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South faces prospect of another "lost decade", warns UNCTAD

The developing countries are being trapped in a vicious cycle of deepening debt distress that could ultimately result in another "lost decade" for them. The interest rate hikes in the developed countries could cost developing countries $800 billion in foregone income over the coming years. Meanwhile, economists at the World Trade Organization have projected global trade to decelerate to 1.7% in 2023 from 2.7% last year due to multiple factors including high inflation and financial market uncertainty.

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Developing countries face "lost decade" and deepening distress, says UNCTAD

The deepening debt distress in developing countries could cause a "developmental crisis", and ultimately result in these countries suffering from another "lost decade", the United Nations Conference on Trade and Development (UNCTAD) has warned.

by D. Ravi Kanth

GENEVA: The developing countries are being trapped in a vicious cycle of "deepening distress" that could ultimately result in a "lost decade" for them, largely due to the recent high interest rate hikes by the central banks of the developed countries, the United Nations Conference on Trade and Development (UNCTAD) has warned.

In its latest Trade and Development Report (TDR) Update released on 12 April, UNCTAD said the deepening debt distress in developing countries could cause a "developmental crisis", with 39 countries paying more to their external public creditors than what they received in new loans, with an adverse impact on public investments and social protection.

Amidst the likelihood of a deceleration in global economic growth in 2023, from an earlier forecast of 2.2 percent made in its TDR issued in September 2022, to its forecast of 2.1 percent this year, the TDR Update estimates that the high interest rates in the US and other developed countries could contribute to more than $800 billion in foregone income over the coming years for developing countries (excluding China), compared to what would have been generated without them.

In contrast, the International Monetary Fund's latest forecast announced on 5 April suggests that global economic growth would hover around 2.8% and a possible "hard landing" if inflation continues to remain high.

As the IMF appears to be more concerned about the global economic growth prospects in the US and other developed countries, the TDR Update expressed grave concerns over the tight credit policies on the developing countries, whose debt burden seems to have increased by about $8 billion.

Grim growth prospects

The TDR Update said the overall growth prospects appear to be grim, with global growth estimated at below 2.2 percent in 2023, as compared to the TDR's earlier projection of around 3.1 percent last year.

The African region is expected to grow at around 2.6 percent in 2023, while the Americas, which includes the world's largest economy, the US, is forecast to grow at around 1.1 percent this year.

The US, according to the TDR Update, is expected to grow at 0.9 percent in 2023.

The Asian region (excluding China) is likely to register a growth of 4 percent in 2023, with China likely to grow around 4.8 percent and Japan at 1.6 percent this year.

India, according to the TDR Update, is expected to grow at 6 percent this year, while countries in South East Asia are likely to register a growth rate of around 4.1 percent.

Indonesia, the largest country in South East Asia, is expected to grow at 4.7 percent in 2023.

Another "lost decade" for South

The TDR Update says somewhat poignantly that the developing countries face the prospect of a "lost decade" of the 2020s with inexorable debt levels and consequently, higher debt-servicing costs.

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At a time when international support remains woefully insufficient, the TDR Update calls for a fresh allocation of another $650 billion in Special Drawing Rights (SDRs) at the ongoing IMF-World Bank spring meetings in Washington DC.

In a box insert in the TDR Update, UNCTAD quotes findings from a US Federal Reserve discussion paper that suggests that an increase in the Fed's policy rate would lead to a contraction of Gross Domestic Product (GDP) in the developing countries.

According to the Fed's study, quantitatively, for each percentage point increase in the Fed funds rate, the contraction of GDP in the developing countries is estimated to be 0.8 percentage points after three years in practice.

As the Fed's effective rate has increased by 4.8 percentage points since January 2022, the estimated contraction of GDP in the developing countries is around 3.9 percent by 2025, or $814 billion.

The TDR Update seems to have provided a thorough analysis of the current bank crises in some of the developed countries as well as the cost-of-living crisis due to failed regulatory oversight that allowed opaque and increasingly concentrated markets.

The current banking crises in some of the developed countries has created fears of the 2008 financial crisis re-surfacing all over again.

Against this backdrop, the TDR Update calls for closing the loopholes left in the wake of the 2007-09 crisis as well as widening the scope of systemic oversight and reforming the growing shadow banking institutions, particularly the hedge funds and asset management companies, which form part of what the neo-classical economist John Maynard Keynes called "Casino Capitalism."

The TDR Update also calls on the dominant countries, including the US, that seem to have caused the "boom-and-bust" economic crises, to focus on a multilateral agenda to strengthen the overall debt architecture.

Urgent need for new debt architecture

In its TDR Update (on page 30), UNCTAD called for a New Debt Architecture. It said that "as part of the urgently required process of reform of global economic governance, UNCTAD has highlighted the need for an international debt architecture to provide timely and orderly debt crisis resolution, improve debt transparency and fully align with the 2030 Agenda."

"This new architecture," according to the TDR Update, "aims to accomplish three inter-related objectives."

The objectives include:

1. Providing a framework for addressing debt crises that is fair to both debtor countries and creditors, and that considers the broader development needs of the former. This can be accomplished through the establishment of a sovereign debt workout mechanism which would engage with all relevant creditors and debtor interests, would provide an effective, efficient, and equitable mechanism for debt restructuring as well as support for sound sovereign debt markets.
2. Ensuring that debtor countries and creditors have the necessary tools and resources to manage debt effectively, including the use of open data standards and public exchange of information. This can be accomplished through the establishment of a public debt registry for developing countries. The registry would allow the digitalization and reconciliation of debtor and creditor debt data, ensuring debt transparency, strengthening debt management, and facilitating debt restructuring.
3. Designing debt sustainability assessments (DSAs) that incorporate development and climate financing needs. These assessments should be the basis for a multilateral debt relief initiative aligned with delivering on the Sustainable Development Goals and tackling climate change.

The TDR Update highlighted the wide disparities in liquidity support provided to the failed Silicon Valley Bank, a regional lender in the US. The Fed extended $297 billion in liquidity support to banks in the US in the week ending 17 March 2023.

In contrast, developing countries, including China, received $232 billion in SDRs in 2021.

Meanwhile, based on UNCTAD Secretariat calculations, 37 countries classified at high risk or in debt distress by the IMF as of November 2022, received $9.1 billion in 2021.

It is in this context that the TDR Update says that the ongoing IMF-World Bank meetings offers an opportunity to ease the liquidity constraint on countries in immediate financial need and beyond that to bolster development finance.

More importantly, the TDR Update calls for a new SDR issuance of at least US$650 billion as a first step at the ongoing IMF-World Bank meetings, without adding to the debt burdens that is crushing development prospects.

The TDR Update also suggests that "the structural imbalance in the financial system is already having contagion effects."

It points out that "developing countries are in a particularly vulnerable position due to the lack of an adequate global financial safety net (GFSN)."

It said that "under normal circumstances, expectations of lower interest rates in developed countries are supportive of capital flows to developing countries."

"However, in the current context, uncertainty is triggering a flight to safety which is visibly hurting developing countries," the TDR Update said, suggesting that "capital outflows from developing countries are accelerating, as indicated by the evolution of net investor flows to emerging market funds".

Moreover, it said that "sovereign bond spreads vis-a-vis Treasuries have already widened considerably in the face of these developments. This is an indicator of heightened risk aversion as investors dump risky assets with countries in Africa particularly affected by this dynamic".

According to the TDR Update, "these challenges highlight the urgent need to strengthen the GFSN (global financial safety net)" and "the special drawing rights (SDRs) are a central part of the GFSN as well as the fast liquidity windows in the IMF and the World Bank."

It argued that UNCTAD, as well as the United Nations Global Crisis Response Group (GCRG), have insisted that as part of an emergency response package, a new SDR issuance should be considered to provide liquidity support to developing countries.

The TDR Update said the likely increase in policy rates by central banks in developed countries to accelerate price deflation, pressure on existing bondholders, asset fire sales and the added financial burden on developing countries could still cause a sharper slowdown.

According to the TDR Update, "81 developing countries (excluding China) lost US$241 billion in international reserves in 2022, a decline on average of 7 percent, but with over 20 countries experiencing a drop of over 10 percent, in many cases exhausting their recent addition of SDRs."

Worse still, the TDR Update argues that "the borrowing costs, measured through sovereign bond yields for 68 emerging markets, increased from 5.3 percent to 8.5 percent in 2022, with 19 emerging markets now having bond spreads above 1,000 basis points over US Treasuries."

As inflation continues to be driven by international prices of energy and food commodities, the TDR Update says that countries are able to exert some degree of control over these pressures depending on market structure and degree of concentration and on governments' ability to administer consumer prices.

Role of loss and damage financing

The TDR Update also captured the "development-climate double bind" in which the Least Developed Countries and climate-vulnerable countries "do not have the financial means to cover existing loss and damage (LD) from climate shocks on their own," never mind meeting huge adaptation or mitigation costs.

It urgently calls for "a multilateral mechanism for rapid access to grants-based (and under some circumstances concessional) finance to cover LD (Loss & Damage) for rapid and slow onset climate events in developing countries."

It highlighted the breakthrough outcome at the 27th Conference of the Parties (COP27) in Sharm El-Sheikh, Egypt, in 2022, wherein "Parties mandated a timeline in 2023 towards establishing a new LD Finance Facility (LDFF) at COP28" later this year.

It emphasized that "the outcome acknowledged not only the necessity of a new funding mechanism but also of a systemic alignment of economic institutions with the realities facing developing countries as they deal with oncoming climate impacts."

The TDR Update noted that "squeezed by compounding crises, a step forward on this outcome in 2023 could have a dramatic effect on the stability of climate-vulnerable countries, filling a critical gap at the nexus of climate, development, and humanitarian finance."

Acknowledging that there is no commonly agreed definition within the climate negotiations, it said that "LD is understood to be the economic and non-economic impacts from climate change, inclusive of rapid and slow onset events (the latter including, for example, desertification and rising sea levels)."

It said though the LD financing is separate, it is still "connected to the other two pillars of the climate regime: mitigation and adaptation."

The TDR Update said: "Currently, the mechanisms available under the UNFCCC (United Nations Framework Convention on Climate Change) are geared towards averting and minimizing LD through mitigation and adaptation."

It observed that "unfortunately, the current schemes do not provide means for addressing LD to help people to recover from climate impacts."

"The current approach," according to the TDR Update, "ensures that developing countries pay disproportionately for warming they did little to contribute to, at odds with the principle of common but differentiated responsibilities (CBDR)."

Furthermore, it said that "humanitarian aid is aimed to meet the immediate needs of communities affected by a disaster, but not on longer-term support for rebuilding homes and infrastructure following a rapid-onset emergency, or indeed responding at all to slow-onset impacts."

In conclusion, the TDR Update argues that "development finance has a broader scope than humanitarian response, however, a large share of this finance is provided as loans which could compound vulnerabilities for developing countries facing LD." *(SUNS 9764)*

Fragmentation of multilateral trading system & anaemic growth of global trade

Global trade is expected to decelerate to 1.7% in 2023 from 2.7% in 2022 due a range of factors ranging from the war in Ukraine to financial market uncertainty, economists at the World Trade Organization have projected.

by D. Ravi Kanth

GENEVA: Global trade is expected to decelerate to 1.7% in 2023 from 2.7% last year due to multiple factors ranging from the war in Ukraine, continued high inflation, ultra-conservative monetary policies and financial market uncertainty, said economists at the World Trade Organization on 5 April.

Interestingly, in releasing the WTO's new "Global Trade Outlook and Statistics" report, the WTO economists projected that global trade could increase to 3.2%, while acknowledging that there is an element of "uncertainty" and marked headwinds attached to the overall performance in 2024.

The economists admitted that "risks to the forecast are tilted to the downside, including geopolitical tensions, food insecurity, potential financial (in) stability stemming from monetary policy tightening, and increasing levels of debt."

However, the economists failed to suggest how global trade is being impacted by the inexorable fragmentation of the multilateral trading system (MTS) into security-driven blocs like the ones led by the United States through "re-shoring", "friend-shoring", the Indo-Pacific Economic Forum, as well as the continued disruption of global supply chains, said analysts familiar with the WTO report.

While the trade ministers of the Group of Seven (G7) industrialized countries - the United States, Canada, Germany, France, Italy, the United Kingdom, and Japan - in the presence of the WTO's Director-General Ms Ngozi Okonjo-Iweala, said on 4 April that they remain committed to the multilateral trading system and the strengthening of the WTO, their actions on the ground in resorting to the apparent partition of the multilateral trading system, akin to the partition of the African continent by the major Western powers in 1884-85, remains a grave concern, said an analyst.

Perhaps, the above ills of the global trading system seem to be carpeted under the so-called "geopolitical tensions".

The other main bullet points of the WTO report are that trade volume growth in 2022 "was slower than expected at 2.7% following a fourth-quarter slump, but still stronger than the worst-case scenarios considered at the start of the war in Ukraine."

Earlier, the WTO economists suggested that food supplies and prices showed an unexpected resilience despite the war that began in Ukraine on 24 February 2022.

In their report released on 5 April, the economists argued that "goods trade was more resilient than expected for most of 2022 despite the drag exerted by the war between Russia and Ukraine."

They maintained that volume growth in merchandise trade averaged 4.2% in the first three quarters of 2022, "before a 2.4% quarter-on-quarter decline in the fourth quarter" that dragged down growth for the year.

They admitted that "the final result for 2022 was weaker than the WTO's October forecast of 3.5%," while suggesting that it was close to the earlier estimate of 3% from last April, which relied on simulations to gauge the economic impact of the war.

Another important facet of the global trade performance in 2022 was that merchandise trade grew at 12% in value terms to US$25.3 trillion, "inflated in part by high global commodity prices."

The economists reported that "the value of world commercial services trade increased 15% in 2022 to US$6.8 trillion" in which "digitally-delivered services exports were worth US$3.82 trillion."

Against this backdrop, "trade continues to be a force for resilience in the global economy, but it will remain under pressure from external factors in 2023," the WTO's director-general Ms Ngozi Okonjo-Iweala said.

Without naming these governments, she emphasized that "this makes it even more important for governments to avoid trade fragmentation and refrain from introducing obstacles to trade."

The DG said investing in multilateral cooperation on trade, as WTO members did at the Twelfth Ministerial Conference (MC12) last June, "would bolster economic growth and people's living standards over the long term."

Yet, after more than nine months, the outcomes of the fisheries subsidies negotiations and on extending the MC12 Ministerial Decision on the TRIPS Agreement to diagnostics and therapeutics, seem somewhat stuck.

So far, only three countries - Switzerland, Singapore, and the Seychelles - have deposited their instruments of acceptance of the protocol to the first part of the Fisheries Subsidies Agreement.

So, it may be a bit premature to say that MC12 "would bolster economic growth and people's living standards over the long term", as the famous economist John Maynard Keynes once said somewhat prophetically that "in the long run we are all dead."

According to a WTO press release announcing the launch of the WTO report, WTO Chief Economist Ralph Ossa said: "The lingering effects of COVID-19 and the rising geopolitical tensions were the main factors impacting trade and output in 2022 and this is likely to be the case in 2023 as well. Interest rate hikes in advanced economies have also revealed weaknesses in banking systems that could lead to wider financial instability if left unchecked. Governments and regulators need to be alert to these and other financial risks in the coming months."

Factors responsible for poor growth

According to the WTO economists, "several factors contributed to the trade slump in the fourth quarter of 2022, the most conspicuous being the rise in global commodity prices."

Explaining the overall performance in the last quarter, WTO economist Mr Coleman Nee pointed out that although food and energy prices receded from their post-conflict peaks by Q4, they remained high by historical standards and continued to erode real incomes and import demand.

He suggested that COVID-19 infections in China during the last quarter of 2022 had a major impact on the Chinese economy, resulting in a drop in China's GDP by almost 0.4%.

Also, "interest rate hikes in advanced economies may have succeeded in cooling demand by Q4 but they have also revealed weaknesses in banking systems that could lead to wider financial instability if left unchecked."

After years of following "expansionary monetary policy", the central banks reversed their policies by attempting to strike "a balance between taming inflation, sustaining economic growth, and maintaining financial stability."

The WTO report noted that "miscalculation could have negative consequences for the global economy and trade."

Under the sub-heading of "drivers of trade volume," the report said that "geopolitical tensions, inflation (and related measures), energy and other commodity prices, and the lingering effects of COVID-19 were the main drivers of trade and output in 2022."

It maintained that "last year saw some of the highest inflation rates since the 1980s together with massive swings in commodity prices and an appreciation of the US dollar."

Regional performance

According to the WTO report, "Europe's expected GDP growth has been revised up by 0.7 percentage points while Asia's has been revised down by 0.4 points."

Further, "stronger than expected GDP growth in Europe would stimulate intra-EU trade, which gives Europe extra weight in world totals."

WTO economist Mr Nee said that Europe's exports are now projected to grow by 1.8% in 2023, up from the previous estimate of 0.8%, while "Europe's imports are expected to decline by 0.6% this year, less than the previous estimate of -0.7%."

As regards North America, which is dominated by the performances of the US, Canada, and Mexico, the report forecast the "strongest merchandise export growth of any WTO region in 2023 (3.3%), followed by the CIS (2.8%), Asia (2.5%) and Europe (1.8%)."

It said that "weaker export growth is expected in the Middle East (0.9%) and South America (0.3%) while Africa's goods exports are expected to decline (-1.4%).

World merchandise trade

The report said, "World merchandise trade as measured by the average of the dollar value of exports and imports rose 12% in 2022 to US$25.26 trillion."

However, according to the report, "this growth is slow compared to 2021 when merchandise trade recorded a 27% rebound following a 5.3% decline in 2020."

"In 2022, growth in fuel trade was 61%," the report said, adding, "The dollar value of trade in agricultural products was up 11% last year while trade in manufactured goods rose 7%."

Among the manufactured goods, it said that "trade in automotive products increased by 6% while trade in clothing jumped 9%."

On the performance of services trade, the report said that "the value of trade in commercial services as measured by the average of exports and imports rose 15% in 2022 to US$6.8 trillion." *(SUNS 9759)*

Economic activity in Asia-Pacific to remain weak due to multiple factors, says UN

Economic activity in the Asia and the Pacific region is expected to remain weak due to multiple factors including the global economic slowdown, high inflation and the war in Ukraine, a United Nations report has said.

by Kanaga Raja

PENANG: Economic activity in the Asia and the Pacific region is expected to remain weak, amid a global economic slowdown, historically high inflation, tighter financial conditions and the continuing war in Ukraine, according to a United Nations report.

In its Economic and Social Survey of Asia and the Pacific 2023, the UN Economic and Social Commission for Asia and the Pacific (ESCAP) said that post-pandemic economic performance in developing countries in Asia and the Pacific was considerably weak in 2022.

Average output growth is estimated at 3.3 per cent, which is much lower than the pre-pandemic averages, it said.

The ESCAP report said that the sluggish economic activity is mainly driven by historically high inflation, which not only undermined economic stability but has also increased poverty and inequality, thus worsening the deep socioeconomic scarring resulting from the COVID-19 pandemic.

"The end of 2022 witnessed a global economic slowdown amid a rising cost of living, tighter financial conditions and the continuing war in Ukraine."

Without further worsening of the geopolitical risks or a deeper global economic recession, average GDP growth in developing countries in Asia and the Pacific is expected to rise moderately to 4.2 per cent in 2023, said the report.

However, it said that this outlook remains fraught with uncertainty and is uneven across the region.

"In addition to declining exports, the growth prospects are clouded by the extent of expected monetary policy tightening in the major developed economies."

The report also suggested that as fiscal firepower is shrinking in the Asia-Pacific region, it is time to rethink the relationship between public debt and development financing.

The view that high debt levels are necessarily detrimental to economic growth has been challenged in recent years, it said.

On the other hand, development deficits and climate risks, if left unaddressed, will have serious implications for growth and the sustainability of public finance, it added.

ESCAP said its report is "based on the premise that public debt can be a powerful sustainable development tool if used judiciously and with a long-term horizon."

"Public borrowing decisions to finance development can be effective, if expected broader socioeconomic and financial returns are incorporated into debt assessments," it added.

Global economic development & prospects

According to the UN report, as the impact of the COVID-19 pandemic gradually receded and national borders reopened, economic activities across the globe experienced a resurgence in 2021 and at the beginning of 2022.

However, it said that the war in Ukraine, starting towards the end of February 2022, has resulted in numerous setbacks, leading to a simultaneous global economic slowdown in 2022.

It said the substantial supply disruptions drove up global food and energy prices, resulting in multi-decade high inflation across the globe, escalating food insecurity and malnutrition in many parts of the Asia-Pacific region.

The report said this triggered rapid monetary policy tightening, led by the United States of America, and thus a rise in borrowing costs, which weighed on economic activities across the globe.

At the same time, it said climate change and such natural disasters as heat waves, drought, cyclones, floods and earthquakes have resulted in massive economic and humanitarian damage, requiring emergency responses and recovery at a time when fiscal resources have become increasingly limited.

The report said among developed economies, the United States fell into a technical recession in the first half of the year and rebounded thereafter to register an economic growth at 2.1 per cent for 2022.

The European Union, responsible for importing about 30 per cent of exports from the Asia-Pacific region, was on a strong GDP growth path of 5.6 per cent in the first quarter of 2022, it added.

However, after the onset of the war in Ukraine, quarterly GDP steadily declined to an annual growth rate of 3.6 per cent for 2022 due to the consequent energy crisis and dampened demand caused by rising inflation, it said.

Against this background, the report said the global economic growth rate is estimated to have dropped to 3 per cent in 2022, from 5.8 per cent in 2021.

"Importantly, the risk of a global recession in 2023 has risen considerably, and economic growth is projected to moderate further in 2023 to 1.9 per cent before slightly picking up in 2024 to 2.7 per cent."

This is driven by output declines in the Euro zone and expected growth moderation in the United States in 2023 and 2024, said the report.

It further said that trade prospects for 2023 "are likely to be shaped by sluggish economic growth, relatively high interest rates, winding down of post-COVID stimuli, high inflationary pressures and rising debt concerns."

According to the report, global inflation reached historic levels in 2022 driven by food and energy supply shocks, pandemic-related expansionary fiscal and monetary measures in 2020/21, strained global trade routes and tight labour markets in developed economies.

"The price growth peaked at 9.1 per cent in the United States in June 2022 - the highest level in 40 years, and at 10.6 per cent in the Euro area in October 2022."

The report said that the rise in core inflation across the globe indicates that current high inflation is not just a supply-side phenomenon, adding that it also seems that inflation expectations have been unhinged.

It said that persistent inflationary pressures have resulted in a rapid monetary tightening. Since the start of 2022, the United States has increased its policy interest rate by 475 basis points up to January 2023, and the European Central Bank by 300 basis points.

"As inflation remains considerably high in the United States and Euro zone, further monetary tightening should be expected, with the likelihood of developing countries, including those from the Asia-Pacific region, following suit."

Overall, the report said economic growth in developing Asia-Pacific countries moderated to 3.3 per cent in 2022, which is considerably lower than the 4.5 per cent growth rate that had been projected in 2022 for that year.

"This is a stark slowdown compared with the strong growth rate of 7.3 per cent in 2021 and the average growth rate of 5.5 per cent in the five years prior to the start of the pandemic."

China's deeper than expected deceleration due to its zero-COVID policy and instability in the property sector contributed to the region's weak economic performance in 2022, said ESCAP.

Nevertheless, it said economic performance varied considerably across the sub-regions, with tourism-dependent economies benefiting from border re-openings, commodity-dependent economies benefiting from higher global commodity prices, the North and Central Asian countries proving to be resilient to adverse impacts from the war while many economies suffered from the balance of payment crisis and the impacts of high inflation weighing on sentiments and domestic demand.

Global demand for goods and services produced by economies in the Asia-Pacific region declined considerably in terms of value as the global economy decelerated in 2022, the report also said.

"Asia-Pacific merchandise export volume grew at a moderate pace of 2.9 per cent in 2022, compared with 13.3 per cent in 2021."

However, the report said export growth was strong in value terms due to rising prices of commodities. Among the key beneficiaries of high commodity prices were Azerbaijan, Indonesia, Kazakhstan, Malaysia, Papua New Guinea and Turkmenistan.

"Similar to the situation with regard to trade, manufacturing activities remained subdued, with few exceptions, due to higher cost of inputs and tighter financial conditions," it added.

ESCAP further said inflation in Asia and the Pacific in 2022 reached historically high levels in many economies.

Average inflation in developing Asia-Pacific economies reached 12.8 per cent in 2022, which was 8.4 percentage points higher than the pre-pandemic average, it added.

It said rising price levels are driven by both supply and demand factors, including pandemic-related supply chain disruptions, the lagged effects of pandemic-related expansionary fiscal and monetary measures and war-related supply chain

disruptions which led to rapid increases in the prices for food, fuel and key commodities.

Expectations of inflation remaining low and stable seems to have been unhinged as inflation remains persistently above central bank targets in many economies, it added.

Towards the latter half of 2022, food and energy prices moderated somewhat due to softening global demand and better food crop expectations. Nevertheless, both headline and core inflation remained well above pre-pandemic levels across the region, said ESCAP.

The report said that such persistence of inflation has increased the cost of living and reduced people's purchasing power considerably.

"Food price inflation affects low-income households most as they spend a higher share of disposable income on food consumption. This is likely to push many more people into poverty and delay achievement of food security and malnutrition objectives."

The report said that weakened currencies, higher import costs, country-specific factors and revival of domestic demand also contributed to rising inflationary pressures in 2022.

"Aggressive interest rate increases in the United States and Europe led to sharp appreciation of the United States dollar and thus depreciating currencies of developing countries. This pushed up prices in local currencies through imported inflation."

Natural disasters, such as the flood in Pakistan, typhoon in the Philippines and earthquake in Turkiye, pushed food prices even higher, said the report.

For instance, it noted that the affected region in Turkiye accounts for approximately 15 per cent of the country's agricultural output, a decline which could further add to Turkiye's food price inflation, which stood at 71 per cent in January 2023.

Monetary tightening gathered pace in developing Asia-Pacific countries in the latter half of 2022 as inflation persisted, said the report.

By the end of 2022, of 26 developing Asia-Pacific economies for which policy interest rate data are available, 22 had raised interest rates by an average of more than 300 basis points, it added.

"Because there is a lag of 9-12 months between a change in monetary policy stance and its impact on inflation, central banks will have to wait until at least the middle of 2023 to start seeing some decline in inflation. In the meantime, higher interest rates will raise debt servicing costs for Governments, firms and households and limit public and private investments."

The report also said most Asia-Pacific economies entered 2022 with constrained fiscal space and rising public debt levels.

The immense fiscal needs generated by the COVID-19 pandemic and the subsequent economic downturn drained fiscal resources considerably in recent years, it added.

"Fiscal deficits in the region jumped from merely 1 per cent of GDP in pre-pandemic years to about 4-5 per cent of GDP in 2020 and 2021."

Similar deficit levels are expected in 2022 and 2023, as government revenues are set to recover only gradually while pandemic-related fiscal expenditures are slowly phased out. In 2022, the fiscal shortfalls shrank in several Asia-Pacific economies, partly reflecting the effort on fiscal consolidations, it added.

Rapidly growing fiscal deficits have their mirror reflection in swiftly growing debt. The average government debt-to-GDP ratio in developing Asia-Pacific countries hovered around 40 per cent of GDP during the period 2016-2019 but jumped drastically to 49.5 per cent in 2021 with government debt in two thirds of Asia-Pacific economies reaching its highest level since 2008, said ESCAP.

Not surprisingly, the report said that "several economies are and will be facing rising public debt sustainability challenge in the years to come, especially as rising interest rates push up debt servicing costs amid already tight fiscal space and weak economic growth prospects."

Economic outlook for 2023-2024

Average GDP growth in developing economies in Asia and the Pacific is forecast at 4.2 per cent in 2023 and 4.7 per cent in 2024, said the report.

This assessment is influenced by elevated price levels and expected further monetary tightening, which will hold back economic activities, it added.

"The projected slowdown in developed economies can translate into a slowdown in demand for exports, a major growth driver for the region. Global trade volume growth is projected to moderate to 1 per cent in 2023 from 3.5 per cent in 2022."

It said China's abandonment of strict pandemic restrictions and re-opening presents an upside potential for the region.

"After three years of isolation, the pent-up demand for foreign travel will see out-bound tourism from China contributing a significant share to tourism receipts of many developing Asia-Pacific economies."

This will be particularly beneficial for China's neighbours and economies in South-East Asia that are highly dependent on tourist arrivals from China, it added.

Debt levels are becoming increasingly unsustainable for many developing economies, casting a shadow on the near-term economic outlook for Asia and the Pacific, the report emphasized.

Indebted Governments can hardly expect any relief given weak growth prospects for 2023 and the high interest rate environment, it said.

"Likely depreciation of currencies in many developing economies could also push their debt situation towards more unsustainable levels in the coming years."

Under this scenario, the report said, with already elevated debt levels, Governments' fiscal space to try to boost economies would remain severely limited.

It said the challenging macroeconomic environment will have impacts on job creation and may likely increase unemployment.

"The war in Ukraine and associated inflationary pressures means that people will struggle to maintain purchasing power, further exacerbating rising inequality and poverty trends."

It said higher uncertainty, rising interest rates, increased debt burdens and increasing risk of recession in 2023 will dampen investments by businesses, reduce demand by households and thus have adverse impacts on job creation and may likely lead to increases in unemployment.

"The prospects for reducing poverty and implementing the 2030 Agenda seem ever more daunting as many more people are pushed into poverty, and progress towards more sustainable and low-carbon development is stalled."

Moreover, it said that with food prices expected to remain elevated, the risks associated with food insecurity and malnutrition need urgent attention.

It also said that inflation remains elevated in the near term, keeping the cost of living high and domestic demand restrained.

"Average inflation in Asia and the Pacific is projected to moderate slightly to 5.9 per cent in 2023 from 7.6 per cent in 2022. It is projected to decline further to 4.4 per cent in 2024."

The expected gradual decline in inflation in the next two years is on the back of moderating commodity prices, softening global demand and monetary tightening responses by central banks, it said.

"Core inflation is still on the rise while growth is weakening, and central banks are expected to continue their course in raising interest rates."

"The United States and the European Union have signalled moderate interest rate increases, which will have implications for monetary policy stances of Asia-Pacific economies," the report said.

Risks to the outlook

Despite inflation having receded somewhat from alarming levels, several downside risks remain and will have an impact on growth prospects and in some cases may further add to inflation, the report underlined.

An escalation of the war in Ukraine may cause further disruptions to food and energy supplies and keep inflation elevated, it said.

Noting that energy prices, particularly for gas, have receded, the report nevertheless said that the market remains volatile and any potential disruption to the supply of gas may cause prices to increase again.

"Pick-up in energy demand by China may also keep energy prices elevated. Likewise for food, any disruption to supply channels, such as the Black Sea Grain Initiative, would mean a possible increase in food prices."

It said for low-income countries, this would lead to additional pressure on food insecurity and raise malnutrition concerns.

"Elevated food and energy prices can also increase the risk of social unrest. Moreover, intensifying geopolitical uncertainties would lower business and consumer confidence and weigh on global demand."

It said that persisting inflation could de-anchor inflation expectations and lead to further monetary tightening.

Risks related to renewed disruptions to food and fuel supplies or a strong rebound in China's growth could keep inflation elevated for longer than expected, said the report.

It said persistently high inflation will prolong the cost of living crisis and will lead to continuation of monetary tightening.

"Tighter financial conditions increase the vulnerability of economies to debt distress and defaults and limit Governments' ability to support and shield the vulnerable from price shocks."

The report said a sharper than expected tightening of monetary policy by developed economies in the event of unexpected persistence of inflation could trigger excessive capital outflows from the region and put pressure on currencies and further exacerbate inflation.

Risks associated with policy missteps on the timing and frequency of monetary tightening can erode central bank credibility and result in market volatility, it added.

It said that if inflation is not tamed in time and brought within central bank targets, there is a risk of inflation becoming entrenched, adding that this could lead to a wage-price spiral and eventually unemployment and low economic growth.

"On the other hand, sharper than expected monetary tightening risks pushing economies into a considerable slowdown. A misjudgment on under- or over-tightening could erode central bank credibility."

The report suggested that clear communication by central banks can reinforce policy objectives and is imperative to keep inflation expectations anchored and avert financial market volatility.

It also cautioned that a deeper than expected global economic slowdown and a slower than anticipated recovery in China would further depress demand for the region's goods and stall recovery in tourism.

"Weak economic prospects can lead to unemployment. Uncertain economic prospects and less availability of credit reduce incentives to invest (in capital and research and development), resulting in lower productivity and lower job creation."

Prolonged economic downturns and multiple crises would reinforce the scarring effects since the start of the pandemic, said the report.

It also said that extended disruptions to labour markets erode workers' skills and reduce the chances of workers returning to the workforce.

"Many workers would fall into poverty, further exacerbating pre-existing inequalities and reducing future economic growth prospects."

Finally, the report said there is increasing pressure on domestic financial stability, adding that even before the pandemic, non-financial corporate indebtedness has been on the rise in some Asia-Pacific economies.

"A sudden and substantial rise in interest rates, devaluation of local currencies and weaker business sentiments can pose a threat to financial stability in these countries."

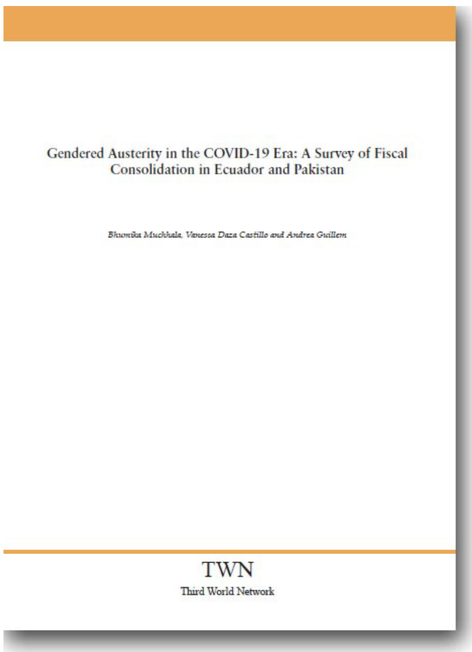
A growing number of highly leveraged companies are struggling to meet their debt obligations, while not all underlying risks on debt sustainability may be known to both investors and Governments, said ESCAP.

"To ensure financial stability, macro-prudential policies as well as initiatives to improve the transparency and reporting standards by the private sector need to be in place," it added. *(SUNS 9760)*

Gendered Austerity in the COVID-19 Era: A Survey of Fiscal Consolidation in Ecuador and Pakistan

by Bhumika Muchhala, Vanessa Daza Castillo and Andrea Guillem

Austerity is gendered in that the power relations that shape the distribution of resources and wealth as well as the labour of care and reproduction turn women and girls into involuntary "shock absorbers" of fiscal consolidation measures. The effects of austerity measures, such as public expenditure contraction, regressive taxation, labour flexibilization and privatization, on women's human rights, poverty and inequality occur through multiple channels. These include diminished access to essential services, loss of livelihoods, and increased unpaid work and time poverty. This report examines the dynamics and implications of gendered austerity in Ecuador and Pakistan in the context of the fiscal consolidation framework recommended by International Monetary Fund (IMF) loan programmes.



Available at *https://twn.my/title2/books/pdf/GenderedAusterity.pdf*

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WTO DG seeks to create Transformation Office despite budget constraints

Despite failing to secure a hike in the WTO budget for 2023, the Director-General of the World Trade Organization appears to be still seeking a rise in the budget through creating a Transformation Office aimed at developing a "vision and strategy" for the Secretariat.

by D. Ravi Kanth

GENEVA: After failing to secure a budget hike of 7.7%, from CHF 197.2 million to CHF 212.45 million, for 2023, the World Trade Organization's Director-General, Ms Ngozi Okonjo-Iweala, appears to be still seeking a hike in the budget through creating her allegedly costly project - named the Transformation Office - to develop "a vision and strategy for the Secretariat", said several trade envoys familiar with the development.

Interestingly, the Transformation Office project, which seems to be modeled along the lines of such a division in the World Bank, comes at a time when the WTO is facing a resource crunch due to a variety of factors, including the DG's allegedly lavish travel budget, said trade envoys familiar with the WTO's finances.

Several members seem somewhat aghast as to why the DG is pressing for the creation of a new Transformation Office that will involve considerable costs at a time when the organization is facing a severe financial crunch, said trade envoys, who asked not to be quoted.

The former WTO's General Council (GC) chair, Ambassador Dacio Castillo of Honduras, is expected to start consultations on the DG's proposed project on 4 April, said trade envoys, who asked not to be quoted.

It remains to be seen what members will convey to the former GC chair, who is known for his credible and balanced negotiating skills, said trade envoys, who asked not to be quoted.

Four themes

The four themes that are apparently of serious concern to members are: (1) the mandate; (2) scope of the exercise; (3) the role of the Secretariat, which has been clearly defined in Article VI of the Marrakesh Agreement; (4) the likely erosion of member-driven work, said trade envoys, who asked not to be quoted.

Paragraph 4 of Article VI of the Marrakesh Agreement states: "The responsibilities of the Director-General and of the staff of the Secretariat shall be exclusively international in character. In the discharge of their duties, the Director-General and the staff of the Secretariat shall not seek or accept instructions from any government or any other authority external to the WTO.

They shall refrain from any action which might adversely reflect on their position as international officials. The Members of the WTO shall respect the international character of the responsibilities of the Director-General and of the staff of the Secretariat and shall not seek to influence them in the discharge of their duties."

More importantly, as the whole exercise involves monies, budgets and financing - it does have to go through multilateral processes, said trade envoys, who asked not to be quoted.

Furthermore, the scope of the exercise is expansive, said trade envoys, suggesting that it is not simply about ensuring a recognition system for staff, but also that systemic changes are envisioned where they want to develop a strategy and vision by asking some very serious leading questions.

The questions that seem to be posed to members include:

1. What key trends or global drivers are impacting international trade and trade policy? In what ways?
2. What opportunities and challenges do these bring for economies and how do they impact the role of the WTO as a multilateral organization?
3. What does this mean for the future role of the Secretariat?
4. To what extent do these impact the expertise, type of activities/services offered, and ways of working of the Secretariat?
5. In what ways are these also influenced by emerging trends that affect how work is done?

These questions are clearly about the direction of the organization which places the statutory obligation on the Member States to decide by consensus, a member said.

Lastly, there is also the question of whether there is sufficient interest to even pursue this exercise because only a handful of Members have indicated their availability to consult on the issue, said another trade envoy, who asked not to be quoted.

DG's assertions on Transformation Office

Regarding the Transformation Office, the DG announced her decision at a Doha Trade Negotiations Committee (TNC) meeting (Job/GC/336) early this month without even consulting members, said a trade envoy.

The DG also announced that the proposed TO (Transformation Office) will have "a Director who will be assigned to help us spearhead this important initiative."

However, she said "the views of Members will be a key part of this work, and Ambassador Dacio Castillo (Honduras) has kindly agreed to help us in gathering your input."

"We will be organising focus groups and consultations so that Members can give us their views on what that Secretariat strategy and vision should be," she told members at the TNC meeting.

Ms Okonjo-Iweala said with members' help, "we should be able to identify a high-level vision and strategy relatively quickly. This will not be the end of the story, however."

In a member-driven, rules-based, and intergovernmental organization, it appears somewhat puzzling as to why there should be a TO that could impose its views on members and thereby, undermine the proposals of 164 members when they clash with the grand vision and strategy of the unit, said a member, who asked not to be quoted.

Without apparently first considering the budgetary implication of this new office, the DG said in her TNC statement, that "once we know where we want to go, we will need to work through what this means for our Secretariat processes, planning and budgeting - the points that Members have repeatedly raised in the CBFA (Committee on Budget, Finance, and Administration)".

She promised members that she will provide an "update on the Secretariat's transformation exercise and to hear your comments. As I have done before, I will provide my speaking notes to you in writing following this meeting. I will provide additional updates as developments warrant, and the transformation work will remain on the agenda for discussion at our meetings."

DDG Ellard's update

In a restricted Job document (Job/BFA/76), deputy Director-General Angela Paolini Ellard presented an update on 13 March.

Ms Ellard informed members that "current transformation work continues to focus on implementing the outcomes approved by the Transformation Steering Committee."

"As I reported at our last meeting," Ms Ellard said, "progress is most advanced for Rewards Outside Promotion, Procurement, and Mobility."

She informed members that "the new policy, "Recognition and Rewards Programme", entered into effect in early 2023," saying that "the policy creates new awards to recognize and reward staff for teamwork, innovation, and excellence in management, and updates an existing peer award system enabling staff to recognize good colleagues."

According to the DDG, "the new policy also makes changes to the annual performance bonus award," and "the policy is a key part of ongoing work to reinforce a culture of recognition and praise in the Secretariat."

Ms Ellard informed members: "Our revised internal Procurement Policy also entered into force at the beginning of 2023. As I previously reported to you, the amendments to this internal policy updated our low-value purchase thresholds. Work is continuing in the Procurement stream to update internal manuals, templates, and training materials, and to increase digitization in our procurement processes."

"Regarding mobility within the Secretariat," the DDG said, "we are carrying out a pilot project to encourage short-term secondments to different divisions for entry-level staff who have joined the Secretariat in the last seven years."

Apparently, "this internal temporary mobility exercise will showcase the benefits of mobility for individuals and the Secretariat as a whole," Ms Ellard said, adding that "in addition to this exercise, work continues on revising our internal and external mobility policies."

According to Ms Ellard, "the work on Risk Management has also progressed."

Interestingly, "a small group of staff volunteers has worked with the Transformation Office and the Office of Internal Oversight and our Human Resources Division to define the responsibilities and functions for the position of a senior risk officer," including launching a recruitment campaign for that position, the DDG said in her note.

However, she did not provide any costs that the WTO will have to incur for these new posts and whether the budget is able to provide the necessary funds.

She said, "an initial review of the Secretariat's existing risk management policy and previous practices has been conducted" and "recommendations have been made on potential improvements to the overall risk management processes, elaboration of a modern risk taxonomy, and risk appetite statement."

"This work on risk management policy will be taken forward once the new risk officer is on-boarded," and "we continue to work on promotions and recruitment policies, recognising existing budgetary constraints," she said.

As regards the focus on the digital transformation exercise, the DDG said that it will focus on "the costing and prioritisation of use cases."

"We are also considering how the improvements we want to make fit alongside other initiatives already being rolled out and Member expectations and interests," she assured members.

Acknowledging the limited budget, she said "we are developing an internal governance structure to ensure coordinated oversight."

After outlining the work that is being undertaken by the so-called new offices, Ms Ellard emphasized on beginning the "work on developing a vision and an overarching strategy/mission statement for the Secretariat. The Transformation Office will lead this process."

Ms Ellard assured members that "their views will be a significant part of this work, and Ambassador Dacio Castillo (Honduras) has kindly agreed to help us in gathering your input."

She said "the Secretariat will soon share with you a document providing more details on what we have in mind and our near-term plans."

"With your help, we are aiming to shape a high-level vision and strategy for the Secretariat relatively quickly," Ms Ellard said, adding that "this will be an important first step, but there will be much more work to follow."

Without naming these members, Ms Ellard said "as Members of this Committee have said on many occasions, our Secretariat processes, including planning, budgeting, and resourcing, need to be animated by and aligned with clear strategic goals."

"The work that we are about to launch will start to respond to what the CBFA has been requesting for many years," Ms Ellard concluded.

Apparently, the DG is seeking money to establish a Strategic Unit, and a Risk Administration Unit but following push-back from members, she has now decreed that all vacant posts should not be filled, so that she can use these posts for the strategic needs of the Secretariat, said trade envoys as well as WTO insiders.

Even though the WTO Secretariat currently has excellent economists and lawyers, her constant refrain that the Secretariat does not have the necessary skills appears to be without merit.

Privately, there are concerns that the DG is always travelling on official grounds but apparently she is the one soliciting these travels to visit countries so as to "rub shoulders with Heads of State and Government and put them on Twitter," said trade envoys, who asked not to be quoted.

The Secretariat is facing financial difficulties, yet there is no leadership from the top, said trade envoys as well as WTO insiders.

Apparently, the DG is allowed an annual travel budget of CHF 200,000 (more than $200,000) but her constant travels with several WTO officials seems to be causing a drain on the WTO's funds, said several WTO insiders. *(SUNS 9757)*