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Global Development Perspective, Economic Realignment and its Challenges-A Synoptic view

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Abstract

Economic development of a country cannot be achieved without the global orientation. The global development is multidimensional and multilateral and it transformed many countries. Emerging Market and Development Economies shifted the geographical landscape and new growth centers have come up and now the paradox is whether these developments are identical with the countries and people. The literature shows that the global economy was expanding with falling unemployment and brought inequality among countries. International cooperation, world tax and migration governance is increasing and it brought new challenges. India and a few developing countries have unique position as a global player in the knowledge based sectors. Technology has changed its trajectory and the robotics and machine intelligence would significantly replace labour in the future. The countries like India and China have grown faster than the OECD average. However, impending ricochet in global GDP growth is doubtful as slow growth and trade tensions are observed in the world. Such global trade tensions may be avoided if the countries respect multilateralism. The current condition of the global manufacturing activity, lower business spending, lesser consumer purchases of durable goods, passive final demand, muffled inflation and trade tensions needs to be addressed. The world output discussed in this paper shows that for the periods 2020 and 2021 it is not favourable for the emerging market and developing economies. The assessment of the global economic situation portrays that the global economic realignment is unfavourable to the emerging market and developing economies in particular and other economies in general. This necessitates for an appropriate policy formulation to contain the declining trend otherwise global equality cannot be achieved and results in furthering of geopolitical and bilateral and multilateral trade tensions in the future.

Keywords: economic development, recession, recovery, output, GDP, WTO, OECD, international trade, economic realignment, climate change, infrastructure.

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INTRODUCTION

Economic development encompasses economic growth, investment, technology, health, education and knowledge-based sectors, agriculture, industry, social, demographic and political factors, labour etc. The development of country cannot be achieved without the global orientation. Achieving unilateral growth of country will be very difficult amidst globalization and multilateralism situation. The global development is multidimensional and multilateral, which transforms a country and makes it competitive. Technology is locally developed or brought from other countries to instill and ignite the growth process of a country. All these developmental parameters have brought subtle changes in the global macroeconomic landscape. The Emerging Market and Development Economies shifted the geographical landscape and new cluster of growth centers have come up in the global market. The continued development impetus implemented by the countries of the world has brought formidable growth in these countries. However, the paradox now is whether these developments are identical with these countries and people. This paper attempts to highlight with literature on the theme and data on the persisting economic situation, economic realignment level and the current status of the countries of the world in sustaining the development.

The literature on this theme shows that the global economy was expanding with falling unemployment, global GDP was growing and the commodity prices were in partial recovery and exchange rate was moving up. 'These developments are often seen as the confluence of unrelated negative shocks. But this is at significant level is the result of an economic and financial process that has unfolded over many years' (J Caruana, 2016). Further, several disparities were observed between the early industrialisers and the new world emerging economies. The quality for early industrialisers was better than the emerging countries and the quality of economic growth in developing countries has been inadequate, and not emphasised enough (Haddad, Kato and Meisel, 2015).

The economic development of many countries experienced inequality and it is worsening in some countries (Alvaredo et al., 2017). The material conditions and quality of life of people portrays a complex story while addressing the holistic side of development. In some countries absolute poverty continue to raise in-spite of economic growth (World Bank, 2018). Economic development must assure real improvement in the quality of life of people but "the 17 Sustainable Development Goals (SDGs) to end poverty, protect the planet, and to ensure peace and prosperity for all, yet institutions and policies in countries as well as donors today are ill-equipped to face the challenges required to meet the objectives set out by the SDGs" (OECD, 2018).

International cooperation, world tax and migration governance is increasing and it brings new challenges to the countries and impacts them on automation, digitalisation and climate change. Baldwin is of the opinion that whatever worked a century ago will at the very least need to be adapted towards new strategies and new forms of co-operation. For example, while earlier industrialising countries relied on building a domestic supply chain, which took decades to develop, countries today are able to join global supply chains, benefiting from various elements of offshored production (Baldwin, 2011). In addition, a slowdown in productivity growth also reduced the growth of output during the past decade. The 'impact of lower investment, some evidence suggests that one factor may be the persistent impact of the credit boom induced misallocation of labour into weaker productivity growth sectors' (C. Borio, 2016). The current financial conditions induce the banks to give loans by keeping otherwise unproductive firms alive and it may be detrimental to a swift reallocation of capital and labour, and distort competition across the economies (R. Caballero, 2008).

With regard to the global CO2 emissions of 36 Gt out of which 24 Gt were emitted by non-OECD countries (World Bank, 2018), which means these countries face the brunt of development by opening pollution creating industries. For instance in China the total output tripled but the emission increased by 187 percent over a period of four years from 2000 to 2014. The energy intensity has dropped by 36 percent while carbon intensity has gone up by 36 percent during the period. As a result the Chinese production should be decarbonised and the government also concentrates in innovation in this area (IEA, 2017).

India and a few developing countries have unique position as a global player in the knowledge based sectors, which is rapidly expanding with potential for higher growth in domestic and export markets. Given the multiplier effect the growing economic importance of services, and the increasing share of knowledge-based services within this, is accelerating the structural and geographic realignment of the global economy (NASSCOM, 2008).

In the global development, economic growth has shifted to countries with their own unique histories that is the E7 group of emerging market economies (China, India, Indonesia, Brazil, Russia, Mexico, and Turkey) have begun to dislodge the G7 (the U.S., the U.K., France, Germany, Japan, Canada, and Italy) as the countries with the largest shares of world trade. The effects of globalization have been felt unequally by different countries. The economic development and social change are contrary to each other as sometimes the misalignment between business activities and economic growth vs. sustainable and societal outcomes are observed and therefore, proper understanding of such divergence to realign business, economies and society (Colm Kelly and Blair Sheppard, 2019).

Technology has changed its trajectory and the robotics and machine intelligence would significantly remove labour from their workforce over the next few years and it will bring glut in labour in countries like India and China. The International Federation of Robotics has sold 20 percent of all the robots made in 2013 to the public and private sector in China (Economist, 2015).

The fruits of economics development will be realized by increase in output, better welfare of people, resource use efficiency and a balance between human needs and the capacity of the environment to provide for those needs. Climate change is causing reduction in rainfall, increasing temperature and flooding. It brings cascading effects in development due to its impact on agriculture and industrial sectors of the countries. It is noticed that over 300 million Africans have no access to safe drinking water and uneven water distribution. Sub-Saharan African countries could not satisfy the eight MDGs. People are affected by abject poverty, lower rainfall and desertification, deforestation and climate change.

A number of directions for economic development have been identified in the UNESCAP (2011) report: "Trade within the region is growing more rapidly than the region's trade with the rest of the world, potentially leading to a deeper level of regional integration; services are an important emerging sector, and various developing Asia-Pacific economies are leading the recovery in exports of commercial services, with the group recording on average a growth rate of more than 20 percent in 2010. There is scope to expand intraregional trade in some services; some Asia-Pacific countries are already world leaders in the production and export of climate-smart goods and services; it is important to include small and medium-sized enterprises (SMEs) in the exports of Asia-Pacific economies, as they play a crucial role in creating employment; an increase in regional cooperation is also viewed as a major avenue for regional development" (Rupert Maclean, 2013).

In the global economy, major transformation took place over the past three decades and since 1990s countries like India and China have grown faster than the OECD average. 'The emergence of this new global economic geography happened in three distinct periods: the opening of China, India and the former Soviet Union to world markets was felt from the 1990s; a second period, from 2001 to the 2008 global financial crisis, saw pervasive convergence of poor countries due to increasingly China-centric growth. Rapid urbanisation and industrialisation in Asia led to rising commodity prices; a recent period in the 2010s, in which shifting wealth has temporarily slowed down. This has been driven by the global recession and China's transformation from a manufacturing and export led economy to one based on services and consumption, which led to a slump in commodity prices' (OECD, 2018).

The Perspectives on Global Development 2019 report carries four main messages: "The global shift in wealth will continue despite the changing role of China and lower levels of global liquidity, buoyed by growth in India, new low-cost labour manufacturing hubs and stronger links between developing countries. This new era calls for new forms and sources of finance, trade and knowledge sharing; there is a better understanding about the limitations of gross domestic product (GDP) per capita as an indicator of development. Economic growth is no longer quality growth. Compared to early industrialisers, developing countries today are growing faster, but improvements in well-being outcomes have been much slower for the same rate of economic growth. Economic growth must therefore be matched by investments and policy efforts that improve well-being outcomes and ensure sustainability; the development experience is different today, as countries are confronted with challenges like never before. The new development context has new rules, new environmental constraints, new technologies and more competition. Development strategies need to adapt to these changes, and reflect a country's context, endowments and institutions. Rather than following a singular paradigm, development strategies should be context-specific, and based on the principles of being participatory, place-based, multisectoral and multilateral; and facing the complexity of today's challenges implies a plurality of development pathways. Development paradigms have broadened significantly over time to include many new elements beyond a pure focus on economic growth. However, they continue to promote an approach that envisions a singular pathway to development for all countries, embodied in the idea that development starts with financial capital" (OECD, 2019).

The impending ricochet in global GDP growth is doubtful as slow growth and trade tensions are observed in the world. The world GDP growth to slow during 2019 and 2020 and the growth forecast is 2.5 percent which is the weakest since 2009. The oil prices may go up as the Saudi Arabia's recent supply disruption may bring inflation. This is being added with the US sanctions and Brexit related uncertainty and rising geopolitical tensions have increased the energy prices. However, in the industrial side, there is growing evidence that firms are increasing capital spending and employ more workers and hence modest loss of momentum make take place but no global recession is expected.

The global trade tensions may be avoided if the countries respect multilateralism and they should not use tariffs to contain their bilateral trade balance. Further, if they follow the rules-based multilateral trading system in accordance with the existing World Trade Organization (WTO) rules and its WTO dispute settlement system. Trade tensions may be avoided through negotiations and settlements. If needed the WTO rules may be amicable amended to achieve benefit to all the countries. Appropriate monetary and fiscal policies be promulgated to address the economic slowdown in the countries.

The current condition of the global manufacturing activity, lower business spending, lesser consumer purchases of durable goods, passive final demand, muffled inflation, reduced trade, tensions etc., needs strong internal and international policies to combat the weakening world economies. In some countries like Asia and Latin American, service sector activity is affected by global slowdown which results in inventory accumulation. US and China trade issues, US sanctions on Iran, Brexit and other geopolitical tensions have disrupted the global business and economic peace. The WEO-2019 forecast of 3.5 percent in 2020 as that of 3.2 percent in 2018 is itself is a big question in the midst of risk sentiments in the global trade. Therefore, it is suggested that “priorities across all economies are to enhance inclusion, strengthen resilience, and address constraints on potential output growth” (IMF-WEO, 2019). The IMF-WEO (2019) growth estimates are given below:

1. The US growth was 2.6 percent in 2019 and it is expected at 1.9 percent in 2020.
2. The growth in euro area was 1.3 percent in 2019 and it is projected at 1.6 percent in 2020
3. The United Kingdom has 1.3 percent growth in 2019 and it is expected 1.4 percent in 2020 despite Brexit followed transition.
4. The Japan had growth of 0.9 percent in 2019 and it is projected to decline to 0.4 percent in 2020.
5. The emerging and developing Asia is expected to grow at 6.2 percent in 2019–20.
6. The Latin America is expected to achieve 2.3 percent in 2020.
7. Growth in the Middle East, North Africa, Afghanistan, and Pakistan is expected 3.0 percent in 2020.
8. The growth in sub-Saharan Africa is expected at 3.6 percent in 2020.
9. The growth in the Commonwealth of Independent States is expected at 2.4 percent in 2020.

The data given above is given for several countries in the following Table 1 in the form of an overview of the World Economic Outlook projections of World Output in percentage from 2017 to 2021.

Table 1: Overview of the World Economic Outlook Projections (Percent change, unless noted otherwise)

Countries	Estimate		Projections		Difference from Oct 2019 WEO Projections 1/		Q4 Estimate	Q4 2/ Projections	
	2018	2019	2020	2021	2020	2021	2019	2020	2021
World Output	**3.6**	**2.9**	**3.3**	**3.4**	**–0.1**	**–0.2**	**2.9**	**3.5**	**3.3**
Advanced Economies	**2.2**	**1.7**	**1.6**	**1.6**	**–0.1**	**0.0**	**1.5**	**1.9**	**1.4**
United States	2.9	2.3	2.0	1.7	–0.1	0.0	2.3	2.0	1.6
Euro Area	1.9	1.2	1.3	1.4	–0.1	0.0	1.0	1.7	1.2
Germany	1.5	0.5	1.1	1.4	–0.1	0.0	0.3	1.2	1.5
France	1.7	1.3	1.3	1.3	0.0	0.0	1.2	1.3	1.4
Italy	0.8	0.2	0.5	0.7	0.0	–0.1	0.3	0.9	0.5
Spain	2.4	2.0	1.6	1.6	–0.2	–0.1	1.7	1.6	1.6
Japan	0.3	1.0	0.7	0.5	0.2	0.0	0.5	1.8	–0.3
United Kingdom	1.3	1.3	1.4	1.5	0.0	0.0	0.9	1.8	1.5
Canada	1.9	1.5	1.8	1.8	0.0	0.0	1.8	1.7	1.8
Other Advanced Economies 3/	2.6	1.5	1.9	2.4	–0.1	0.1	1.4	2.4	2.3
Emerging Market and Developing Economies	**4.5**	**3.7**	**4.4**	**4.6**	**–0.2**	**–0.2**	**4.0**	**4.8**	**4.8**
Emerging and Developing Asia	6.4	5.6	5.8	5.9	–0.2	–0.3	5.3	6.0	5.8
China	6.6	6.1	6.0	5.8	0.2	–0.1	5.9	5.9	5.8
India 4/	6.8	4.8	5.8	6.5	–1.2	–0.9	4.3	6.9	6.1
ASEAN-5 5/	5.2	4.7	4.8	5.1	–0.1	–0.1	4.6	4.8	5.1
Emerging and Developing Europe	3.1	1.8	2.6	2.5	0.1	0.0	2.8	2.4	2.6
Russia	2.3	1.1	1.9	2.0	0.0	0.0	1.5	1.6	2.4
Latin America and the Caribbean	1.1	0.1	1.6	2.3	–0.2	–0.1	0.0	2.0	2.4

Brazil	1.3	1.2	2.2	2.3	0.2	–0.1	1.8	2.0	2.4
Mexico	2.1	0.0	1.0	1.6	–0.3	–0.3	0.1	1.2	1.8
Middle East and Central Asia	1.9	0.8	2.8	3.2	–0.1	0.0	. . .	. . .	. . .
Saudi Arabia	2.4	0.2	1.9	2.2	–0.3	0.0	–0.9	2.7	2.2
Sub-Saharan Africa	3.2	3.3	3.5	3.5	–0.1	–0.2	. . .	. . .	. . .
Nigeria	1.9	2.3	2.5	2.5	0.0	0.0	. . .	. . .	. . .
South Africa	0.8	0.4	0.8	1.0	–0.3	–0.4	0.3	0.6	1.3
Memorandum									
Low-Income Developing Countries	5.0	5.0	5.1	5.1	0.0	–0.1	. . .	. . .	. . .
World Growth Based on Market Exchange Rates	3.0	2.4	2.7	2.8	0.0	0.0	2.3	2.9	2.6
World Trade Volume (goods and services) 6/	**3.7**	**1.0**	**2.9**	**3.7**	**–0.3**	**–0.1**	**. . .**	**. . .**	**. . .**
Advanced Economies	3.2	1.3	2.2	3.1	–0.4	–0.1	. . .	. . .	. . .
Emerging Market and Developing Economies	4.6	0.4	4.2	4.7	0.0	0.0	. . .	. . .	. . .
Commodity Prices (U.S. dollars)									
Oil 7/	29.4	–11.3	–4.3	–4.7	1.9	–0.1	–10.9	–1.5	–2.7
Nonfuel (average based on world commodity import weights)	1.6	0.9	1.7	0.6	0.0	–0.7	4.8	1.0	1.2
Consumer Prices									
Advanced Economies	2.0	1.4	1.7	1.9	–0.1	0.1	1.4	1.8	1.9
Emerging Market and Developing Economies 8/	4.8	5.1	4.6	4.5	–0.2	0.0	5.1	3.8	3.6
London Interbank Offered Rate (percent)									
On U.S. Dollar Deposits (six month)	2.5	2.3	1.9	1.9	–0.1	–0.2	. . .	. . .	. . .
On Euro Deposits (three month)	–0.3	–0.4	–0.4	–0.4	0.2	0.2	. . .	. . .	. . .
On Japanese Yen Deposits (six month)	0.0	0.0	–0.1	0.0	0.0	0.2	. . .	. . .	. . .

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during October 14-November 11, 2019. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = World Economic Outlook.
1/ Difference based on rounded figures for the current and October 2019 World Economic Outlook forecasts. Countries whose forecasts have been updated relative to October 2019 World Economic Outlook forecasts account for 90 percent of world GDP measured at purchasing-power-parity weights.

2/ For World Output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly estimates and projections account for approximately 80 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.
3/ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
4/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.
5/ Indonesia, Malaysia, Philippines, Thailand, Vietnam.
6/ Simple average of growth rates for export and import volumes (goods and services).
7/ Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was $60.62 in 2019; the assumed price, based on futures markets (as of November 12, 2019), is $58.03 in 2020, and $55.31 in 2021.
8/ Excludes Venezuela.

Source: World Economic Outlook, January 2020.

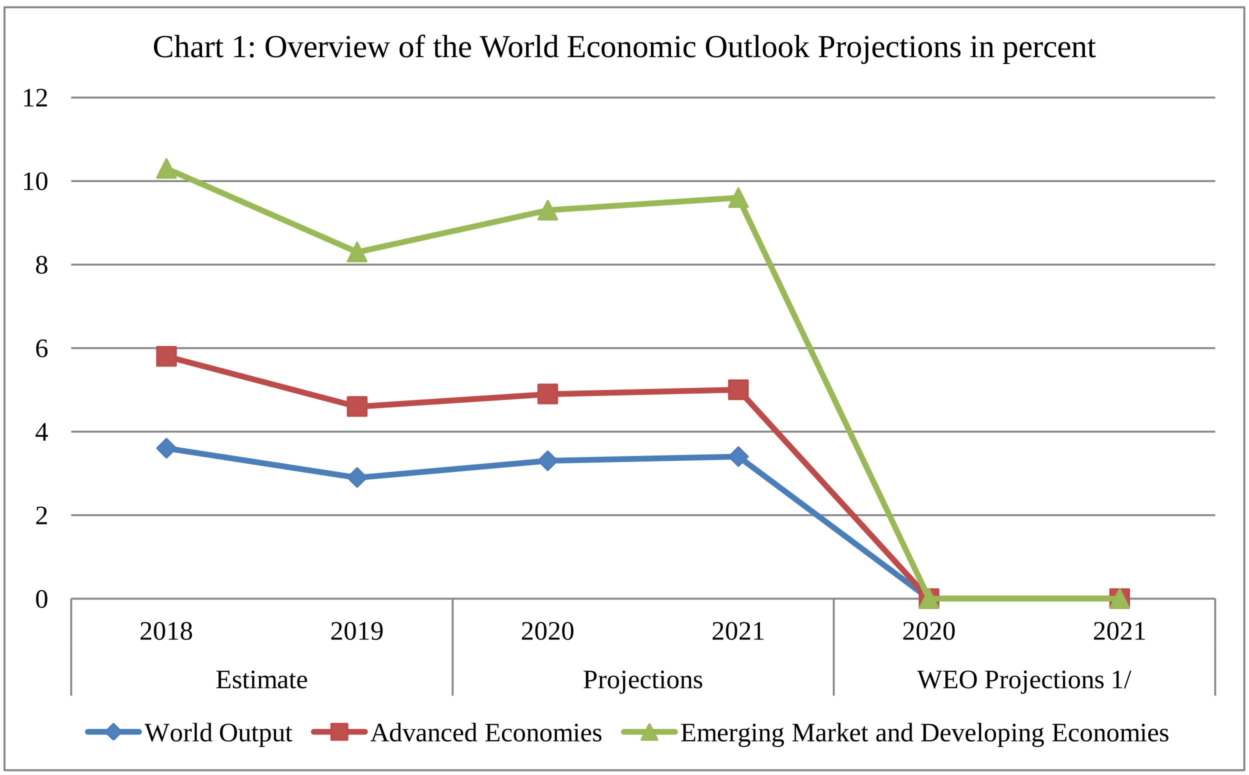

Chart 1given below gives the estimate and projections of world output, output in advanced economies and output in emerging market and developing economies from 2018 to 2021. It shows that WEO projections for 2020 and 2021 are precarious for the emerging market and developing economies.

The assessment of the global economic situation discussed in this paper indicates that the global economic realignment is unfavourable to the emerging market and developing economies in particular and other economies in general. This necessitates for appropriate policy formulation to contain the declining trend otherwise global equality in development cannot be achieved. This will results in furthering of geopolitical and bilateral and multilateral trade tensions in the future.

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