UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

TRADE AND DEVELOPMENT REPORT UPDATE

Tapering in a Time of Conflict

MARCH 2022

UNITED NATIONS

UNCTAD

© 2022, United Nations Conference on Trade and Development

The designations employed and the presentation of material on any map in this work do not imply the expression of any opinion whatsoever on the part of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

This publication has not been formally edited.

UNCTAD/GDS/INF/2022/2

A. Introduction

The global economy is, literally and metaphorically, staring down the barrel of a gun. Stopping the war in Ukraine, rebuilding its economy and delivering a lasting peace settlement must be the priorities. But the international community will also need to deal with the widespread economic damage that the conflict is already causing in many parts of the developing world; damage that will only intensify as the conflict persists. Recalling George Marshall's response to the challenges of an earlier post-conflict world, the truth of the matter is that for a significant number of countries, the financial requirements for the next few years are so much greater than their present ability to pay that substantial additional help will be needed to mitigate economic, social, and political deterioration of a very grave character.[1]

The year 2022 already appeared to be one of decelerating and uneven growth. The unprecedented policy measures that helped economies around the world recover from the paralysis of the covid pandemic have been asymmetric in their effects and short-term in scope, adding new challenges to an already testing policy environment. As we argued in September 2021 (*TDR 2021*), a return to pre-2020 conditions should not be the goal of policymakers. It would diminish the hope of achieving more inclusive and sustained growth and undermine the task of building economic resilience in the era of climate change. The threat of repeating the policy mistakes of the past is, however, rising as the fallout from the conflict in Ukraine spreads beyond its borders.

The economic, financial and political reverberations from the war are unfolding at a turning point in global policy discussions, as the supportive public policy stance necessitated by the pandemic gives way to fiscal and monetary tightening. In the advanced economies, central banks are beginning to raise interest rates from historic lows and selling some of the assets they purchased during the decade of quantitative easing. Budgetary authorities, having issued large volumes of government debt during the pandemic, are turning their focus to reducing primary balances by raising taxes and cutting spending.

In the face of long-standing structural problems and new geopolitical risks, macroeconomic tightening in the North, along with a general weakening of multilateral rules and practices, is set to stymie growth across developing economies, particularly those that are closely integrated into the global financial system. This will not only endanger their fragile recovery, but also undermine their long-term development.

Already in the closing months of 2021, inflationary and exchange rate pressures began to trigger monetary tightening in a number of developing countries, with expenditure cuts anticipated in upcoming budgets. A likely effect of the conflict in Ukraine is an acceleration and widening of these measures, with the purpose of retaining volatile foreign capital.

Two immediate impacts of the war in Ukraine have been exchange rate instability and surging commodity prices, particularly for food and fuel. The added pressure of price increases is

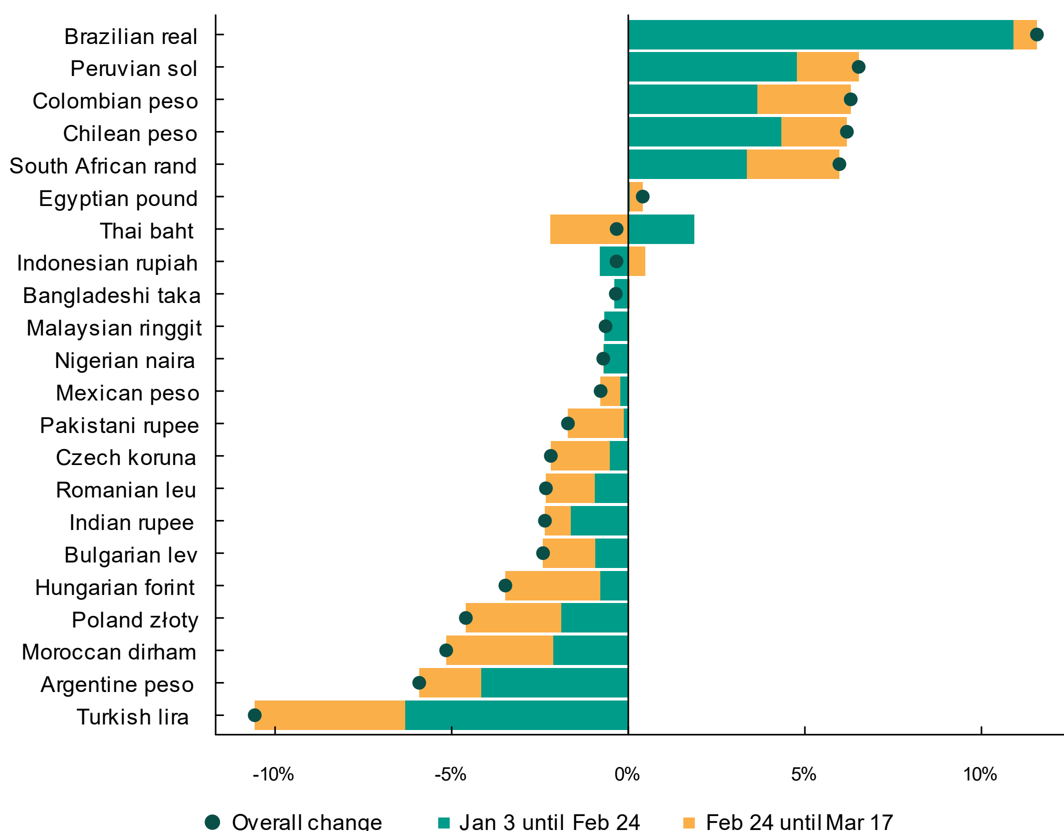
[1] The "Marshall Plan" speech at Harvard University, 5 June 1947, https://www.oecd.org/general/themarshallplanspeechatharvarduniversity5june1947.htm

intensifying calls for a policy response in advanced economies, including on the fiscal front, threatening a sharper than expected slowdown in growth.

The danger for many developing countries that are heavily reliant on food and fuel imports is more profound, as higher prices threaten livelihoods, discourage investment and raise the spectre of widening trade deficits. With elevated debt levels from the pandemic, sudden currency depreciation can quickly make debt service unsustainable and tip some countries into a downward spiral of insolvency, recession and arrested development. Whether this leads to unrest or not, a profound social malaise is already spreading.

As a result, the global economy, having entered 2022 on a "two-speed" recovery path, will not only shift down a gear in terms of growth, but will also see many developing countries lose ground to advanced countries, while their vulnerability to shocks is heightened by rising geo-political tensions and deepening economic uncertainty.

Figure 1.1 Change in selected exchange rates against the dollar, early January–mid March 2022
(Per cent)



Source: UNCTAD secretariat calculations based on Refiniv data.
Note: An increase refers to an appreciation of the domestic currency. Calculated using daily closing exchange rates. The rate for 17 March is calculated as the average of the closing rates for the three days from 15 March to 17 March.

As suggested in *TDR 2021*, the impressive growth of the word economy in 2021 notwithstanding, the post-pandemic world is looking increasingly fragile, with external shocks becoming more unpredictable and complex in nature. Even in peaceful times, unregulated and unbalanced

international financial markets have been the source of much of that fragility for many developing countries. At a time of international conflict and heightened geopolitical risks, finance is a central mechanism for transmission and amplification of these risks. While the immediate financial consequences of the war and sanctions on the Russian Federation have not immediately triggered an international financial crisis or contagion effects that would signal a crisis for emerging market economies, this cannot be discounted (Figure 1.1).

The risks to countries' financial systems are further amplified by the pressure to "rebuild fiscal buffers" by cutting non-military government spending. In fact, as discussed in previous *Trade and Development Reports*, attempts to create fiscal space through budget cuts are bound to backfire. Building resilience requires reinforcing aggregate demand through investment and social protection, in a framework of appropriate multilateral institutions.

The existing crisis management mechanisms of the global financial architecture leave the developing economies in a particularly vulnerable position. The liquidity stresses that are likely to emerge in these countries in the coming phase of post-pandemic reopening, international conflict and climate emergencies, will exceed the willingness of the Federal Reserve in its recently adopted role of unofficial lender-of-last resort. Globally, the issuance of $650 billion of new SDRs in August 2021, of which around $275 billion were allocated to developing economies was a welcome development, but well short of the amounts required.

In the current geopolitical context, given the ambiguous role of the Fed – pressed, on the one hand, by its national mandate and by its de facto global function, on the other – as well as coordination difficulties at the level of the IMF in times of complex crises, it is vital that governments agree to the establishment a rules-based system of multilateral policy-coordination in finance. Ad hoc, highly selective international initiatives, such as those that were deployed in 2008-09 and during the pandemic crises, cannot provide a reliable solution for all in the coming era of complex shocks that are global in impact.

As the war in Ukraine and its consequences have taken centre stage, the budding discussions on decarbonization and long-term development have been again put on hold. But the intertwining of finance, food and fuel shocks stemming from the war in Ukraine is likely to be a preview of what is in store in an overheating world. Indeed, as outlined in the latest report from the IPCC (2022), the threat from rising global temperatures is already causing serious economic damage and untold suffering across the developing world. Mitigating this threat will require a profound change in the way the multilateral order safeguards global economic resilience on the one hand, and its ability to develop new policy mechanisms to respond to increasingly complex external shocks, on the other.

B.1. Global macroeconomic outlook

Global growth prospects for 2022 will be affected by downside risks to both supply and demand, compounded by the war in Ukraine. On the supply side, persistent disruptions will continue to hamper economic activity. At the same time, macroeconomic tightening will weaken demand while rising prices will erode real incomes and dampen investor confidence. These pressures will only deepen the geographical, financial and socio-economic fractures that marked the recovery in 2021.

Table 1.1 World output growth, 2017–2022
(Annual percentage change)

	2017	2018	2019	2020	2021	TDR 2021 2022[a]	Revised 2022[a]	Rev. from TDR 2021 2022
World	**3.4**	**3.2**	**2.6**	**-3.4**	**5.6**	**3.6**	**2.6**	**-1.0**
Africa	**3.3**	**3.5**	**2.8**	**-2.9**	**4.4**	**2.9**	**1.8**	**-1.1**
North Africa (incl. South Sudan)	4.8	4.3	2.8	-4.7	6.4	3.1	**2.2**	**-0.9**
South Africa	1.2	1.5	0.1	-6.4	4.9	2.3	**1.1**	**-1.2**
Sub-Saharan Africa (excl. South Africa and South Sudan)	3.0	3.5	3.5	-1.1	3.2	2.9	**1.8**	**-1.1**
America	**2.2**	**2.5**	**1.8**	**-4.3**	**5.7**	**2.9**	**2.4**	**-0.5**
Latin America and the Caribbean	1.3	1.0	0.1	-7.2	6.2	2.6	**2.3**	**-0.3**
Central America (excl. Mexico) and Caribbean	3.1	3.1	2.3	-8.4	6.6	2.9	**3.5**	**+0.6**
Mexico	2.1	2.2	-0.2	-8.4	4.8	2.8	**1.3**	**-1.6**
South America	0.8	0.3	-0.2	-6.6	6.7	2.5	**2.4**	**-0.1**
of which:								
Argentina	2.8	-2.6	-2.0	-9.9	10.1	2.9	**4.6**	**+1.7**
Brazil	1.3	1.8	1.4	-4.1	4.6	1.8	**1.3**	**-0.5**
North America	2.4	2.9	2.3	-3.5	5.6	3.0	**2.4**	**-0.6**
of which:								
Canada	3.0	2.4	1.9	-5.2	4.6	2.9	**3.0**	**+0.1**
United States	2.3	2.9	2.3	-3.4	5.7	3.0	**2.4**	**-0.6**
Asia (excl. Cyprus)	**5.1**	**4.7**	**3.8**	**-1.1**	**6.1**	**4.7**	**3.8**	**-0.9**
Central Asia	4.5	4.8	5.1	-0.2	4.9	3.1	**0.2**	**-2.9**
East Asia	5.2	4.8	4.1	0.3	6.4	4.7	**3.9**	**-0.8**
of which:								
China	6.9	6.7	6.0	2.2	8.1	5.7	**4.8**	**-0.9**
Japan	1.7	0.6	-0.2	-4.5	1.6	2.1	**2.0**	**-0.1**
Republic of Korea	3.2	2.9	2.2	-0.9	4.0	2.8	**1.7**	**-1.1**
South Asia	6.2	5.4	3.3	-4.7	7.0	5.7	**4.0**	**-1.7**
of which:								
India	6.1	7.3	4.8	-7.0	8.3	6.7	**4.6**	**-2.1**
South-East Asia	5.3	5.1	4.4	-3.9	2.5	4.7	**3.4**	**-1.3**
of which:								
Indonesia	5.1	5.2	5.0	-2.1	3.7	4.9	**4.4**	**-0.5**
Western Asia (excl. Cyprus)	2.5	2.4	1.5	-3.5	6.0	3.2	**3.4**	**+0.2**
of which:								
Saudi Arabia	-0.7	2.5	0.3	-4.1	3.3	3.3	**4.8**	**+1.5**
Turkey	7.5	3.0	0.9	1.8	11.0	3.6	**2.5**	**-1.2**
Europe (incl. Cyprus)	**2.6**	**2.1**	**1.8**	**-6.0**	**5.2**	**3.0**	**0.9**	**-2.1**
of which:								
European Union (EU 27)	2.8	2.1	1.8	-6.0	4.9	3.3	**1.6**	**-1.7**
of which:								
Euro area	2.6	1.8	1.5	-6.4	5.0	3.4	**1.7**	**-1.7**
of which:								
France	2.3	1.8	1.8	-8.0	7.0	3.4	**2.4**	**-1.0**
Germany	2.7	1.1	1.1	-4.6	2.9	3.2	**1.4**	**-1.8**
Italy	1.7	0.9	0.4	-8.9	6.6	3.0	**1.6**	**-1.4**
Russian Federation	1.8	2.8	2.2	-2.7	4.7	2.3	**-7.3**	**-9.6**
United Kingdom	2.1	1.7	1.7	-9.4	7.5	2.1	**1.3**	**-0.9**
Oceania	**2.7**	**2.9**	**2.1**	**-2.4**	**3.9**	**2.8**	**3.0**	**+0.2**
of which:								
Australia	2.5	2.8	1.9	-2.5	4.6	2.8	**3.3**	**+0.5**
Memo items:								
Developed (M49, incl. Republic of Korea)	**2.5**	**2.4**	**1.8**	**-4.5**	**5.0**	**2.9**	**1.8**	**-1.1**
Developing (M49)	**4.9**	**4.6**	**3.7**	**-1.7**	**6.7**	**4.7**	**3.7**	**-1.0**

Source: UNCTAD secretariat calculations based on official data and estimates generated by United Nations Global Policy Model.
Note: Calculations for country aggregates are based on GDP at constant 2015 dollars.
a Forecasts.

Global growth in 2022 will, as a result, be slower, more uneven and more fragile than we expected in September 2021 (Table 1.1). Our estimates incorporate the two main new features of the world economic situation: the war in Ukraine and tightening macroeconomic policy in developed economies.

Before the outbreak of the war in Ukraine, global growth was already projected to slow in 2022, with the recovery from the pandemic shifting to more long-term rates, pandemic restrictions abating and supply pressures continuing.

The economic reverberations of the war have led to significant downward revisions to growth figures, as incomes are squeezed further by increased food and fuel prices, global trade is curtailed by sanctions, and confidence and financial instability issues re-emerge. As a result of the conflict, oil and gas prices have surged from already elevated levels, wheat prices have reached levels not seen since the late 2000s, and a wide range of other items including fertilizers, metals and manufacturing inputs are facing severe supply shortages.

As mentioned, the main advanced economies are in the process of reversing the stimuli enacted during the pandemic, by tightening policy rates, unwinding Central Bank asset purchases, and cutting furlough programmes, transfers and support to businesses and households. These shifts will dampen domestic economic activity and weaken global demand. By implication, economies in the Global South, which have incurred larger costs to cope with the pandemic, face additional constraints on demand and in the balance of payments at a time when their recovery is struggling to take off. The war in Ukraine compounds this situation, by adding restrictions on trade, financial risks and economic destruction.

Global growth, measured in constant United States dollars at market exchange rates, is expected to decelerate from 5.6 per cent in 2021 to 2.6 per cent in 2022. Of the 3-point drop, two percentage points are due to structural and policy factors pre-dating the war and one percentage point, amounting to approximately $1 trillion in foregone income, is due to the war. This assumes that the sanctions and the supply chain disruptions will last through 2022, even if the war ends.

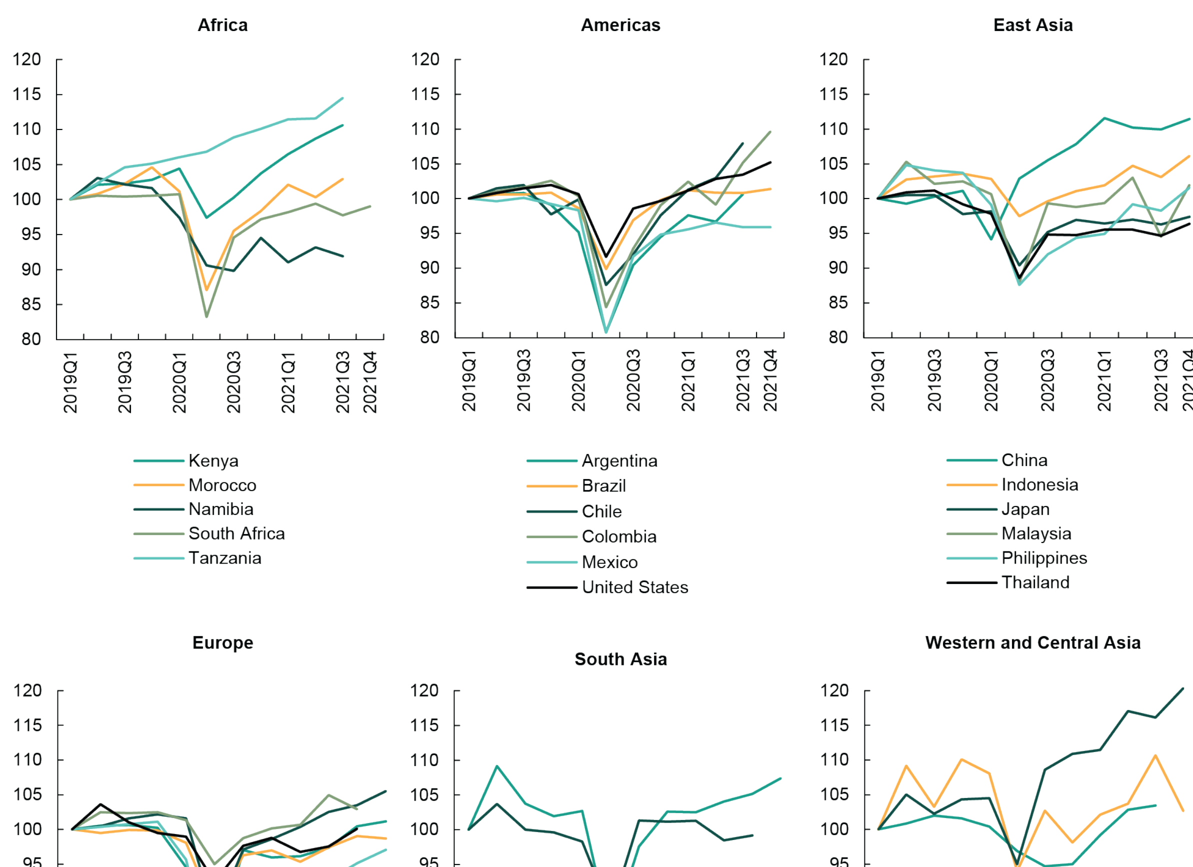
Hardly any country will be immune from the deterioration of global growth prospects, although a few may benefit from higher prices and demand for their commodity exports. Yet it is those developing economies that were in a precarious situation due to debt obligations, supply shocks and terms-of-trade and exchange rate swings, that will see their economic performance deteriorate even further.

The United States, while relatively isolated from current shocks, will see further pressure on consumption expenditure from higher fuel and food prices and may introduce a fiscal response in the form of fuel subsidies. Consumption expenditures in the United States have returned to pre-pandemic trends, but the inflationary pressures together with flagging confidence will impose a deceleration. Investment has recovered strongly since the pandemic compared to European countries but the new sources of instability will likely shift resources to safe asset allocations instead of productive ventures. These prospects will be made worse by monetary tightening. High energy prices are likely to stimulate some investment in extraction of hydrocarbons, likely crowding out any plans for a transition out of fossil fuels.

Europe will be harder hit by both high commodities prices and the conflict in Ukraine. Across Europe, higher food and fuel prices will constrain domestic expenditure, weakening aggregate

demand. The German economy is highly dependent on imports of natural gas from the Russian Federation, and on its own manufacturing exports which will be disrupted by sanctions and the war. Increased military expenditure will provide a moderate addition to aggregate demand. The French economy may be somewhat better prepared to weather the storm, given lower dependence on imported energy due to nuclear power, substantial food exports and the likelihood of some fiscal relaxation in response to the shocks. Pronouncements from the European Central Bank suggest that monetary tightening will proceed, further weakening consumption and investment growth.

Figure 1.2 Real gross domestic product, selected countries, first quarter 2019 to fourth quarter 2021
(Index numbers, Q1 2019 = 100)



预览已结束，完整报告链接和二维码如下：
https://www.yunbaogao.cn/report/index/report?reportId=5_30931