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

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Stagnant and unstable global capitalism

World GDP in constant prices

Rate of growth (%, right axis)
“Decoupling” is a myth

Real GDP growth (% per year)

Advanced economies
Emerging market and developing economies
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

Contributions to global GDP growth

- Developing Asia without China: 5.8 (2000-2008), 7.0 (2009-2017)
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

US Cross border financial flows

- Inflows
- Outflows
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

Malaysia: Savings, investment and GDP growth

Malaysia Financial sector and investment (% of GDP)

- Green line: Investment rate (right axis)
- Blue line: Stock market capitalisation
- Red line: Domestic credit to private sector
Southeast Asian example: Indonesia

Indonesia: Savings, investment and GDP growth

Indonesia: Financial sector and investment (% of GDP)
Can China take up the global demand slack?
Increasing significance in world trade

Shares of world merchandise exports (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>China</th>
<th>India</th>
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<tr>
<td>2007</td>
<td>8.26</td>
<td>12.39</td>
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<td>2014</td>
<td>8.59</td>
<td>8.76</td>
<td>1.70</td>
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Shares of world merchandise imports (%)

<table>
<thead>
<tr>
<th>Year</th>
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<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>14.17</td>
<td>12.75</td>
<td>6.70</td>
</tr>
<tr>
<td>2014</td>
<td>10.37</td>
<td>1.05</td>
<td>2.45</td>
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</tbody>
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The Chinese growth miracle

Real GDP increased by 33 times between 1978 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

Overall trade ($ bn)

Trade with developing countries ($ bn)
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!