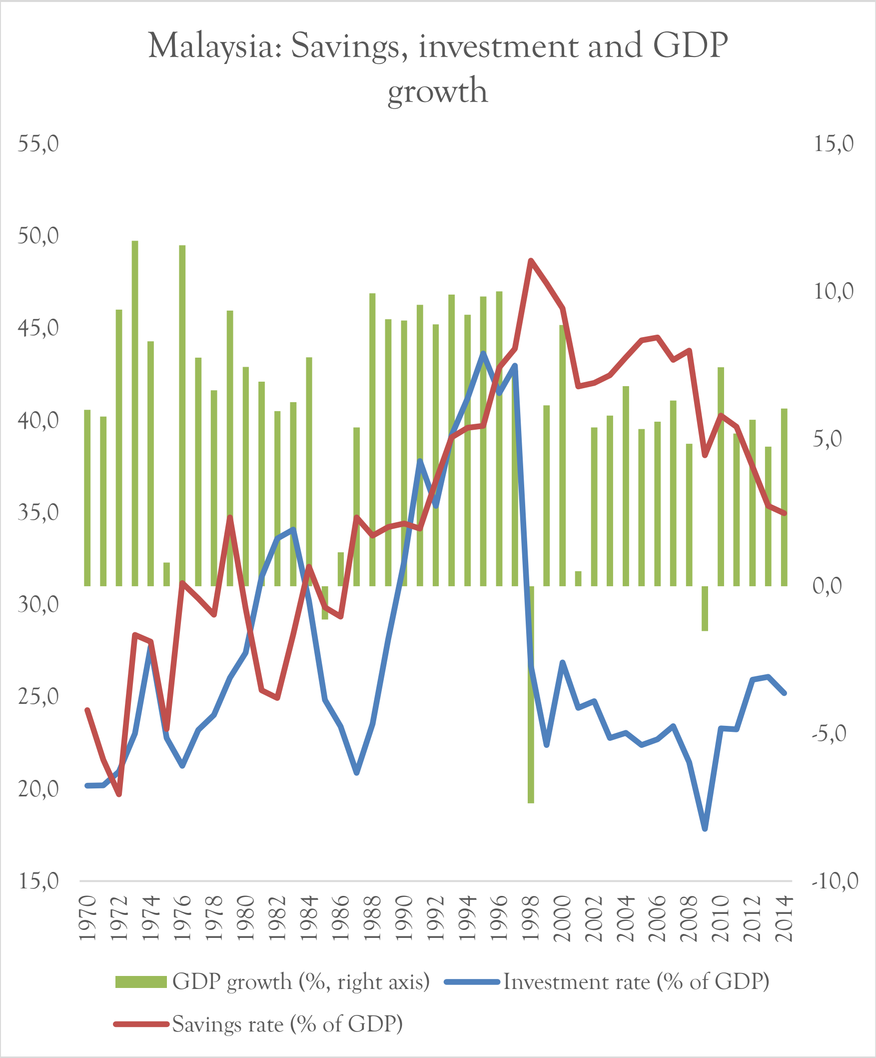
- This retards productive diversification, and exposes the economy to domestic and global boom-bust cycles.

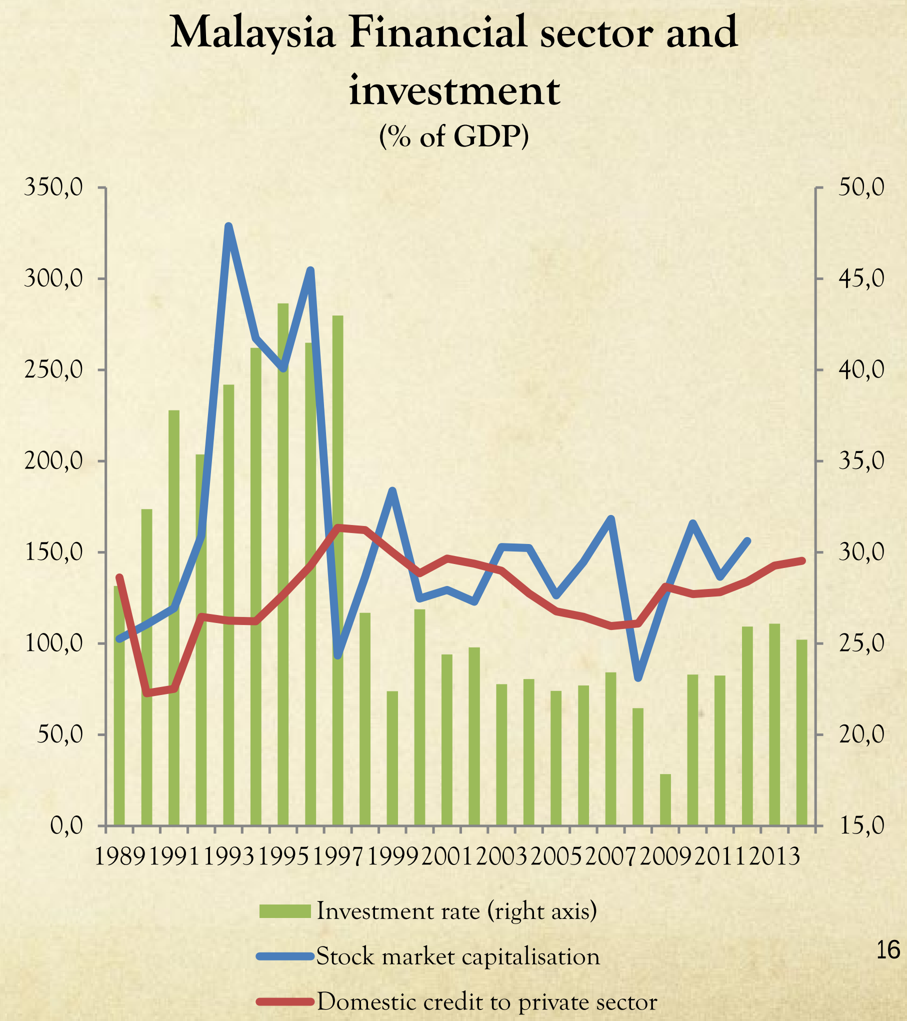
- Domestic growth then is sustained by consumer credit that fuels housing and real estate booms and finance for related investment.

- These bubbles usually end in tears, as unravelling of household and corporate debt has knock-on adverse effects on bank viability and on investment.

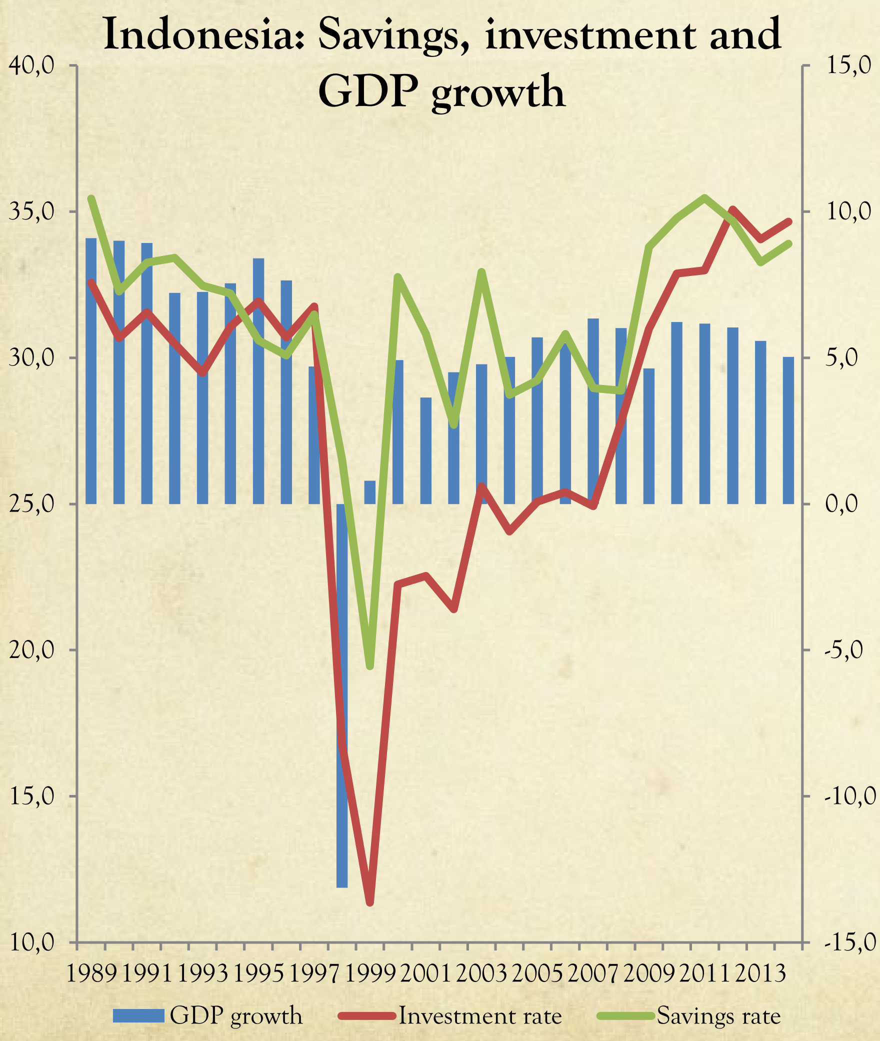
- Trade slowdown then adds to existing pressures on domestic economies.

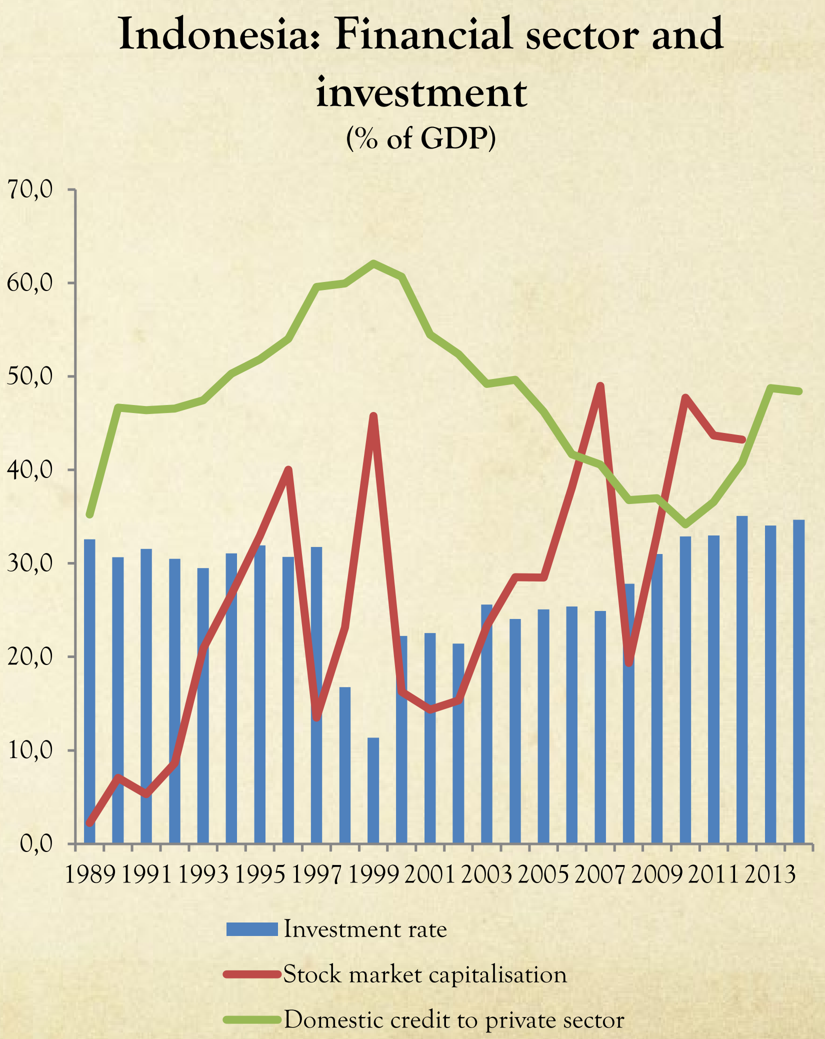
# Southeast Asian example: Malaysia



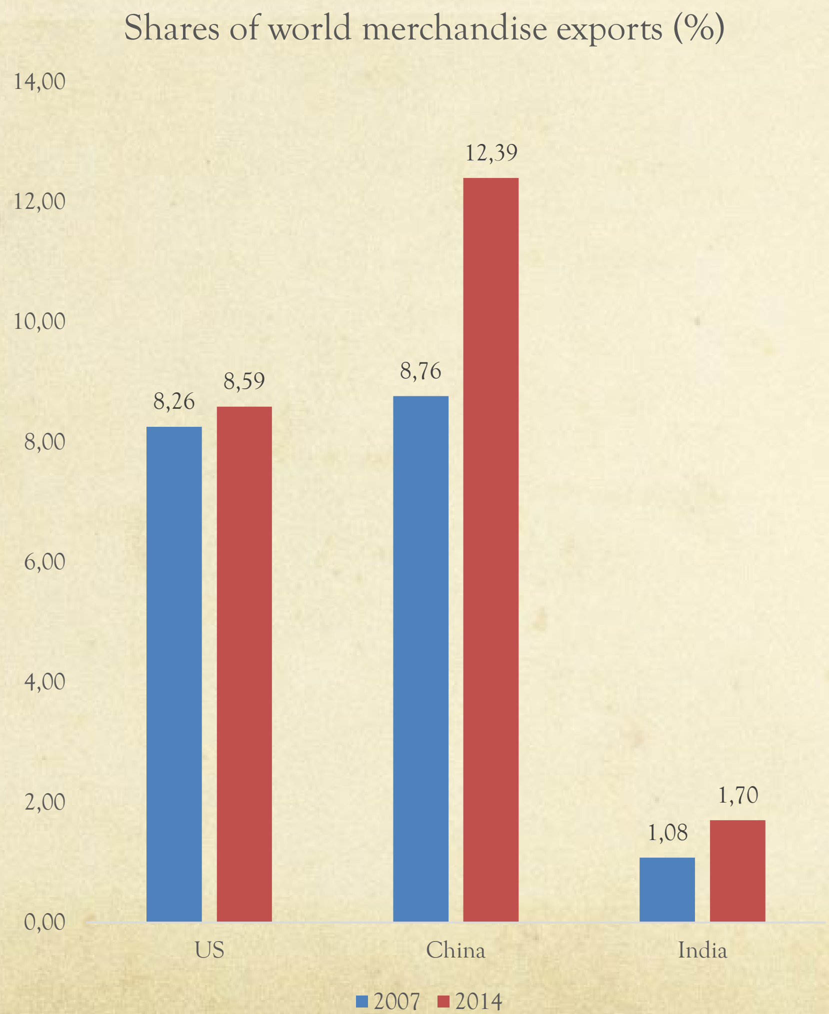



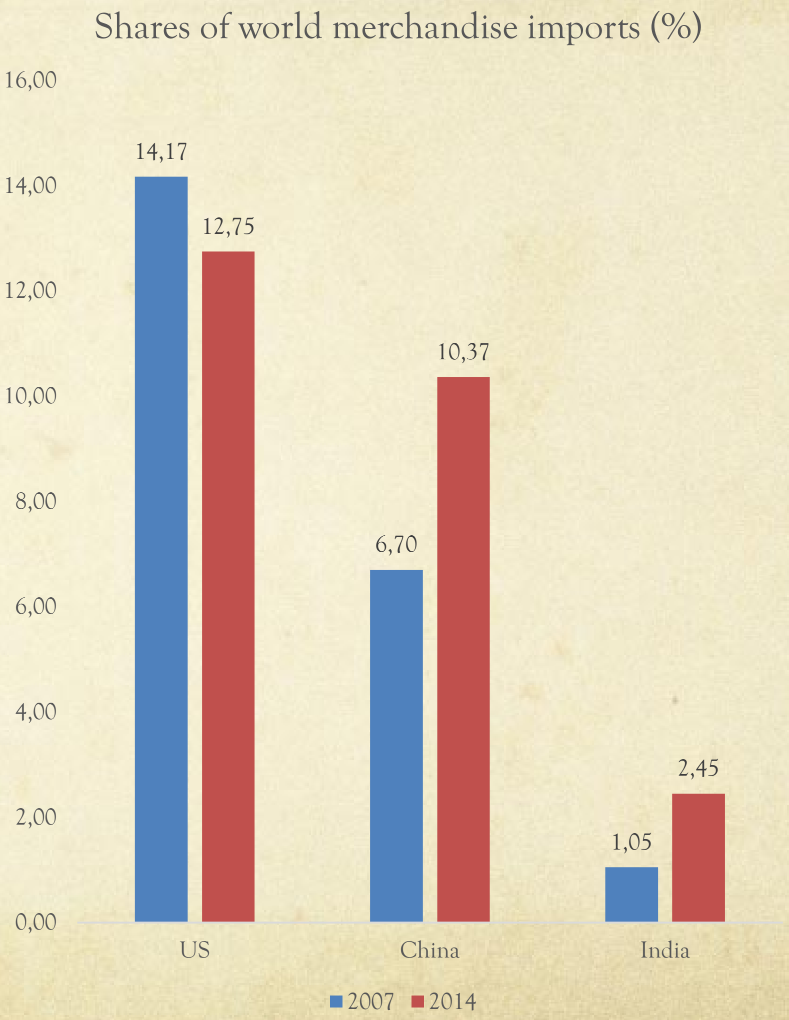
# Southeast Asian example: Indonesia



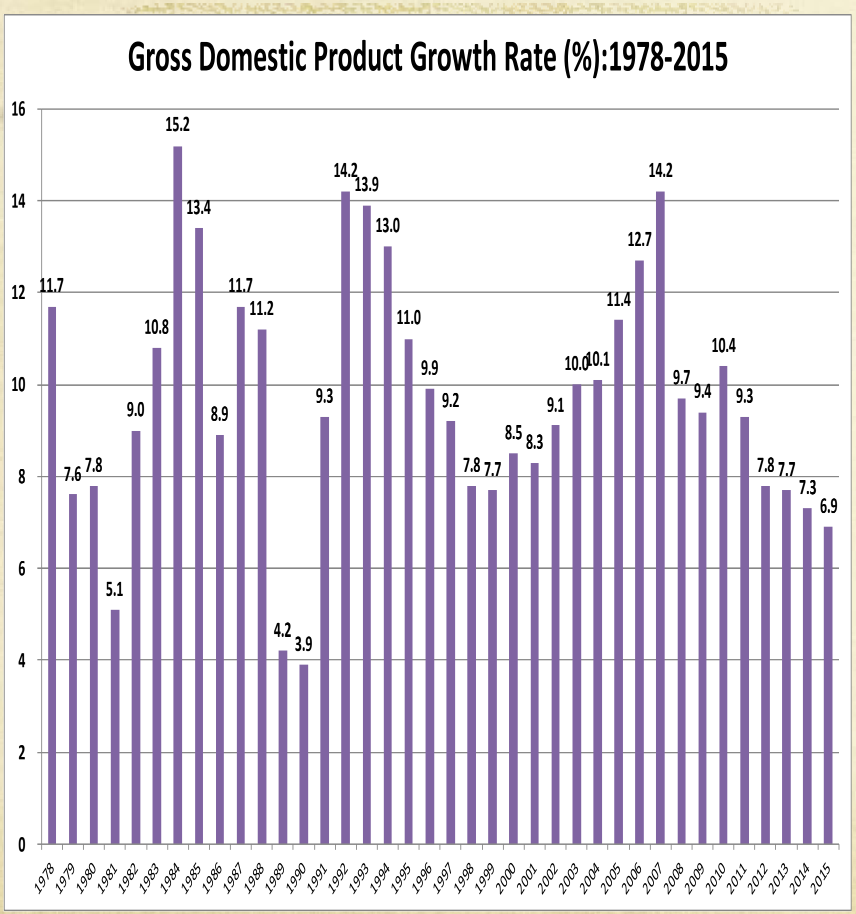
# Can China take up the global demand slack? Increasing significance in world trade



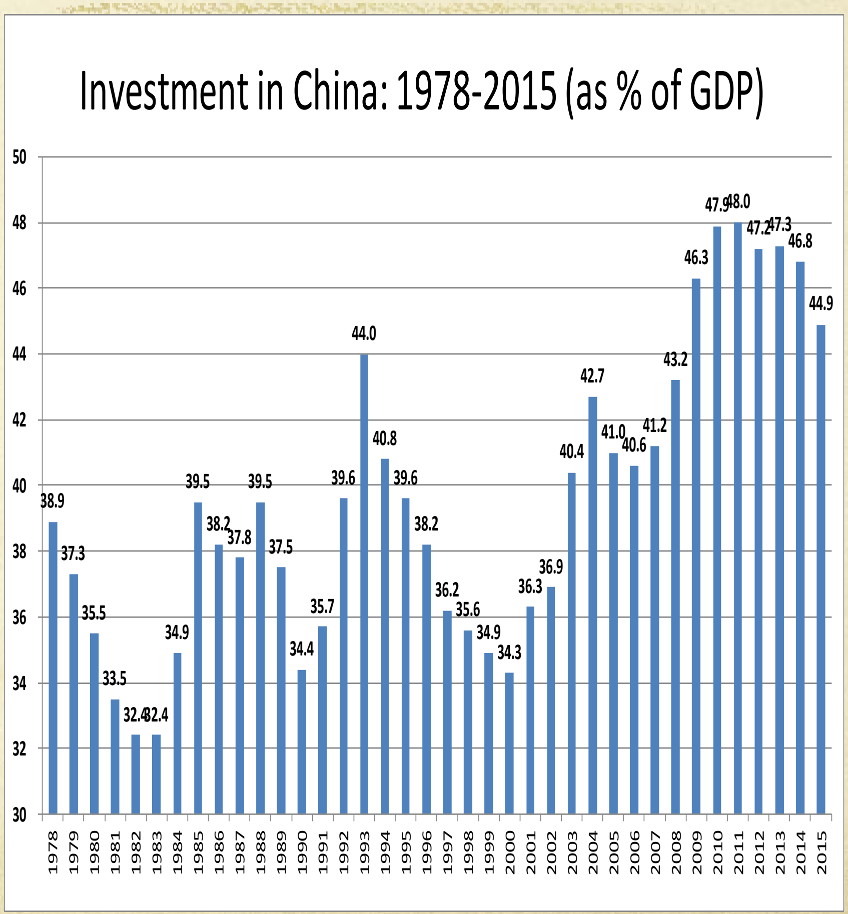



# The Chinese growth miracle

Real GDP increased by 33 times between1978 and 2015

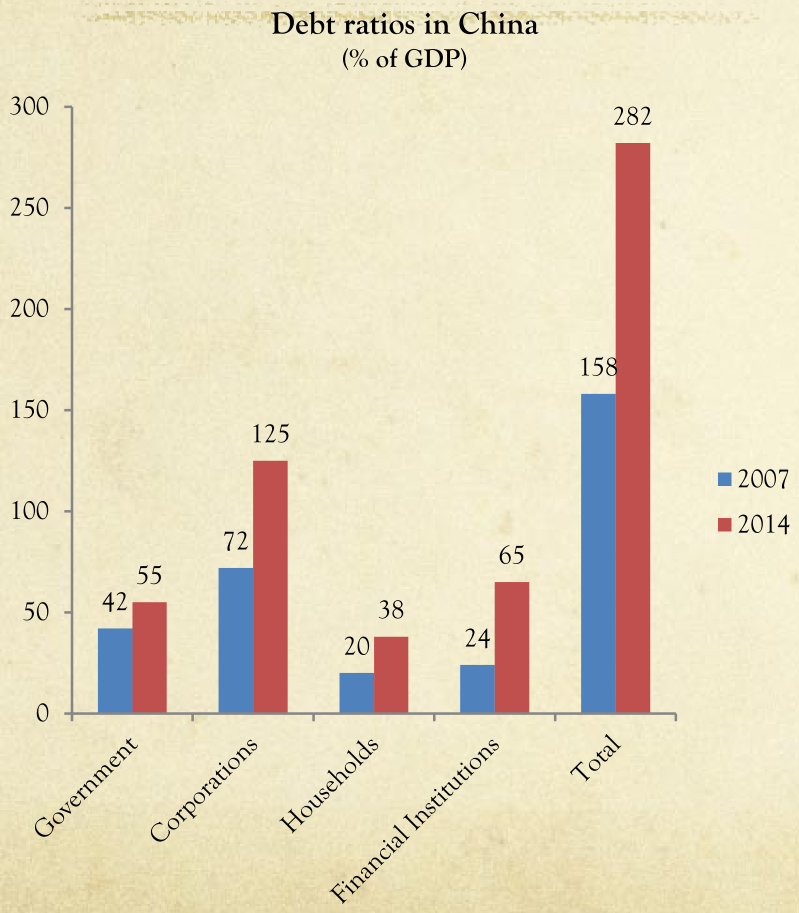



Based on very high investment rates, directed credit, state control

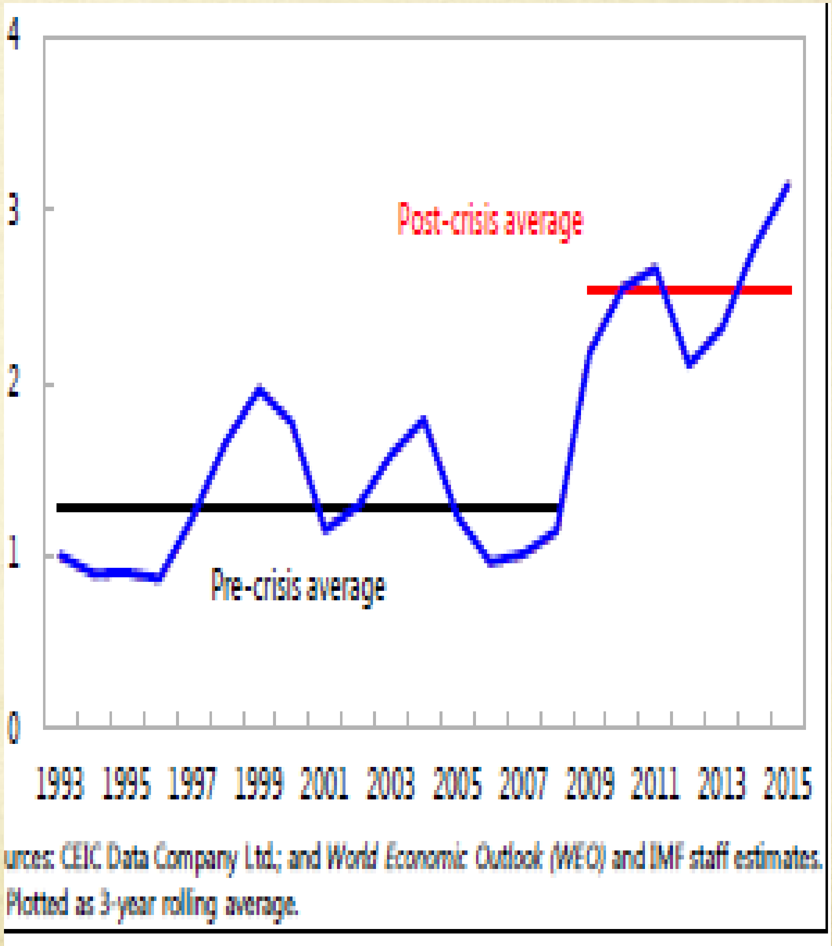


# Recent Chinese growth heavily based on debt

Debt to income ratios have nearly doubled for all sectors

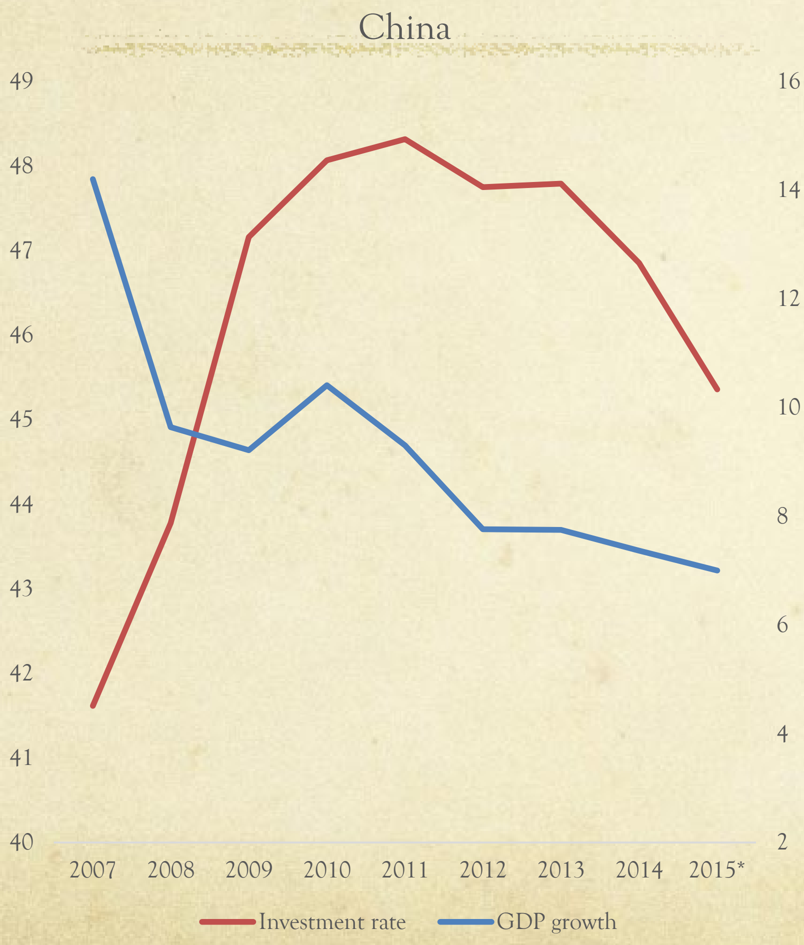



Credit intensity in China
(New credit per unit of additional GDP)

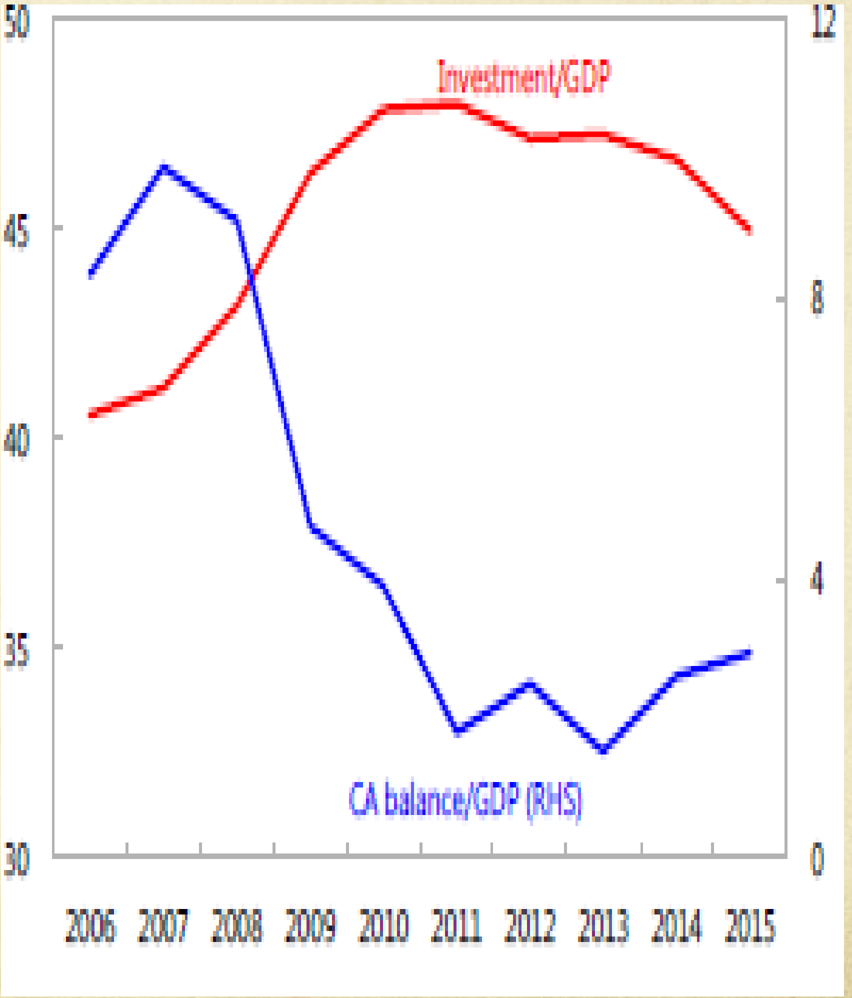


# Chinese economic rebalancing is now underway

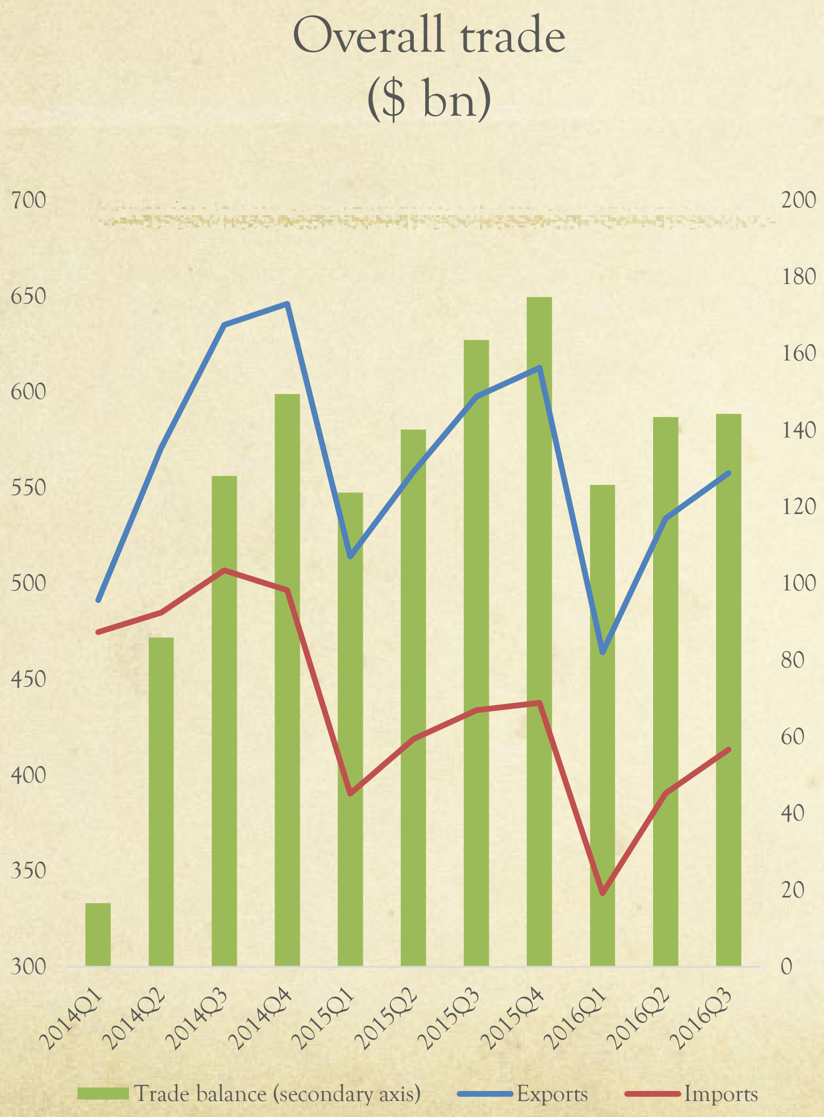
## Recent investment and GDP growth

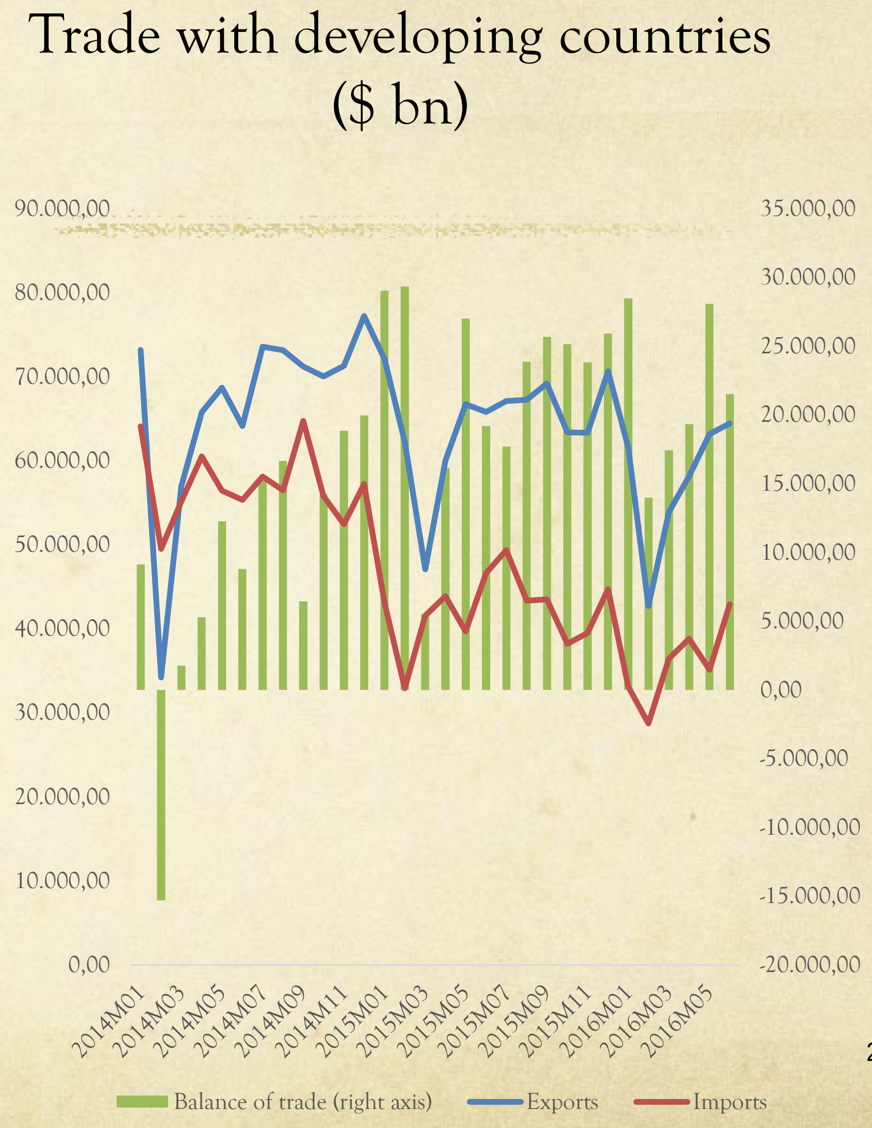



## Internal and external rebalancing



# But Chinese imports more affected than exports



# Implications for capitalist accumulation and for wider development project

- China is rebalancing – but this may be bad news for the rest of the developing world.
- Some rejuvenation of global demand absolutely essential.
- Sustained recovery would require a 21st century version of a Chinese Marshall plan.
- US Marshall Plan was characterised by speed, scale and generosity (see UNCTAD Trade and Development Report 2017) – all of which were crucial in reviving global demand in mid-20th century.
- Recovery was accompanied by redistribution and regulation – both of which are missing today.

# China's One-Belt-One-Road Initiative has echoes of the Marshall Plan – but more geographically extended and less generous

# Will OBOR do the trick?

- Official expectation that this will rebalance the global economy and restore faith in globalisation through new demand created by increasing supply
- Six "international co-operation economic corridors" : New Eurasia Land Bridge; China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar.
- Infrastructure-based: railways and roads, airports and sea ports, oil and gas pipelines, power transmission routes with regional grids, cross-border optical fibre connectivity
- "Global Keynesian" approach to provide market for current Chinese over-capacity in basic and infrastructure industries
- Financing still not clear: Requirement more than $1 trillion, but total AIIB capital $100 bn, NDB capital $100 bn, Silk Road Fund $40 bn – so local co-financing expected, including for some "white elephant" projects.
- Explicitly relies on deeper financial integration, protection of various kinds for private investors through "investment facilitation" and very extensive trade liberalisation, so more deregulation.
- Some crucial features of Marshall Plan missing from this plan.

# How can the development project be revived today?

- Export obsession no longer useful; export-led growth reaching limits – focus should be on wage- and employment-led growth
- Investment push critical, and usually requires active state intervention
- Manufacturing still matters - but have to factor in ecological considerations
- Policy attention to small producers especially in agriculture
- Asset and income inequality have to be addressed
- Huge potential for more revenues from direct taxation
- Regulation of both capital and labour markets, including activities of MNCs
- Control over finance – to prevent crises, reduce vulnerability and direct credit to priority activities
- Social policy as development policy – universal provision of good quality basic goods and services and focus on care work.
- All this requires international co-operation – but if not that, at least less external pressure from global rules and global institutions that prevents these policies.

Thanks for your attention!