SOUTH CENTRE

Research Paper 76

May 2017

THE FINANCIAL CRISIS AND THE GLOBAL SOUTH: IMPACT AND PROSPECTS

Yılmaz Akyüz and Vicente Paolo B. Yu III

RESEARCH PAPERS

76

THE FINANCIAL CRISIS AND THE GLOBAL SOUTH: IMPACT AND PROSPECTS

Yılmaz Akyüz and Vicente Paolo B. Yu III[1]

SOUTH CENTRE

MAY 2017

[1] South Centre, Geneva. This paper was sponsored by the government of the Bolivarian Republic of Venezuela as part of an UNCTAD project on Developing Country Vulnerabilities. We are grateful to Stephanie Blankenburg for comments and suggestions. We also thank the participants of the South Centre briefing for developing countries on "Global Trends and Linkages to Geneva Multilateral Processes", held on 13 February 2017 at the Palais des Nations, Geneva, where many ideas expressed in this paper were discussed.

THE SOUTH CENTRE

In August 1995 the South Centre was established as a permanent inter-governmental organization of developing countries. In pursuing its objectives of promoting South solidarity, South-South cooperation, and coordinated participation by developing countries in international forums, the South Centre has full intellectual independence. It prepares, publishes and distributes information, strategic analyses and recommendations on international economic, social and political matters of concern to the South.

The South Centre enjoys support and cooperation from the governments of the countries of the South and is in regular working contact with the Non-Aligned Movement and the Group of 77 and China. The Centre's studies and position papers are prepared by drawing on the technical and intellectual capacities existing within South governments and institutions and among individuals of the South. Through working group sessions and wide consultations, which involve experts from different parts of the South, and sometimes from the North, common problems of the South are studied and experience and knowledge are shared.

NOTE

South Centre
Ch. du Champ d'Anier 17
POB 228, 1211 Geneva 19
Switzerland
Tel. (41) 022 791 80 50
Fax (41) 022 798 85 31
south@southcentre.int
www.southcentre.int

ABSTRACT

The world economy has not still recovered from the effects of the financial crisis that began almost a decade ago first in the US and then in Europe. Policy response to the crisis, the combination of fiscal restraint and ultra-easy monetary policy, has not only failed to bring about a robust recovery but has also aggravated systemic problems in the global economy, notably inequality and chronic demand gap, on the one hand, and financial fragility, on the other. It has generated strong destabilizing spillovers to the Global South. Major emerging economies that were expected a few years ago to become global locomotives have not only lost their momentum, but have also become highly vulnerable to trade and financial shocks. Policies proposed by the new administration in the US could entail a double blow to emerging and developing economies which have become highly dependent on foreign markets, capital and transnational corporations. The EU remains a global deadweight, generating deflationary impulses for the rest of the world economy. The jury is still out on whether the second largest economy, China, will be able to avoid financial turmoil and growth collapse. This state of affairs raises serious policy challenges to the Global South in responding to external shocks and redesigning the pace and pattern of their integration into the global economy so as to benefit from the opportunities that a broader economic space may offer while minimizing the potential risks it may entail.

TABLE OF CONTENTS

TABLES

CHARTS

I. INTRODUCTION

The world economy has not still recovered from the effects of the financial crisis that began almost a decade ago. Despite the recent cyclical bounce-back global income growth remains well below the levels recorded in the run-up to the crisis. Recovery in the US has been sluggish by historical standards and unbalanced between the poor and the rich, and finance and industry. The Eurozone has been unable to resolve its financial crisis let alone economic and social crisis. Potential growth has fallen in both the US and Europe because of inadequate demand, weak investment and productivity growth. Exceptional monetary policy measures introduced to deal with financial instability and recession are still in place.

The economic landscape is not much better in the global South. The crisis has moved in a third wave to several emerging economies after having swept from the US to Europe.[2] Major emerging economies that were expected a few years ago to become global locomotives are now seen as part of the problem, generating deflationary impulses for the world economy. The jury is still out on whether the second largest economy, China, will be able to avoid financial turmoil and growth collapse.

A central factor responsible for this state of affairs is policies pursued in response to the crisis in the US and Europe. There are two major shortcomings: the reluctance to remove the debt overhang through timely, orderly and comprehensive restructuring, and fiscal orthodoxy. These resulted in excessive reliance on monetary policy, with central banks going into uncharted waters including zero and negative policy interest rates and rapid liquidity expansion through large acquisitions of public and private bonds.

These policies have not only failed to secure a rapid recovery, but also aggravated the global demand gap by widening inequality, and global financial fragility by producing a massive build-up of debt and speculative bubbles. They have also generated strong deflationary and destabilizing spillovers for EDEs. This is especially the case for the policies pursued in the US, given its global role and impact as the issuer of the key reserve currency.

The evolution of the world economy over the coming years would depend very much on how these systemic problems would play out. Given their importance in international trade, investment and finance, policies and conditions in the US, European and Chinese economies will also have significant influence over the course of the world economy and the external economic environment of EDEs.

This paper is organized as follows. The next section reviews the recovery process in the US and the Eurozone and makes a critical assessment of policies pursued since the onset of the crisis. Section III examines their spillovers to EDEs through international trade and finance. Section IV will focus on medium term prospects of the world economy. It will first examine the origin and effects of problems of chronic demand gap and systemic financial fragility in the global economy, focussing on the role of policies in major economies in the

[2] In this paper Emerging and Developing Economies (EDEs) is used for what the IMF calls “Emerging Market and Developing Economies” while emerging economies is used for what it calls “emerging market economies”.

emergence of these problems. This is followed by a discussion of uncertainties regarding policies and developments in three key economies and their possible spillovers to EDEs, notably the US, Europe and China. Particular attention will be given to possible effects of radical policy changes proposed by the newly-elected president Donald Trump in the US. The concluding sections will briefly discuss policy issues all these raise for EDEs in three levels – policy response to possible external shocks from major economies, global economic integration and global economic governance.

II. CRISIS AND POLICY RESPONSE IN THE US AND EUROPE

II.1. Why is the crisis taking too long to resolve?

In his remarks on the state of the world economy after half a decade from the onset of the subprime crisis in the US, the IMF's chief economist at the time, Olivier Blanchard is reported to have said; "It's not yet a lost decade… But it will surely take at least a decade from the beginning of the crisis for the world economy to get back to decent shape" (Reuters 2012). Indeed, it is almost a decade since the beginning of the recession in the US and the world economy has not got back to decent shape and the policies introduced in response to the crisis have not been normalized.

Even though the US economy was at the origin of the crisis, it has fared much better than other major advanced economies, notably the Eurozone. Since the end of the recession in September 2009, the US economy has had positive growth for 27 quarters, enjoying one of the longest post-war expansions. It has also restored employment to pre-crisis levels. However, the recovery has been unusually slow. In real terms the economy had grown at a rate of around 3 per cent per annum from the 1970s until 2008, including several years with negative growth rates, and at a rate of 3.6 per cent during the 1991-2001 expansion. In the recovery from the subprime crisis, the average US growth has barely exceeded 2 per cent (Table 1). As a result output has remained well below the potential, resulting in significant income and employment losses.

Table 1: Real GDP Growth in Selected Advanced Economies

(Per cent change)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
United States	-0.3	-2.8	2.5	1.6	2.2	1.5	2.4	2.6	1.6
Eurozone (EZ)	0.5	-4.5	2.1	1.6	-0.9	-0.3	1.1	2.0	1.7
Germany	0.8	-5.6	3.9	3.7	0.6	0.4	1.6	1.5	1.7
Japan	-1.0	-5.5	4.7	-0.5	1.7	1.4	0.0	0.5	0.5
United Kingdom	-0.5	-4.2	1.5	2.0	1.2	2.2	3.1	2.2	1.8

Source: IMF WEO (April 2016).

More importantly, the crisis has accelerated the decline in US potential growth that had already started in the early 2000s (IMF WEO April 2015: Chap. 3). Investment has been particularly weak with capital spending declining in some key sectors. Although the unemployment rate has been more than halved from the peak of 10 per cent, the improvement is partly due to a significant decline in the labour force participation. A large majority of the jobs created in the decade were positions that often lack legal protections, health insurance, pensions and job security (Katz and Krueger 2016). Until recently wages remained stagnant and income and wealth inequality increased (Dufour and Orhangazi 2016). In the recovery from the subprime crisis, the top one per cent captured 58 per cent of total growth as their income grew by 27 per cent against 4.3 per cent growth of the income of the bottom 99 per cent (Saez 2015). After 6 years of recovery, three people out of five polled in May 2015 thought that the US economy was still in recession (Fox News 2015).

The Eurozone has barely recovered from the crisis that hit in 2008-09. Its recovery has been much weaker than the US largely because of tight fiscal policy in the core countries and the austerity imposed on the periphery. With an average growth of less than one per cent since 2010, the region as a whole managed to restore its pre-crisis income only in the first quarter of 2016, five years after the US. GDP was still below the 2008 level in many countries of the region including Italy, Spain, Portugal, Greece and Cyprus. On some projections, in 2021, more than a decade after the onset of the crisis, Greek and Italian per capita incomes would still remain below their 2007 levels, by about 14 per cent and 9 per cent, respectively (Reinhart 2016). Unemployment fell only moderately, from an all-time high of some 12 per cent in 2013 to 10 per cent in 2016, and was still far above the pre-crisis level of 7.2 per cent. It was over 23 per cent in Greece and almost 20 per cent in Spain – higher than the levels seen during the Great Depression.

The output gap in the Eurozone is greater than in the US and the decline in potential growth is more severe, posing the threat of persistent stagnation over the longer term. According to an estimate, potential output losses for 2015 were around 35 per cent for Greece and Ireland, 22 per cent for Spain and over 13 per cent for Portugal compared to an average loss of some 8 per cent for 23 OECD countries (Ball 2014). Although financial stress in the Eurozone has eased, continued austerity and adjustment fatigue in much of the periphery and sluggish growth in the rest of the region could bring it back and even lead to a break-up. The removal of debt-overhang in Greece is taking even longer than the resolution of the Latin American debt crisis of the 1980s.

There can be little doubt that recoveries from recessions brought about by financial crises are weak and protracted because it takes time to repair balance sheets – to remove debt overhang and unwind excessive and unviable investments generated during the bubbles that culminate in such crises. Recoveries from such crises also tend to be jobless and generate little investment. This was the case in the US during the early 1990s and particularly the early 2000s when it was recovering from recessions brought about by the bursting of the Savings and Loans and technology (dot-com) bubbles, respectively. In the current recovery, the pre-crisis income in the US had been restored by the second quarter of 2011, but employment was lower by some 6.5 million. Sluggish job and investment growth is also a common feature of recoveries of EDEs from financial crises (Akyüz 2006).

However, this recovery has been long and sluggish even by the standards of past recessions associated with financial crises. For instance it is found that in the 100 worst financial crises since the 1860s it took around seven years, on average, for the advanced economies to reach pre-crisis level of per capita income. In the current global crisis, of the 11 countries affected, only Germany has done better than the historical average while the US recovery has taken a little longer. Using the IMF projections for the coming years, it is estimated that for this group of 11 countries, it would take about nine years to reach the pre-crisis level of income (Reinhart 2016).

It may thus take longer than "a decade from the beginning of the crisis for the world economy to get back to decent shape." But this is not just due to the nature and the depth of the crisis, but also to the inadequacy and ineffectiveness of public interventions. In this respect, there are two major shortcomings in the policy response both in the US and the Eurozone. First, governments have been unwilling to remove the debt overhang through timely, orderly and comprehensive restructuring and allocate losses entailed by the crisis between debtors and creditors. Instead, they have resorted to extensive creditor bailouts, creating moral hazard and vulnerabilities in the financial system while imposing losses and enforcing austerity on debtors (Kuttner 2013). Second, there have been serious shortcomings in macroeconomic policy response in support of aggregate demand and employment. After an initial reflation governments turned to fiscal orthodoxy and relied excessively on unconventional monetary means to fight the crisis and economic downturn. These did not only lead to unnecessary output and job losses, but also created financial fragility that could compromise future stability and growth.

II.2. The debt overhang

The crises in the US and the Eurozone were due to rapid credit expansion and debt-driven property and consumption bubbles. Accordingly their resolution should have called for a significant reduction of debt relative to income. Instead, the policy responses to the crisis has resulted in a renewed debt pile up both in the North and the South, by some additional $50 trillion since 2008, outpacing the growth of world nominal income. In the US, the ratio of private plus public debt as a proportion of GDP rose by 40 per cent while it more than doubled in the Eurozone periphery. The increase in household debt in advanced economies is moderate compared to debt accumulated in the seven years before the outset of the crisis, but corporate debt saw a significant acceleration (Dobbs *et al* 2015; Birds 2015). There has also been a rapid increase in corporate debt in emerging economies and an important part of this debt is in dollars (IMF GFSR December 2015; McCauley *et al*. 2015). As of end of 2015, total non-financial debt stood at 265 per cent of GDP in advanced economies and 185 per cent in EDEs, both up by 35 percentage points since 2007, creating concerns that much of it may become unpayable in the next downturn (White 2016).

In advanced economies government debt has increased without a corresponding build-up of income-yielding public assets through investment in physical and human infrastructure. In the same vein, the corporate debt has not been used for greater investment but for M&A and stock buybacks, thereby boosting share prices. In this recovery business fixed investment has been 20 per cent below what would have been expected from pre-crisis trends across advanced economies, including the US (ERP 2016: 92). In 17 of the 20 largest advanced economies investment growth remained lower during the post-2008 period than in the years before the crisis and five advanced economies experienced declines in investment during 2010-15 (Stiglitz and Rashid 2016). Despite exceptionally low interest rates, real private non-residential gross fixed capital formation remained weak mainly because of uncertainty about the future state of the economy and depressed profits expectations. Investment in EDEs also slowed significantly. In a few cases where corporate debt build-up went hand in hand with investment, the capacity created was in excess of what could possibly be utilized under normal conditions, as in China, or very little of it was in manufacturing, as in India.

In the US the government has been reluctant to bring down mortgages in line with the ability of households to pay by forcing the creditors to write down debt and share the burden.

Rather than preventing foreclosures, which involved around 9 million homes, priority was given to creditor bailouts. Through the $700 billion Trouble Asset Relief Programme of 2008-09, the US Treasury injected capital into banks whose net worth was moving into the red as a result of loss of asset values. Bailout operations and the ultra-easy monetary policy prevented a banking collapse and allowed the banks first to recover their pre-crisis profitability and then reach record profits. By already 2013, the four biggest US banks were 30 percent larger than they had been before the crisis and the too-big-to-fail banks were even bigger (Warren 2013). They continued to post even higher profits in the past three years (Leong 2015; Cohan 2016).

The failure to act directly on the debt overhang is even more visible in the Eurozone where the policy response was premised on a wrong diagnosis. The periphery was, in effect, facing a balance-of-payments-*cum*-external-debt crisis resulting from excessive domestic spending and foreign borrowing of the kind seen in several EDEs in the past decades.[3] All periphery countries hit by the crisis had larger current account deficits than other Eurozone members. However, contrary to the official diagnosis, this was largely due to private spending rather than fiscal profligacy except in Greece (Lapavitsas *et al*. 2010; De Grauwe 2010). Spain and Ireland adhered to the Maastricht Treaty much better than Germany – they were both running fiscal surpluses and their debt ratios were lower (Table 2). Portugal had a relatively high deficit, but its debt ratio was not much higher than that of Germany.

Table 2: Pre-Crisis Debt and Deficits in the Eurozone

(per cent of GDP)

	Fiscal Balance (2000-07)	Public Debt (2007)	Private Balance (2000-07)	Current Account (2000-07)
Greece	–5.6	107.3	–2.8	–8.4
Italy	–3.0	103.3	+2.4	–0.6
Portugal	–4.1	68.3	–5.2	–9.3
Spain	+0.4	36.3	–6.2	–5.8
Ireland	+1.4	25.0	–3.3	–1.9
Germany	–2.3	65.4	+5.5	+3.2

Source: IMF WEO (April 2013) and IMF (2013).

A key factor accounting for rapid increases in current account deficits and external debt in the Eurozone periphery was the divergence of their wage and price movements from the core. During 2000-07 Germany undershot the inflation target and its real labour costs fell while the peripheral countries overshot the inflation target and their labour costs increased. From early 2000 Germany was engaged in a process of what is called "competitive disinflation" (Fitoussi 2006) or internal devaluation, keeping real wages and private consumption virtually stagnant and increasingly relying on exports for growth (Akyüz 2011c; Palley 2013). By contrast, in the periphery wages went ahead of productivity, leading to an appreciation of the real effective exchange rate and loss of competitiveness. This created a

[3] Unlike EDEs their external debt is in "own" currency, which, however, they cannot print freely.

surge in imports, mainly from other EU countries, but also from the rest of the world, notably China (Chen *et al.* 2012).

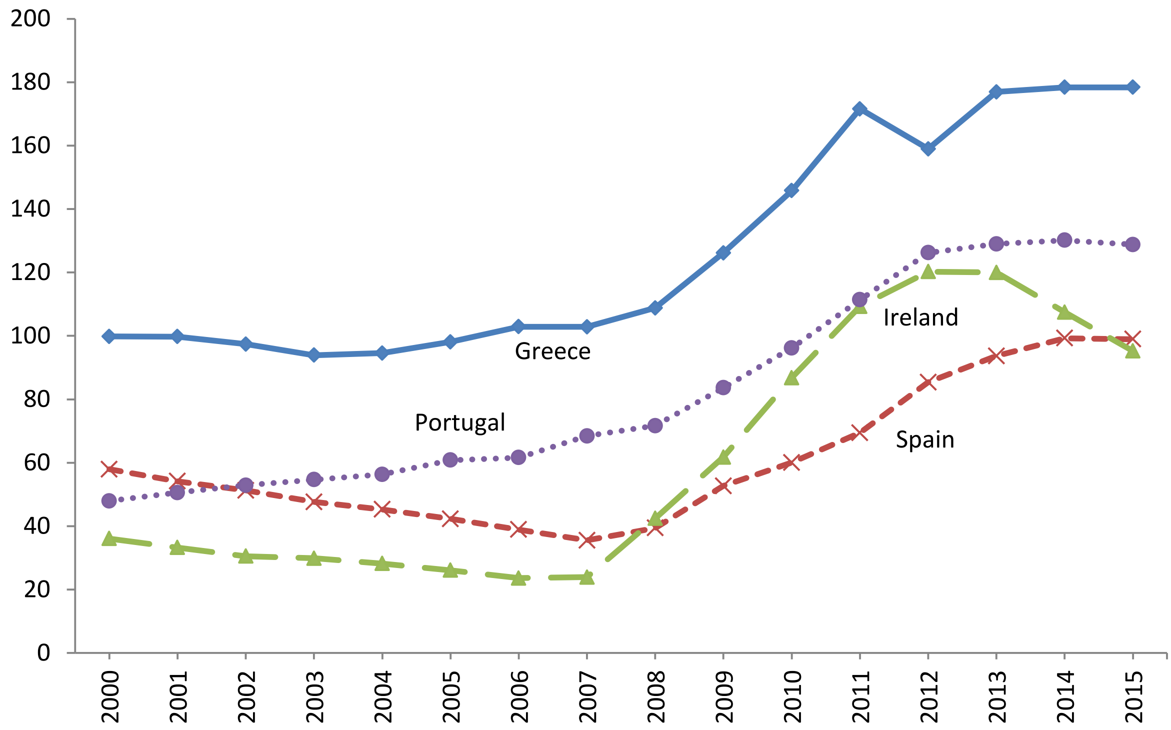
The divergence between the core and the periphery was sustained by a surge in capital flows from the former to the latter, triggered by the common currency and abundant international liquidity (Sinn 2011). They fuelled the boom in domestic demand, reduced private savings and widened the current account deficits in the periphery (Atoyan *et al.* 2013). They also helped Germany to increase exports and hence maintain a higher level of activity than was possible on the basis of domestic demand alone. As in Latin America in the early 1980s, this process of debt accumulation also ended with a shock from the US, this time the subprime crisis, leading to a sharp cutback in lending.

The strategy adopted by Eurozone policy makers in dealing with the debt problem was very much like that of the failed Baker Plan pursued in response to the Latin American debt crisis in the 1980s – official lending to keep debtors current on their payments to private creditors and austerity (UNCTAD TDR 1988: chap. 4). For this purpose several facilities were introduced and used together with IMF lending. The European Central Bank (ECB) has engaged in sovereign bonds purchases in order to lower borrowing costs to troubled debtors and provided long-term loans to banks at low interest rates, enabling them to buy high-yield sovereign bonds and earn large spreads.

Despite occasional references to the need to involve the creditors in the resolution of the crisis, interventions have mainly served to bail out creditor banks. As pointed out by the chairman of the European Banking Authority, too few European banks have been wound down and too many of them have survived (Reuters 2013). Public money has been used to bail out banks, leading to increased sovereign debt. It is estimated that during 2008-2015, the EU member states spent €747 billion on bailout packages for banks and up to October 2016, €213 billion of taxpayers' money was permanently lost as a result of these rescue packages (Vila and Peters 2017). The debt-restructuring initiatives have brought limited relief to debtors and failed to remove the debt overhang. As of March 2017, Greece was still engaged in protracted negotiations with its official creditors for debt relief.

Public debt ratios in the periphery shot up significantly because of recession, relatively high spreads and the failure to bail in creditors (Chart 1). Debt ratios of Spain and Ireland have reached 100 per cent from around 40 per cent on the eve of the crisis while that of Portugal and Greece doubled. Of these countries only Ireland managed to reduce its debt ratio from the peak reached during 2012-13. Ireland is also the only crisis-hit country that has maintained positive growth since 2010.

Chart 1: Public Debt in the Eurozone (*per cent of GDP)*



Source: IMF WEO Database

II.3. Fiscal restraint

Under conditions of debt overhang and retrenchment in private spending fiscal policy gains added importance because monetary policy becomes relatively ineffective in lifting demand and employment. But both the US and Europe shifted to austerity after an initial fiscal stimulus. In the Eurozone, the core also joined in the austerity imposed on the crisis-hit periphery.

In the US the immediate fiscal response to the crisis through one-off transfers and tax cuts played an important role in restraining the downturn and initiating recovery. For instance it is estimated that the fiscal stimulus raised 2010 real GDP by as much as 3.4 per cent, held the unemployment rate about 1.5 percentage points lower and added almost 2.7 million jobs to US payrolls (Blinder and Zandi, 2010). However, as soon as the economy started to show signs of life, fiscal orthodoxy returned. As pointed out by Janet Yellen (2013a: 4) when she was a Vice Chair of the Board of Governors of the US Federal Reserve System, "discretionary fiscal policy hasn't been much of a tailwind during this recovery. In the year following the end of the recession, discretionary fiscal policy at the federal, state, and local levels boosted growth at roughly the same pace as in past recoveries… But instead of contributing to growth thereafter, discretionary fiscal policy this time has actually acted to restrain the recovery." According to one measure, fiscal policy was a drag on US economic growth during the period when the economy was still struggling to recover from the Great Recession and it was only after mid-2015 that it started to give a boost to economic activity

(Wessel 2015). On another account, however, fiscal policy in the US remained contractionary during 2014-2016 (OECD 2016).

The initial fiscal policy response in the Eurozone was also reflationary. Between 2007 and 2009 the budget balance of the Eurozone moved from an average deficit of 0.7 per cent of GDP to 6.3 per cent and according to the European Commission, half of the increase in deficits was due to the conventionally-measured automatic stabilisers and half to discretionary countercyclical fiscal policy actions (EC 2011: 15). From 2010 onwards fiscal policy in the Eurozone became more and more restrictive. Between 2011 and 2013 spending cuts and tax increases amounted to around 4 per cent of GDP and this played a central role in the return of the region to recession (Rannenberg *et al*. 2015). Tight fiscal policy continued in subsequent years with the aggregate budget deficit of the region was set to decline from 2.6 per cent of GDP in 2014 to 1.8 per cent in 2016 at a time when growth in the region was still below par and automatic stabilizers should have been expected to widen headline deficits (EC 2015).

In the Eurozone lending to debtor countries incorporated austerity in the form of tax hikes, and cuts in public spending and wages. Much of the burden of fiscal consolidation fell on public investment, with cuts exceeding 2.5 per cent of GDP in Greece, Spain and Ireland between 2010 and 2013. In a subsequent evaluation of the 2010 Stand-By Agreement with Greece, the IMF (GFSR April 2013) admitted that it had underestimated the damage done to the economy from fiscal austerity imposed in the bailout programme and that it deviated from its own debt-sustainability standards and should have pushed harder and sooner for lenders to take a haircut to reduce Greece's debt burden. Greece and Portugal made the most strenuous efforts to improve fiscal balances, by around 8 percentage points of GDP during 2010-15. These are also the two countries with the worst growth performance over the same period, with average rates of -4 per cent and -1 per cent respectively. Consequently, both countries saw a significant increase of the ratio of gross public debt to GDP, by around 35 percentage points (Weeks 2016).

While fiscal retrenchment in the periphery widened the deflationary gap and failed to stabilize sovereign debt, deflation in the core countries made it very difficult for them to make growth-oriented payments adjustment based on export expansion. As the periphery is locked in a currency whose nominal exchange rate is beyond their control, the only way to restore competitiveness would be through cuts in wages. This means that more austerity would be needed to overcome austerity; employment needs to be cut in order to depreciate the currency in real terms and generate external demand.[4]

So far the crisis countries with overvalued currencies have achieved a significant degree of internal devaluation and adjustment in real effective exchange rates through wage suppression. Except Cyprus, all of them moved from current account deficits of 6 to 15 per cent of GDP in 2007 to a surplus by 2015. However, much of this improvement came from economic contraction, cuts in private investment and imports. Weak demand in Germany increased the retrenchment needed in the periphery to achieve any given turnaround in external

[4] This problem was encountered by Argentina in the 1990s when it had fixed the peso against the dollar with the Convertibility Plan. In commenting on its prospects, UNCTAD TDR (1995: 90) noted that "the main question for Argentina is how much unemployment will be needed to improve competitiveness, given that it has excluded the possibility of using what is normally the most potent instrument of policy to that end, namely the exchange rate, and whether such unemployment will be politically acceptable."

balances. Fiscal austerity, sluggish wages and trade surplus in Germany have placed the burden of adjustment disproportionately on debtor deficit countries in the region.

II.4. The ultra-easy monetary policy

The reluctance to use fiscal policy to expand aggregate demand resulted in excessive reliance on monetary policy, particularly as fiscal austerity became self-defeating by restraining growth. Policy interest rates have been cut to historical lows, not only in the US, UK and the Eurozone but also many other advanced economies In several cases including the Eurozone, Japan, Switzerland, Sweden and Denmark central banks have moved to negative rates as monetary policy proved much less effective than expected. They have also been engaged in large scale bond purchases, the so-called quantitative easing operations (QE), financed by the creation of reserves in the banking system in order to reduce long-term interest rates and stimulate borrowing and spending. By mid-2016, taken together, central banks in major advanced economies had issued some $12 trillion additional money through such operations.

In the US the targeted federal funds rate was cut to 0.25 percent in December 2008 and stayed at that level until December 2015 when it was raised to 0.50 per cent. It was further raised to 0.75 per cent in December 2016 and then to 1 per cent in March 2017. QE1 was started in 2008 for purchases of mortgage-backed securities; QE2 was introduced at the end of 2010 for a purchase of $600 billion of treasury securities and supplemented by the so-called Operation Twist whereby the US Federal Reserve replaced expiring short-term treasury bills with long-term notes and securities; QE3 came in September 2012, followed by an announcement by the US Federal Reserve in December that it would keep buying $85 billion in treasuries and asset-backed securities until unemployment fell below 6.5 per cent or inflation rose above 2.5 per cent. The US Federal Reserve started tapering its monthly bond purchases in January 2014 and ended it altogether in October 2014.

In the Eurozone initially monetary policy interventions were less intense, but extended and broadened significantly as the crisis deepened and the region remained in stagnation. The ECB cut its benchmark refinancing rate to 1 per cent in 2009. The two rounds of misguided increases, first to 1.25 per cent then to 1.50 per cent in 2011 were followed by successive cuts, eventually to a record low of zero per cent in March 2016. The ECB started buying sovereign bonds in secondary markets in May 2010 and then introduced Long-Term Refinancing Operations (LTRO) at the end of 2011 to provide three-year loans to banks at low interest rates. In 2012, soon after its head reaffirmed the pledge to "do whatever it takes" to save the single currency, it announced that it would undertake outright monetary transactions in secondary sovereign bond markets without ex ante time or size limits. This was activated in January 2015 with a QE programme of €60 billion monthly purchases of euro-area bonds. In March 2016 monthly bond purchases were increased to €80 billion and investment-grade euro-denominated bonds issued by non-bank corporations established in the Eurozone were made eligible for regular purchases. Originally the QE stimulus was planned to last until September 2016, but subsequently the ECB pledged to continue it until December 2017.

The ultra-easy monetary policy has largely failed to reignite bank lending to provide a strong boost to private spending on goods and services. The increased risk aversion made banks in both the US and Europe unwilling to lend to households and small businesses while big businesses have had little need for bank loans or appetite for new spending on labour and equipment in view of sluggish demand. In Europe, in addition, the banking system itself has been in a dire state; it is undercapitalized and impaired by bad loans. This is in large part because governments were not willing to restructure them in the early days of the crisis. These banks sought to meet capital charges by cutting credit rather than recapitalization even though they were flooded with liquidity. Even the recent initiative by the ECB to subsidize bank lending under the LTRO is not expected to lead to a rapid credit expansion (Münchau 2016; Jones 2016). As put by the Economist (2016), "increasingly, the markets are doubting the efficacy of overstretched monetary policy."

However, the ultra-easy monetary policy has created significant opportunities for fiscal expansion by lowering interest rates on public debt and rapidly increasing the central bank holding of government debt, notably in the US. On the one hand, it has resulted in a sizeable decline in interest payments from the budget. On the other hand, much of the interest payments on debt held by central banks have gone back to the budget as profit remittances.[5] It is estimated that by the end of 2012, total benefits of governments in the US, UK and the Eurozone taken together from both reduced debt service costs and increased profits remitted from central banks reached $1.6 trillion (Dobbs *et al*. 2013). However, the fiscal space created by monetary policy was not used effectively for reflation. In the US during 2007-12 the benefits from lower interest rates and profit remittances exceeded $1 trillion compared to a total fiscal stimulus of some $800 billion in the same period (Amadeo 2013). Profit remittances from the US Federal Reserve alone during 2006-15 reached $600 billion, meeting a large proportion of the deficit created by fiscal stimulus (Sharf 2015; Leubsdorf 2016).

The QE programmes have failed to lift private spending but succeeded in creating asset bubbles. Non-bank financial institutions used the vast amount of liquidity acquired in return for asset sales mainly for investment in high-risk, high-yielding financial assets, including in EDEs. Historically low interest rates and ample liquidity triggered a global search for yield in the riskier part of the credit spectrum including high-yield bonds, subordinated debt and leveraged syndicated loans (BIS 2013: 7). High-yield, high-risk corporate debt issuance accelerated in both advanced economies and EDEs and there were significant increases in corporate debt in booming sectors.[6] Stock markets in most major advanced economies reached historical highs, but the wealth effect of asset booms on spending has been weak because the gains are reaped mainly by the rich.

All these led to an important build-up of fragility in financial markets in advanced economies The BIS (2013: 1) described the strong issuance of bonds and loans in the riskier part of the spectrum, as "a phenomenon reminiscent of the exuberance prior to the global financial crisis". They caused concern even at the US Federal Reserve with Bernanke (2013) issuing a warning that asset prices may get delinked from fundamentals, generating

[5] In the US Federal Reserve profits are remitted to the Treasury. In the EZ, profits of the ECB are distributed to national central banks of the Eurozone according to their participation in its capital. National central banks also earn profits from other sources. These are transferred to governments. For instance in 2015 ECB profits were around €1.1 billion whereas the profits earned by Deutsche Bundesbank were €3.2 billion, transferred to the Federal Government of Germany.

[6] An important part of these, around $550 billion, were energy company debt – Idzelis and Torres (2014). In the US alone the junk bond market is estimated to be in the order of $1.5 trillion of which 15-20 per cent consist of energy company debt market; see Snyder (2016).

mispricing (see also IMF GFSR April 2013). Similar concerns were expressed by Janet Yellen before becoming the chairman of the US Federal Reserve (Yellen 2013b; see also Fontevecchia 2013).

As discussed in the subsequent section, the ultra-easy monetary policy in advanced economies created consumption and property bubbles in several emerging economies by giving rise to a surge in capital flows and booms in credit and asset markets in these economies. In a way, it was more "successful" in stimulating spending in the South than in the North, but at the cost of creating financial fragility.

There is a growing agreement that it would be difficult to exit from an extended period of ultra-easy money without disrupting global financial stability and impairing growth (White 2012; Stein 2013). A hike in policy rates can result in a sudden and severe revaluation of asset prices and create difficulties for debtors. Indeed various steps taken towards tighter monetary policy have so far created heightened instability in global asset markets and capital flows to emerging economies, including the "taper tantrum" of May 2013 when the Federal Reserve declared its intention to taper its bond purchases or on the eve of the US Federal Reserve rate rise in December 2015 and the early months of 2016. For this reason the US Federal Reserve has been hesitant in normalizing its monetary policy even though it has been adding more to financial fragility globally, including in the South, than to incomes and jobs in the US.

III. SPILLOVERS TO THE GLOBAL SOUTH

III.1. Growth in the Global South: Decoupling and recoupling

At the end of the 1990s and the early 2000s, many economies in the global South were in disarray. East Asia was still recovering from the 1997 crisis while a host of other EDEs were falling into payments and financial crises one after another; Brazil, Russia, Turkey and Argentina. The prospects for the global economy were dimmed by the bursting of the dot-com bubble in the US at the beginning of the decade, coming on top of prolonged deflation in Japan, and uncertainties produced by the Monetary Union in Europe.

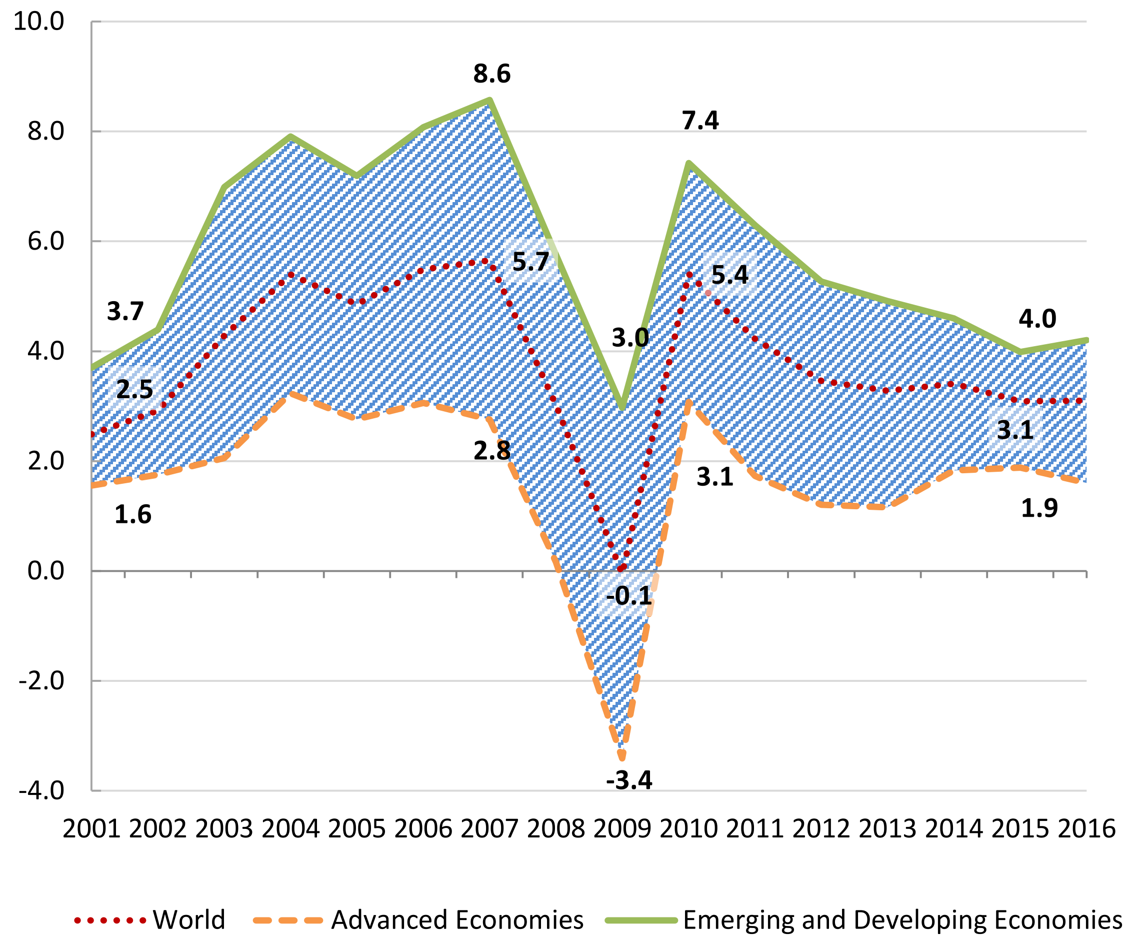
From 1990 to 2002 EDEs taken together grew by only one percentage point faster than advanced economies and in per capita terms there was hardly any income convergence. *The* picture was even worse in the 1980s when a large number of EDEs were suffering from severe payments difficulties caused by a debt overhang and sharp declines in commodity prices. Until the new millennium the only major economy in the South that was able to close the income gap with advanced economies significantly was China, with an average growth rate close to 10 per cent during 1990-2002 compared to less than 4 per cent in the rest of the developing world.

This picture changed in the new millennium. From 2002 until the outbreak of the subprime crisis, the growth difference between the EDEs and advanced economies shot up to 5 percentage points (Chart 2). This was not because of slowdown in advanced economies, but acceleration in EDEs where the growth rate doubled from the 1990s. This was unprecedented. During the post-war golden age EDEs had also grown at a very rapid pace, by some 6 per cent per annum, but growth in advanced economies was also high and the margin was no more than a couple of percentage points.

The acceleration was broad-based but with significant variations among regions and countries. It was faster in Africa than the two other regions even though African growth continued to remain below Asia. Latin America saw only a modest rise compared to the 1990s. Fuel exporters had faster acceleration than the rest. Acceleration was also rapid in countries recovering from severe crises such as Russia, Argentina and Turkey.

The global crisis led to a loss of momentum in EDEs, but they still maintained some 3 per cent growth in 2009 while advanced economies went into a deep recession. Their recovery was also much more vigorous. However, they never regained the pre-crisis momentum and started to slow after 2010. Although advanced economies failed to achieve a strong and sustained recovery after the 2009 recession, the slowdown was more marked in EDEs and their growth converged downward towards the depressed rate in advanced economies By the end of 2016, the growth differential had come down to 2 percentage points, from a peak of almost 6 percentage points in 2007.

Chart 2: Real output growth (per cent)



Source: IMF WEO Database

Rapid acceleration of growth in EDEs and relatively weak performance of advanced economies before the crisis was widely interpreted as decoupling of the South from the North. After the crisis the combination of rapid recovery of EDEs with stagnation and faltering growth in advanced economies did not only revive the decoupling hypothesis, but also created a widespread belief that major EDEs, notably China and to a lesser extent India and Brazil, would play a key role in taking the world economy out of recession. The IMF was a major advocate of the decoupling thesis. However, as EDEs slowed down and the forecasts continued to disappoint, in 2013 it “dropped its view that emerging economies were the dynamic engine of the world economy” in a “humbling series of U-turns over its global economic assessment” (Giles 2013).

Decoupling in the sense that the economic performance of the South has become independent of conditions in the North would be quite implausible in view of increasingly closer global integration of EDEs. Indeed, as discussed in Akyüz (2012), evidence shows that the deviations of economic activity from underlying trends continue to be highly correlated between EDEs and advanced economies This was also evident during the post-Lehman downturn when a large majority of EDEs experienced a significant slowdown despite a strong counter-cyclical policy response.

A more fundamental question is whether there was an upward shift in the trend (potential) growth of EDEs relative to advanced economies and a secular acceleration of convergence. After examining the role played by domestic and external factors in the acceleration of growth in EDEs in the new millennium and their rapid recovery from the crisis, Akyüz (2012) concluded that even though there were improvements in macroeconomic management in many EDEs after the recurrent crises of the 1990s and early 2000s, their impressive economic performance before and immediately after the global crisis were driven by exceptionally favourable but unsustainable global conditions rather than improved growth fundamentals. It also warned that the failure to make a correct assessment of respective roles of external and domestic factors in the superior performance of EDEs could lead to complacency and increase their exposure to shocks. The IMF eventually came to a similar view, recognizing that potential growth declined more in the South than in the North (IMF WEO April 2015: chap. 3).

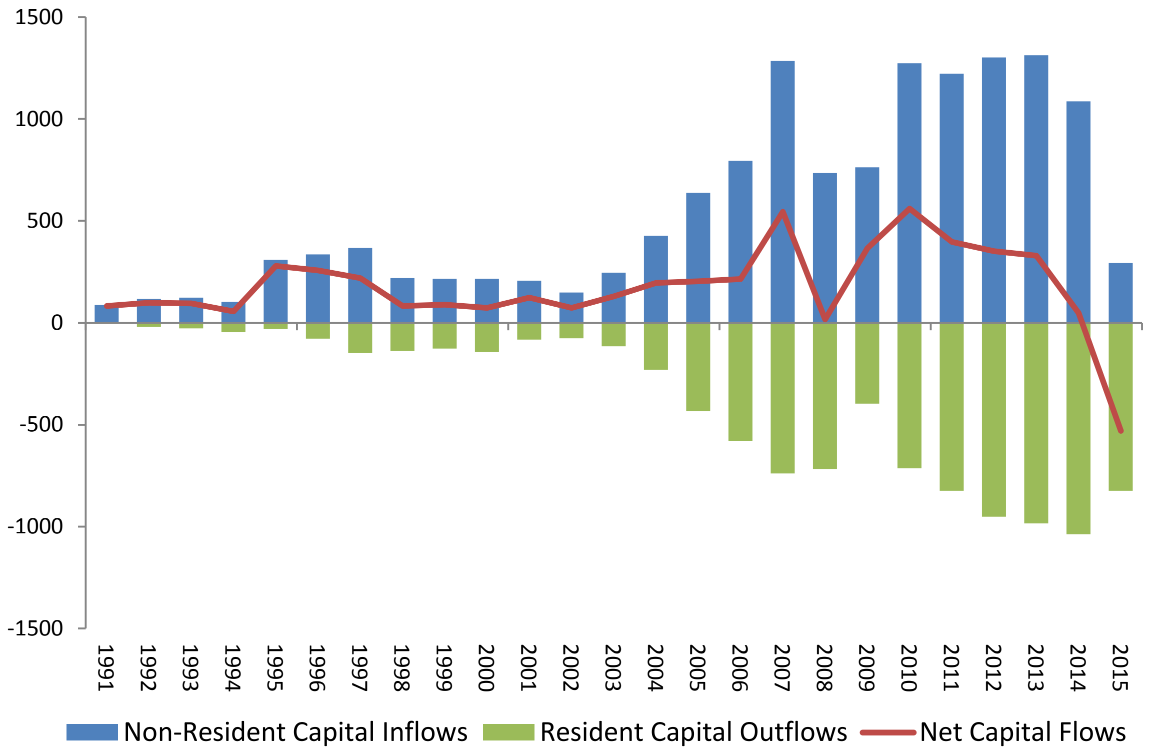
III.2. The commodity-finance nexus

Conditions in international commodity and financial markets have played a central role in the performance of EDEs in the new millennium. Growth in these economies picked up rigorously in the early 2000s when both commodity prices and capital inflows started to recover rapidly from their previously depressed levels. The collapse of commodity prices and capital inflows around the Lehman turmoil in 2008 caused a sharp slowdown in EDEs. Growth recovered with the rebound of commodity prices and capital inflows in 2010, but started to weaken significantly as commodity prices softened in 2011 and then collapsed and capital inflows first moderated and then fell sharply (Chart 3 and Chart 4).

Conditions in global financial markets are largely shaped by policies in major advanced economies, notably the US, while China has a strong influence on commodity prices. Still growth in EDEs also affects capital flows and commodity prices. In fact, the causality runs in both directions. Not only do favourable conditions in commodity and financial markets bring faster growth in most EDEs, but faster growth also feed into higher commodity prices by raising demand and into higher capital inflows by increasing profit opportunities for international capital. When commodity prices and capital flows are reversed, a vicious circle can emerge whereby declining growth in the South lead to weaker commodity prices and capital inflows which in turn weaken growth further.

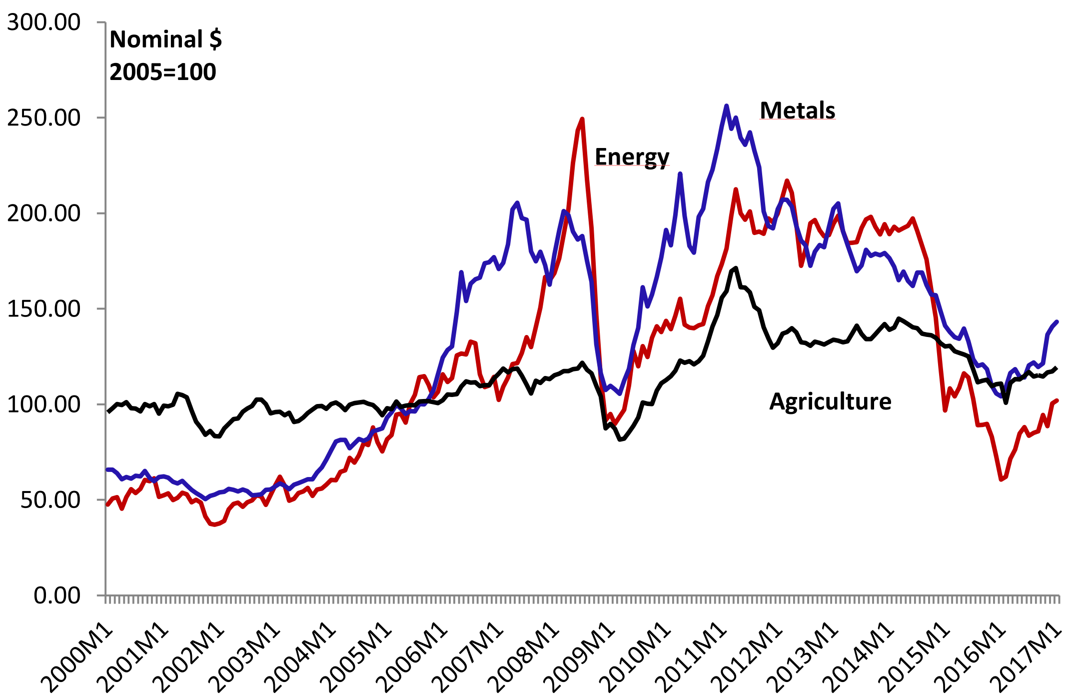
Although there are specific factors affecting commodity and financial cycles, they are not independent of each other. For several reasons there is a strong correlation between commodity prices and private capital inflows to EDEs (Chart 5). On the one hand, the factors that affect capital inflows to EDEs, notably monetary conditions and interest rates in major advanced economies and the strength of the dollar, also have a strong influence on commodity prices (Bastourre *et al.* 2013). Low interest rates tend to encourage stock piling and discourage rate of exploitation of oil and minerals, thereby raising demand relative to supply and pushing up prices. An increase in interest rates has the opposite effect, reducing the demand for storable commodities and the incentive for extraction today rather than tomorrow, thereby reducing prices (Frankel 2006).

Chart 3: Capital Flows to Emerging Economies
(in billions of U.S. dollars)



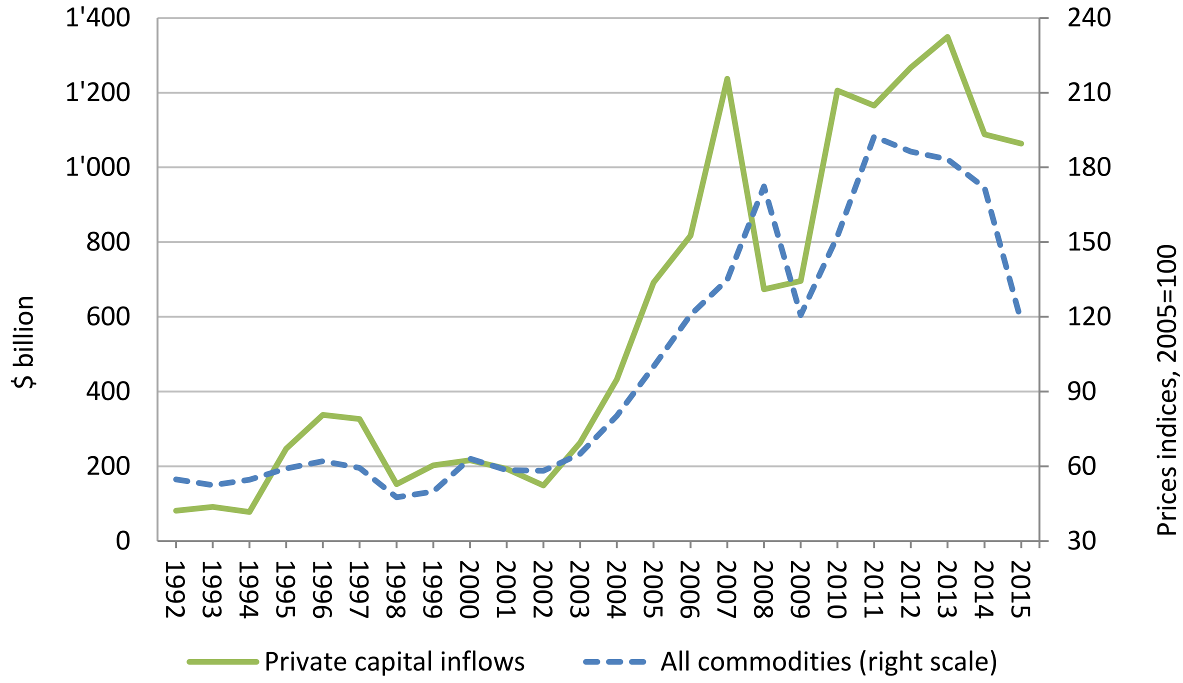
Source: IIF Capital Flows to Emerging Markets (various issues).
Note: Resident capital outflows exclude reserves

Chart 4: Commodity prices



Source: IMF Commodity Price Indices (2005=100)

Chart 5: Private capital inflows to emerging economies and commodity prices



Source: IIF Aggregate Capital Flows Data (January 2015) and IMF Primary Commodity Prices dataset

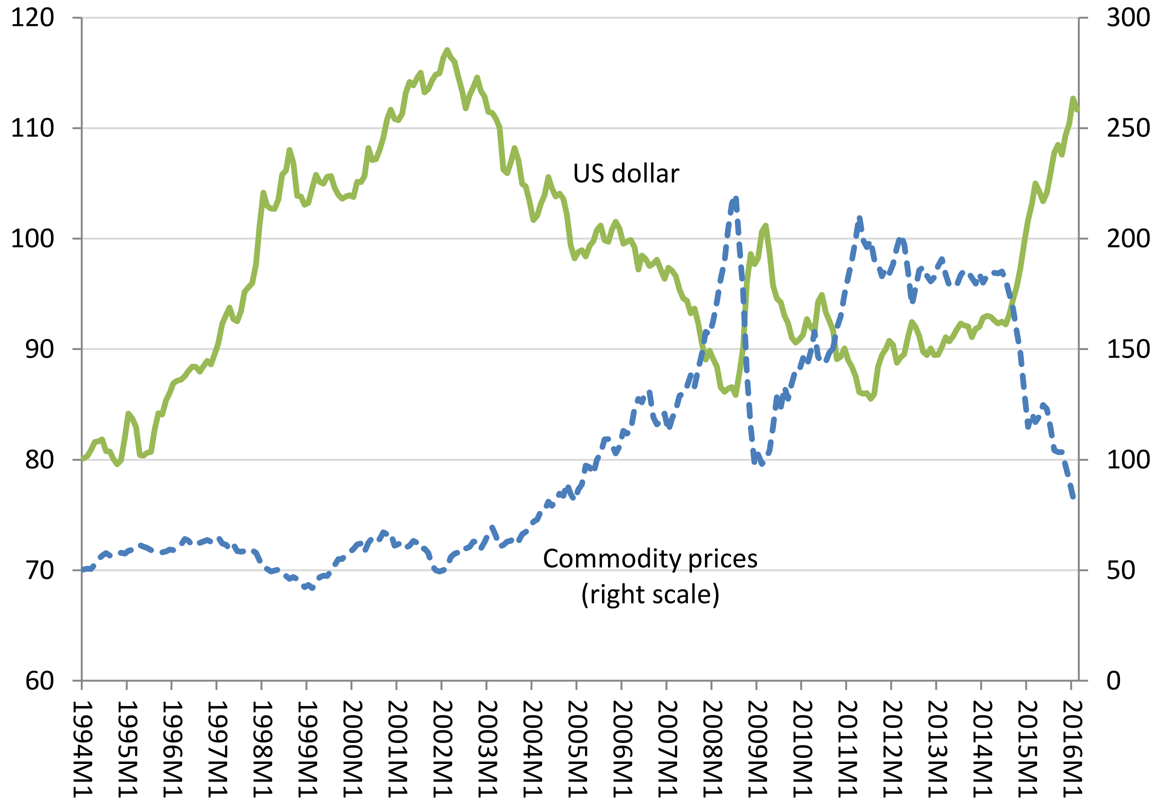
Interest rates also have a strong impact on prices through trading in commodity derivatives. This has gained importance in the new millennium as commodity markets have become more like financial markets, with several commodities being treated as a distinct asset class and attracting growing amounts of money in search for profits from price movements. Low interest rates encourage speculators to shift into commodity derivatives, particularly when prices are on an upward trend, adding further to the price momentum. This was an important factor in the strength of commodity prices before the crisis. But when sentiments turn sour regarding future commodity price movements and/or interest rates, financialization can also result in rapid and self-fulfilling declines. This was most visible at the outset of the subprime crisis in 2008 when the overall commodity price index rose by 35 per cent in the first 6 months of the year followed by a decline of 55 per cent in the second half.[7]

The exchange rate of the dollar also has a relatively strong influence on commodity prices. Since a large proportion of commodities are priced in dollars, shifts in the exchange rate of the dollar alter the price of commodities in other currencies, thereby affecting overall demand. There is indeed a remarkable inverse correlation between the nominal effective exchange rate of the dollar and commodity prices in the new millennium (Chart 6).

---

[7] See Akyüz (2011b) for further discussion. According to Filimonov *et al*. (2013), price dynamics of highly-traded future commodity markets, including for corn, oil, soybean, sugar and wheat, are driven by self-reinforcing mechanisms (short-term endogeneity) rather than novel information about factors affecting supply and demand conditions. It is found that endogeneity increased in the 2000s and that about 60-70 per cent of price changes are now due to self-generated activities.

Chart 6: Commodity Prices and the US Dollar
(Index numbers, 2005=100)



Source: BIS Nominal effective exchange rates dataset and IMF Primary Commodity Prices dataset.

On the other hand, strong commodity prices tend to lower risk spreads and encourage lending to and investment in commodity economies and sectors. For instance, it is estimated that in 2015 the total debt of the oil and gas sector globally stood at roughly $2.5 trillion, two and a half times what it was at the end of 2006. A substantial part of the increased borrowing was by state-owned, large integrated oil firms from EDEs. Between 2006 and 2014, the stock of total borrowing, including syndicated loans and debt securities, of Russian companies grew at an annual rate of 13 per cent. The figure was 25 per cent for Brazilian companies and 31 per cent for Chinese companies (Domanski *et al.* 2015).

Thus, commodity and financial cycles reinforce each other. Expansion of liquidity and low interest rates in advanced economies and a weak dollar trigger surges in capital inflows to EDEs and push commodity prices upward simultaneously. While rising prices reduce risk spreads and increase lending and investment in commodity-dependent countries, higher capital inflows in turn raise commodity demand by generating a boom in domestic spending. This latter effect tends to be particularly strong since the commodity content of growth in EDEs is high compared to that in advanced economies. During downturns this commodity-finance nexus operates in the opposite direction. Declines in commodity price discourage capital inflows which in turn reduce growth and demand and put further downward pressures on commodity prices.

The combined boom in commodity prices and capital inflows up until the global crisis resulted in a staggering but unsustainable rise of the South (Akyüz 2012). Although these booms were not always prudently managed, they provided significant policy space to EDEs by improving their fiscal, balance-of-payments and international reserve positions. These allowed them to give a strong countercyclical response to fallouts from the global crisis. On the other hand, China's policy response to the crisis through massive investment in infrastructure and property to offset the decline of its exports provided a major boost to commodity prices. Finally, despite occasional protests by emerging economies against the pressures placed on their currencies by the ultra-easy monetary policy in major advanced economies, the impact of that policy on emerging economies was generally reflationary. It was instrumental in the quick recovery of private capital inflows after the Lehman collapse, and this allowed many deficit EDEs to expand domestic demand without facing payments constraints.

These three factors, the countercyclical policy response of EDEs to the crisis, the renewed boom in capital inflows and the sharp recovery in commodity prices thus explain why these economies were initially resilient to the crisis and could maintain a relatively high growth despite a deep recession and lacklustre recovery in advanced economies But this soon came to an end with the collapse of commodity prices and a sharp drop in capital inflows, particularly since EDEs no longer enjoyed the policy space they had during 2008-09 to respond to such shocks.

III.3. Financial spillovers

After recurrent crises with severe economic and social consequences in the 1990s and early 2000s, EDEs have become even more closely integrated into what is now widely recognized as an inherently unstable international financial system**.** Widespread liberalization of international capital flows and greater openness to foreign financial institutions in EDEs, together with growing optimism about the growth prospects of several of them, have played an important role in attracting foreign investors and lenders to these economies. This process was greatly helped by highly favourable global financial conditions resulting from the very same credit and spending bubbles that culminated in crises in the US and Europe and the ultra-easy monetary policies pursued after 2008. It has resulted in a significant increase in the presence of foreign investors and lenders in domestic financial markets of EDEs as well as the presence of their residents in international financial markets, rendering them highly vulnerable to global boom-bust cycles generated by policy shifts in major financial centres, notably the US **(**Akyüz 2015a).

The surge in capital inflows to EDEs that started in the early 2000s was the third post-war boom. It was triggered by exceptionally low interest rates and rapid expansion of liquidity not only in the US which had brought policy rates to historical lows for fear that the bursting of the dot-com bubble would lead to a deep recession, but also in Europe and Japan (Akyüz 2011b). It was also helped by significantly improved risk appetite for lending and investment in emerging economies. Although it came to an end with the flight to safety triggered by the Lehman collapse in September 2008, the recovery was quick thanks to the sharp cuts in interest rates and rapid monetary expansion in the US and Europe and shifts in risk perceptions against advanced economies (Chart 3).

During 2010-14 in absolute amounts total capital inflows were around the peak reached in 2007, but they were lower as a per cent of GDP of the recipient countries – less than 5 per cent compared to 8.5 per cent in 2007. This relative weakness of total private capital inflows was due in large part to sharp drops in inflows to European emerging economies suffering from fallouts from the Eurozone crisis. By contrast, inflows to Asia and Latin America exceeded the peaks reached before the crisis. But they started falling in 2014 everywhere and took a sharp dive in 2015, to a third of the level recorded in 2009 at the depth of the subprime crisis (IIF April 2016).

The period since the crisis has also seen a significant acceleration of resident outflows. Governments not only allowed such outflows by liberalizing the capital account for residents, but also occasionally encouraged residents to invest abroad in order to relieve the pressure exerted by surges in inflows on the exchange rate. After the crisis outflows increased steadily, exceeding the peaks reached in 2007. Still, until 2015 non-resident inflows exceeded resident outflows and net capital flows were positive. On average they were above the levels recorded in the run-up to the crisis, but on a downward trend because of a stronger growth in resident outflows.

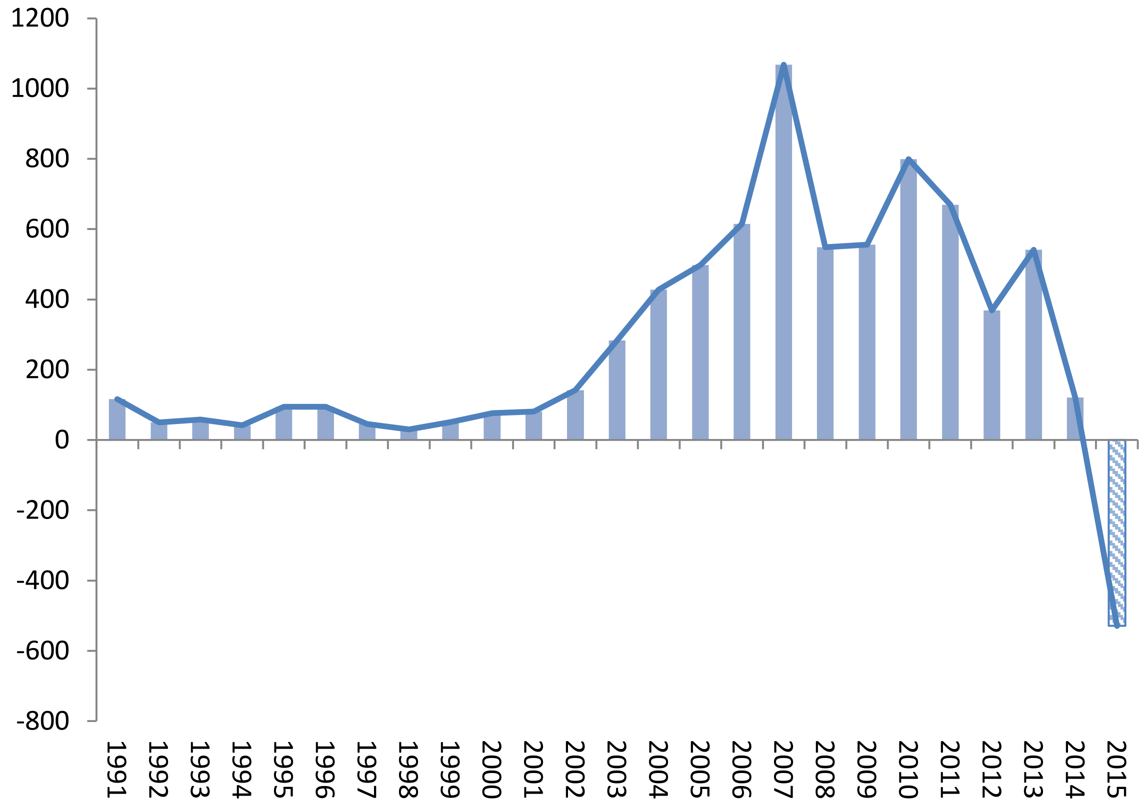
This picture started to change in 2014 on expectations of tightening of monetary policy in the US when non-resident inflows fell sharply while resident outflows remained strong. The turnaround in 2015 was even more dramatic when inflows collapsed while the decline in outflows remained moderate. As a result, for the first time in many years, net capital flows became negative, reaching some $550 billion. This was entirely due to China; its corporations started to pay off dollar debt in an effort to avoid losses from declines in the exchange rate of the yuan and increases in US interest rates. There was also an acceleration of capital flight by Chinese residents. In other emerging economies taken together net flows remained positive but were significantly reduced.

These trends continued throughout 2016 when portfolio flows were the weakest since 2008 as investors exited from bond and equity markets of several emerging economies. Net capital outflows from China accelerated, estimated to have exceeded $635 billion through November 2016, 10 per cent higher than the same period in 2015 (IIF 2016). Outflows accelerated towards the end of the year on expectations of faster normalization of monetary policy in the US. In December 2016 China is reported to have experienced $82 billion worth of outflows (Lopez 2017).

The combined current account of emerging economies has been in surplus since the crisis, though on a downward trend.[8] As a result of twin surpluses on the current and capital accounts, until 2015 the international reserves of emerging economies increased but at a declining rate (Chart 7). However, the collapse of inflows in 2015 resulted in a sharp drop in reserves, by some $500 billon, because the combined current account surpluses of these countries were not enough to meet net outflows. A large proportion of this drop is due to China where by the end of 2016, reserves were down by around $1 trillion from the peak reached in 2014 and the currency by over 10 per cent during the same period (Chart 8). This was the first decline in reserves of emerging economies in the new millennium – even at the depth of the crisis when inflows fell sharply, emerging economies had continued to add to their international reserves. Depletion in reserves continued in 2016 not only in China but also many other emerging economies.

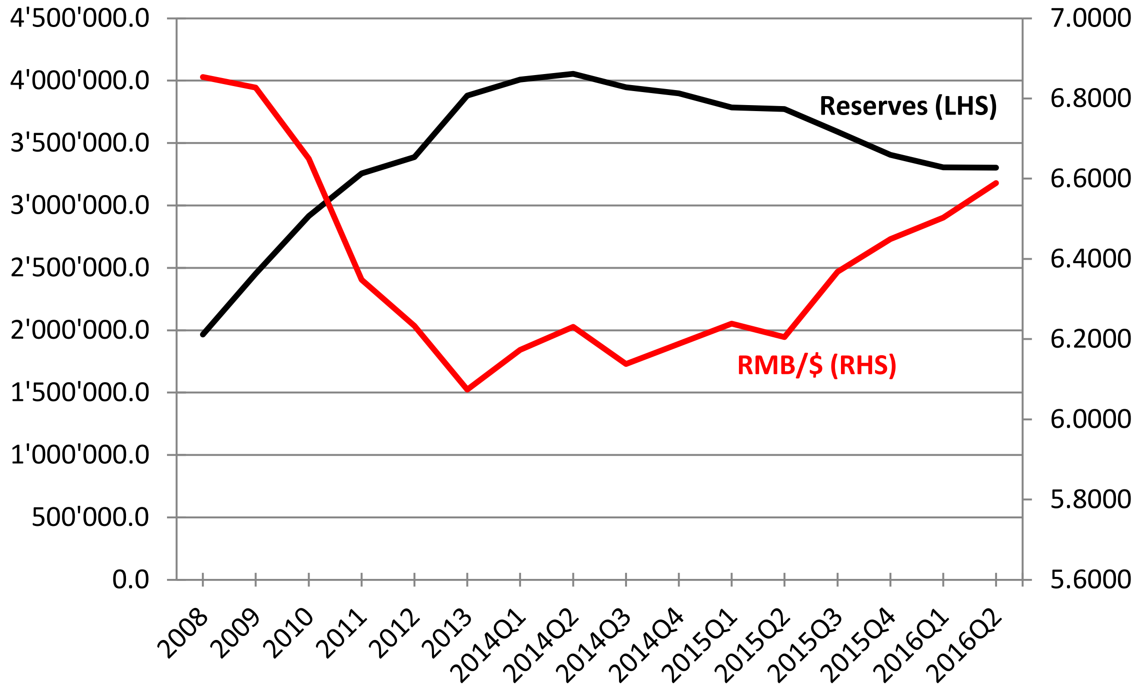
[8] As discussed in Section III.E the current account balance of EDEs as a whole turned into deficit in 2015 for the first time since the crisis.

Chart 7: Emerging Economies Reserve Accumulation
(*in billions of U.S. dollars*)



Source: IIF Capital Flows to Emerging Markets (various issues).

Chart 8: Chinese reserves and the yuan



Source: IMF IFS and BOP/IIP

Since the crisis capital flows to emerging economies have shown significant short-term instability as a result of uncertainties created by a series of events in advanced economies and changes in risk appetite. After their sharp recovery in 2010, they first became particularly sensitive to news coming from the Eurozone and then to statements by US Federal Reserve officials about bond purchases and new statistics from the US economy. The taper tantrum of May 2013 triggered a hike in the 10-year Treasury bond yield and a sharp decline in capital inflows to emerging economies. However, capital flows recovered subsequently when weaker economic data led the US Federal Reserve to postpone tapering. They started falling again during the tapering of bond purchases between January 2014 and October 2014. The sharp fall in inflows in 2015 came before the US Federal Reserve raised the policy rate in December 2015, triggered mainly by events such as the slowdown and financial instability in China, continued weaknesses of oil prices and growing mistrust about the ability of central bankers in advanced economies to boost growth. Again capital flows manifested considerable instability around the US election in November 2016 with net outflows moderating after the election and turning into net inflows in the early months of 2017 (BIS 2017).

Changes in the mood in international financial markets, global risk appetite and capital flows have also caused significant instability in asset and currency markets of EDEs and triggered shifts in their policies regarding capital flows. The surge in 2010 led to a strong recovery in exchange rates and equity prices in most major emerging economies which had come under severe pressures in the immediate aftermath of the Lehman collapse. Governments generally welcomed the recovery of capital inflows and the boom in stock markets, but many of them, notably in deficit emerging economies, were ambivalent about the strong upward pressure they exerted on exchange rates. The ultra-easy monetary policies in advanced economies came to be seen as an attempt for beggar-thy-neighbour competitive devaluations to boost exports to drive recovery in conditions of sluggish domestic demand. It was described as a "currency war" by the Brazilian Minister of Finance while the Governor of the South African Reserve Bank alluded that EDEs were in effect caught in a cross fire between the ECB and the US Federal Reserve (Marcus, 2012).

Asian emerging economies generally intervened in foreign exchange markets, adding to reserves and trying to sterilize interventions by issuing government debt, thereby avoiding sharp appreciations and overheating. Others, particularly those pursuing inflation targeting, abstained from extensive interventions and experienced considerable appreciations during 2009-11. As the upward pressure on currencies persisted, however, several emerging economies abandoned the hands-off approach to inflows and started to control them, generally using market-friendly measures rather than direct restrictions.

Strong destabilizing impulses generated by capital inflows also forced the IMF to reconsider its position about capital account policies. It recognized that there might be circumstances when capital movements may need to be restricted, but such measures need to be deployed only as a last resort and on a temporary basis. "For countries that have to manage the macroeconomic and financial stability risks associated with inflow surges or disruptive outflows, a key role needs to be played by macroeconomic policies, including monetary, fiscal, and exchange rate management" (IMF 2012: 1-2). This position is highly questionable since there is no strong rationale for an economy to alter its macroeconomic policies when faced with an externally generated, temporary surge in capital inflows if these policies are judiciously designed to secure stability and growth, and debt and balance-of-payments sustainability. For such an economy, capital controls can indeed be the first best measures to insulate domestic conditions from externally generated destabilizing pressures.

Interestingly the country that made the most frequent recourse to control measures is Korea, a member of the OECD and hence is subject to provisions of its Code of Liberalization of Capital Movements (Singh 2010). It introduced various measures in 2010 to control inflows including ceilings on forex forward positions of banks, a levy on non-deposit liabilities and a withholding tax on interest income from foreign holdings of treasuries and monetary stabilization bonds. The Korean won was one of the weakest currencies in the aftermath of the crisis. Its effective exchange rate never went back to pre-crisis levels, eliciting remarks that, together with the UK, it is the most aggressive "currency warrior" of the past five and a half years (Ferguson 2013).

Several market-friendly measures were used to control capital inflows in Brazil, Peru, Colombia, India, Indonesia and Thailand. These included unremunerated reserve requirements; taxes on portfolio inflows and foreign purchases of central bank paper; minimum stay or holding periods for inward FDI and central banks papers; special reserve requirements and taxes on banks' short positions; higher reserve requirements for non-resident local currency deposits; taxes and restrictions over private borrowing abroad; additional capital requirements for forex credit exposure; and withholding taxes on interest income and capital gains from domestic bonds. Some emerging economies such as South Africa liberalized outflows by residents in order to relieve the upward pressure on the currency.

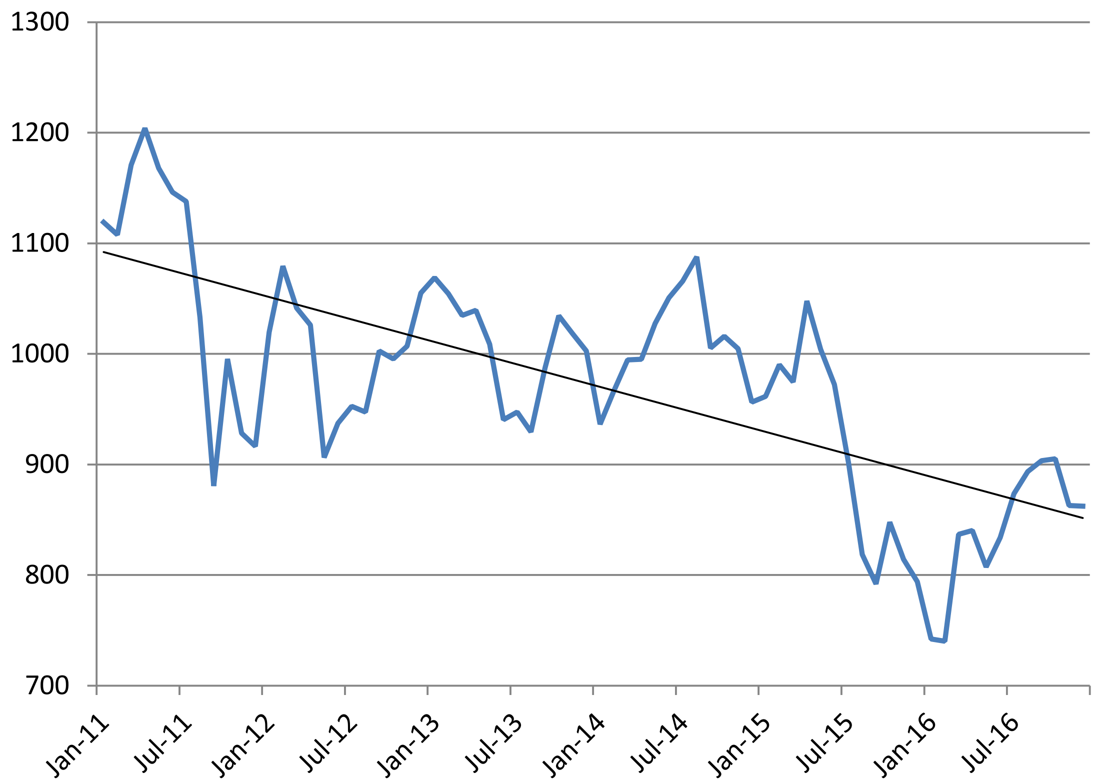
These measures were designed mainly to prevent currency appreciations rather than asset and debt bubbles. Not only did most emerging economies welcome the bubbles in asset markets, but they also ignored the build-up of vulnerability resulting from increased corporate borrowing abroad. The measures were not always effective in limiting the volume of inflows as exceptions were made in several areas. In many cases the composition of inflows changed towards longer maturities and types of investment not covered by measures. Taxes and other restrictions imposed were also too weak to match arbitrage margins. Implementation capacity was limited in many countries and the sanctions attached to violation did not have a strong deterrent effect.

In any case these measures did not last long. Net capital flows as a per cent of GDP started to fall after 2011 while current account deficits widened in most EDEs despite slower growth. Thus, the need for foreign capital increased just as inflows became weaker and unstable. These led first to an easing and then a reversal of the upward pressure on the currencies and asset markets which have both been on a downward trend since 2011, albeit showing considerable short-term instability (Chart 9 and Chart 10). Capital controls over inflows were dismantled and protests against the ultra-easy monetary policy in advanced economies vanished. Some countries have even introduced measures to attract more foreign capital.

Chart 9: Emerging economies exchange rates (dollar index)

Source: MSCI

Chart 10: Emerging Economies Equities (Dollar index)



Source: MSCI

The response to sharp drops in net capital flows after 2014 varied. In general a trade-off emerged between currency and reserve declines. Several emerging economies with current account deficits such as Brazil, South Africa and Turkey refrained from interventions in foreign exchange markets and allowed their currencies to take the burden. This limited reserve losses but led to large depreciations, thereby creating difficulties for private debtors with currency mismatches. Others with comfortable reserve positions, notably China, intervened to restrain depreciations. Monetary policy was tightened in Argentina, Chile, Colombia, Mexico and South Africa despite growth slowdown. Selective controls on outflows have been introduced in Azerbaijan, Egypt, India, Saudi Arabia, Venezuela and China (Cui 2016; Wildau 2016). However, there has not been a widespread resort to exchange restrictions because it has so far been possible to absorb the shocks through currency depreciations and/or use of reserves.

China's experience in this respect is particularly notable. In an effort to promote the yuan as an international currency and support its inclusion in the SDR basket, in 2015 China accelerated the liberalization of its capital account. On 11 August 2015, the People's Bank of China also allowed greater freedom to markets in the determination of the exchange rate of the yuan, but simultaneously undertook the largest one-day devaluation of the dollar in two decades, followed by another one the next day. However, as outflows started growing and the yuan came under pressure in the latter part of the year, the authorities tried to restrain the depreciation by interventions in the currency market, losing large amounts of reserves. They also tried to restrict outflows through moral suasion, urging banks to limit sale of dollars, by temporarily suspending forex business for some foreign banks, suspending applications for certain outbound investment and implementing a reserve requirement ratio on offshore banks' domestic deposits. China's control over outflows found support from one of its major trading partners affected by weaker yuan. The governor of the Bank of Japan Kuroda is reported to have suggested that "[c]apital controls could be useful to manage [China's] exchange rate as well as domestic monetary policy in a constructive way" (Giles 2016). This is an important change of heart regarding the freedom to be allowed to currency markets in determining the exchange rate – for; when China had intervened in the past to limit the appreciation of the yuan it was accused of currency manipulation.

III.4. The global crisis and commodity prices

The boom in commodity prices which started in the early 2000s was widely seen as the beginning of a new commodity super-cycle driven by rapid growth and urbanization in China (Farooki and Kaplinsky 2011). It continued until summer 2008 with the index for all primary commodities rising by more than threefold (Chart 4). This was followed by a steep downturn in the second half of 2008, which took the index back to the level of 2004. But like capital flows, commodity prices also recovered rapidly, rising until spring 2011 when they levelled off and started to fall, also manifesting increased short-term instability. Price declines have been broad-based though much steeper in metals and energy. In the early months of 2017, the index was about 45 per cent below the peak reached in 2011 for all commodities, 52 per cent for energy, 42 per cent for metals and 30 per cent for agricultural commodities.

Different commodities that constitute the aggregate index are not only linked to economic activity in different ways, but have also important supply-side differences.[9] Still, the co-movement among different commodity sub-categories is greater than in the past and the turning points are broadly synchronized and highly correlated with global economic activity, particularly in EDEs. Rapid growth in major commodity-importing EDEs, notably China played a central role in the pre-crisis boom. Growth in commodity-dependent EDEs also added to the momentum by creating demand for each other's primary commodities. Prices increased along with the share of EDEs in world commodity consumption. Oil demand from EDEs rose to levels as high as that from advanced economies, with China importing as much as the Eurozone and twice as much as Japan. China has also come to account for almost half of global metal consumption.

After the outbreak of the financial crisis in advanced economies, the momentum in commodity prices was kept up entirely by growth in the South, notably in China whose import composition changed from manufactures to commodities as a result of its shift from exports to investment in infrastructure and property. Since such investment is much more intensive in commodities, particularly in metals and energy, than exports of manufactures which rely heavily on imported parts and components, the shift resulted in a massive increase in Chinese primary commodity imports which doubled between 2009 and 2011 while its manufactured imports rose by some 50 per cent.[10] During the same period the prices of metals rose by 2.4 fold, much faster than other primary commodities.

The downturn in commodity prices that started in 2011 coincided with a slowdown in China and other EDEs. IMF (WEO October 2013: 25) finds a strong "correlation between growth in commodity prices and growth in macroeconomic activity in emerging markets" and concludes that a "slowdown in economic activity in emerging markets is an important driver of commodity price declines." In particular the slowdown in China and the shift it started from investment toward consumption and from manufacturing toward services have had a strong impact because these activities are much less commodity intensive than investment. This effect has been felt particularly in metal imports and prices.

Steeper declines in prices of energy and metals than agricultural commodities are mainly due to differences in supply behaviour. As noted above, the ultra-easy monetary policy in advanced economies encouraged significant borrowing by commodity economies and sectors and much of this money went into investment in highly capital-intensive commodities, notably energy and metals. In metals the investment boom that had started before the crisis continued until 2011. In energy the boom was led by US investment in shale

---

[9] Energy, which has the large weight of some 63 per cent in the overall index, is subject to geopolitical risks. Food, with a weight of some 17 per cent, is subject to supply disruptions due to weather conditions or crop infestation. Metals, the most important component of primary industrial inputs with a weight of over 10 per cent, are also subject to supply disruptions, largely due to social and political instability in the producing countries and regions. For a detailed account of the components of the overall commodity price index, see IMF WEO (October 2012, chapter 1; Special Feature: Commodity Market Review).

[10] UNEP (2013) estimates that in material use (including metal ores and industrial minerals, fossil fuels, construction minerals and biomass) the Asia-Pacific region overtook the rest of the world by 2005, with China accounting for over 60 per cent of the region's total material consumption, and that during 2008, almost all of the growth in global material consumption was due to the Asia-Pacific region. It is found that material intensity, i.e., consumption of materials per dollar of GDP, is much higher in Asia-Pacific than in the rest of the world and has been increasing. While this may reflect inefficiency in the use of materials, as argued by UNEP, it is also true that material intensity depends on the composition of GDP, which changed in favour of material-intensive activities in China after the crisis.

oil and lasted until 2014 followed by sharp cuts. The same policy also generated property and/or consumption bubbles in EDEs and significant increases in commodity demand. However, the supply capacity generated by new investment came into effect just as demand from EDEs started faltering. A massive excess supply has emerged as heavily indebted producers have continued to pump out in order to avoid default (Domanski *et al*. 2015).

Large differences in commodity price declines also imply that EDEs differ in their vulnerability depending on what they import and export. In this respect there are three broad categories of countries. The first category consists of countries which are net importers of fuel and non-fuel commodities, such as China, India and Turkey. Clearly, commodity price declines have brought significant benefits to them. As seen in Table 3, these countries have had a positive swing in their current accounts since 2011. Although factors other than commodity prices have also played a role, the decline in energy prices on the trade balance has been particularly strong in deficit countries with large energy import bills such as Turkey and India. Again, this group of countries have seen a relatively smaller decline in their growth rates than exporters of fuel and non-fuel commodities.

Table 3: Commodity Prices and Swings in Current Account Balances and GDP Growth

	Current Account (% of GDP)	Growth
All EDEs	- 1.7	-2.1
Fuel exporters	-12.1	-4.2
Non-fuel commodity exporters	-1.1	-3.7
All non-fuel exporters	1.3	-1.6

Source: IMF WEO Database

The second group consists of net exporters of fuel. Most of these are also net importers of other commodities including food and beverages and agricultural raw materials, as well as manufactures. This group includes MENA, Angola and Nigeria in sub-Saharan Africa (SSA), and Bolivia, Colombia, Ecuador and Venezuela in Latin America. They benefit from declines in the prices of the commodities they import, but they lose a lot more from declines in revenues from their fuel exports. Accordingly, this group has experienced the largest deterioration in their current account balance and the sharpest fall in their growth rates between 2011 and 2016.

The last group comes in between the two. They are net exporters of non-fuel commodities but net importers of fuel as well as manufactures. It includes Argentina, Chile, Nicaragua, Peru and Uruguay in Latin America and Cote D'Ivoire, Malawi, Mali, South Africa, Zambia in SSA. These countries, particularly exporters of metals such as Chile and Peru, also suffer from declines in the prices of their commodity exports. But they benefit more from fuel price declines, especially where the fuel bill accounts for a large proportion of spending on imports.[11] Consequently, the deterioration in the current account positions of

[11] However, the decline of energy prices also hit several importers of energy in Central America and Caribbean financially – countries which had benefited from external financing provided for oil purchases from Venezuela under the Petrocaribe scheme. This scheme allowed member countries to obtain long-term debt at below-

this group is smaller than that of fuel exporters. They have also experienced a more moderate decline in growth.

Naturally, the impact of price declines on commodity-exporting EDEs does not only depend on the incidence of shocks but also on their underlying fundamentals and macroeconomic conditions. In this respect the way the preceding booms in commodity prices and capital flows were managed plays a key role (Adler and Sosa 2011). This is a main reason why declines in growth rates vary significantly even among countries with similar trade structures.

The booms in commodity prices and capital inflows in the new millennium were not always managed prudently by commodity-dependent EDEs (Akyüz 2012). Before the crisis fiscal policy was generally procyclical and the fiscal space used up during the crisis as a result of countercyclical policies was not rebuilt during the subsequent boom. Only a few countries managed to increase their share in revenues from the commodity bonanza by successfully renegotiating royalties with transnational corporations (TNCs) and in most cases the benefits were reaped mainly by TNCs. The stabilization funds set up did not always deliver when the reversal came after 2011. In several countries including Angola, Brazil, Chile, Colombia, Indonesia, Nigeria, Russia, South Africa, Venezuela, and Zambia real exchange rates appreciated, by 50 per cent in some. An important part of the reserves accumulated came from capital inflows rather than current account surpluses. Many low-income countries typically dependent on official lending including Bolivia, Ecuador, Ethiopia, Gabon, Ghana, Nigeria, Rwanda, Senegal, Tanzania, Zambia went to international markets to benefit from low interest rates and improved risk appetite and issued for the first time dollar-denominated bonds while commodity-dependent emerging economies such as Brazil and Russia allowed significant build-up of corporate external debt in dollars. The current account positions worsened in many countries despite the price boom (Argentina, Brazil, Chile, Colombia, Peru, Venezuela, Congo, Ghana, Tanzania, Russia, and Indonesia). Only a few countries managed to improve domestic savings and investment ratios and current account positions, and there has been very little investment in non-traditional sectors to reduce commodity dependence. Some semi-industrialized economies allowed their industries to be undermined by the commodity boom, experiencing declines in manufacturing employment and exports.

Despite all the rhetoric about industrialization, the growth story in the South, with some notable exceptions, still remains a commodity story. The growth cycles of most countries continue to be governed by commodity cycles. In fact this is even more so now than 10-20 years ago because of deindustrialization, which had already started in the 1990s before the recent boom in commodity prices (UNCTAD TDR 2003). The new twist is finance, but as discussed above, it is closely linked to commodities. Consequently, despite the benefits that large commodity importers such as China, India and Turkey derive from the price reversal, the overall impact of the commodity collapse on the South is deeply negative.

Usually declines in commodity prices, particularly oil prices, are expected to be reflationary for advanced economies and for the world economy as a whole because consumers are expected to increase spending while producers are expected to adjust savings

---

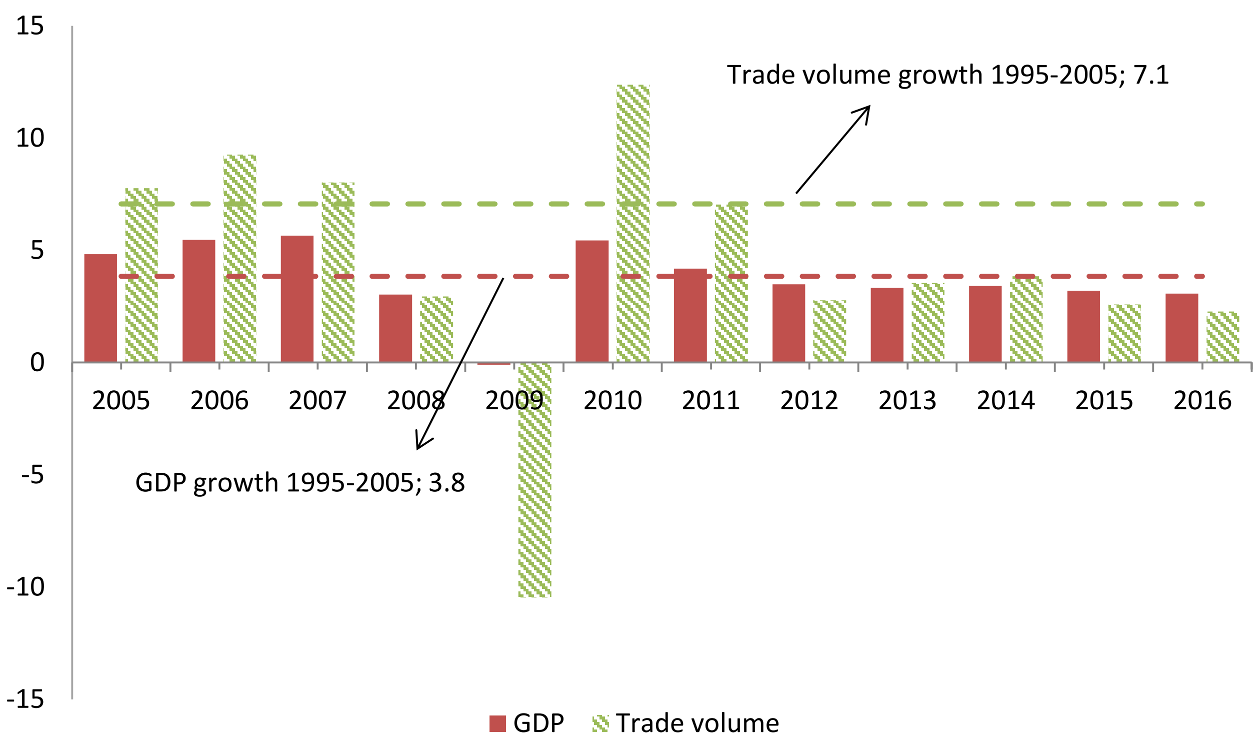
market rates as they purchased oil from Venezuela. Over 10 countries in the region benefited from this scheme and the financing provided in 2014 averaged at 2.5 per cent of GDP of the recipient countries.

(Rogoff 2015). But this has not been the case so far, at least to the extent anticipated. First, producers in the South have been retrenching. This is true even for some richer oil exporters in the Gulf which typically had avoided spending cuts in past downturns. Second, households in advanced economies are not increasing spending by using the savings on the energy bill (Leduc *et al.* 2016). Third, commodity prices are pushing prices down in advanced economies at a time when central banks are trying to create inflation in order to lower the real interest rates and stimulate private spending. Finally, many commodity producers which have accumulated large amounts of debt since 2008 are now deleveraging and cutting investment spending. Thus, the collapse of oil prices cannot be expected to bring much reflation to the world economy until consumers in advanced economies start spending the large gains from price declines. But this depends very much on the success of policy makers in these economies to boost consumer confidence.

III.5. International trade and trade imbalances

An important development in the world economy in the new millennium is a significant slowdown of world trade. In the aftermath of the Uruguay Round, from 1995 until 2005, world trade grew in volume terms almost twice as fast as world income, at a rate of around 7 per cent per annum. Slowdown in world trade started before the onset of the crisis but has accelerated subsequently. After the mid-2000s it has barely matched the growth in world income, staying on average below 4 per cent per annum. At less than 2 per cent, the year 2016 has seen the slowest growth in world trade since the financial crisis (Chart 11).

Chart 11: Growth of world trade and income (percent)



Source: IMF WEO Database

This has been creating panic in the neoliberal camp that protectionism is on the rise and globalization is stalling. While protectionism has now become a serious challenge to global integration, the real causes of slowdown of trade in recent years are to be found elsewhere. First, merchandise trade is already liberalized significantly through multilateral, bilateral and unilateral channels and there is no more big-bang liberalization of the kind seen in the South in the past two decades – the last major one was through Chinese accession to the WTO at the beginning of the new millennium.

Second, the expansion of global supply chains has lost its initial momentum after the surge in the 1990s and early 2000s, particularly the rapidly increased network trade in North America within NAFTA as well as the emergence of China as an international hub for the assembly of consumer manufactures, mainly for markets in advanced economies.

A third factor is changes in the composition of domestic demand from investment to consumption. Consumption is typically a lot more import intensive than investment because an important part of it involves spending on non-traded services (Akyüz 2011a). Thus, the general weakness of investment since the mid-2000s noted above is an important factor explaining the decline in growth of world trade relative to income. This effect is also accentuated by China's shift from investment to consumption after 2010.

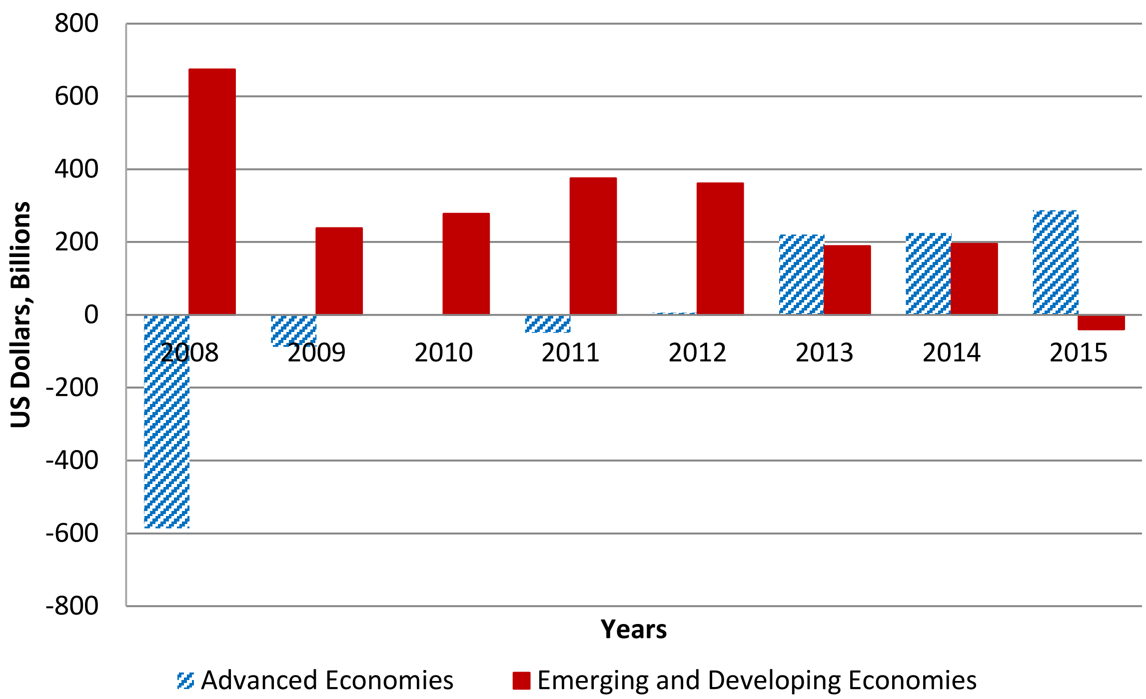
Fourth, there has been a surge in foreign investment for local markets in some countries, notably by Chinese firms in the US, through takeovers or newly-built capacity with cheap credit. Such market-seeking FDI may accelerate in the coming years relative to cross-border trade with the rise of protectionism in the US.

Fifth, the rebalancing of external and domestic demand by China after the crisis has resulted in a slowdown in Chinese imports relative to income because Chinese exports are much more import intensive than domestic spending on both consumption and investment (Akyüz 2011a).

Finally, there is significant import substitution in export sectors in China where imported parts and components used for manufactured exports have gradually come to be produced domestically. Indeed the evidence shows that the import content of Chinese exports fell from around 60 percent in the mid-1990s to about 35 percent in recent years (Koopman *et al*. 2012, Upward *et al*. 2013). Thus, a larger proportion of effective demand, both domestic and foreign, is now met by domestic production rather than by imports as many activities that previously involved cross-border movement of goods are now taking place within national borders.

The slowdown in world trade has been associated with significant shifts in external imbalances. There are basically three tendencies. First, current account balances have been moving against EDEs and in favour of advanced economies (Chart 12). On the eve of the crisis in 2008, advanced economies had a combined current account deficit of some $600 billion; they now run a surplus of about $300 billion. Accordingly, the current account balance of EDEs has shifted from a surplus of $675 billion to a deficit of almost $100 billion during the same period. The sharp decline in commodity prices is an important factor in the swing in current account balances between the North and the South, but it is not the only factor since some non-commodity developing economies such as China have also seen their external balances worsen due to a shift from foreign to domestic markets.

Chart 12: North-South Imbalances

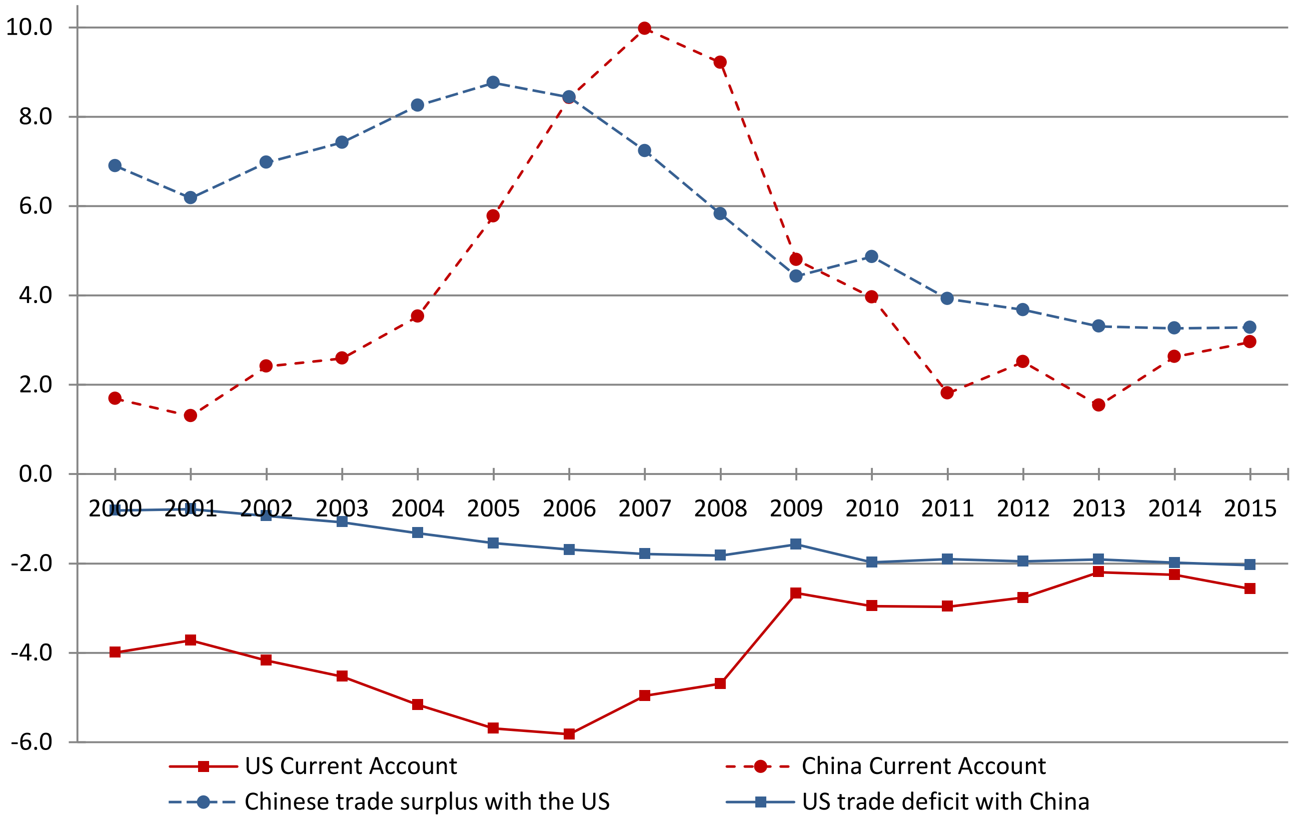


Source: IMF WEO Database

Second, there is a remarkable convergence between current account balances of the US and China (Chart 13). Chinese surplus fell from a peak of 10 per cent of GDP on the eve of the crisis to around 2 per cent while the US deficit fell from a peak of 6 per cent of GDP to 2.5 per cent over the same period. There is also a significant decline in China's bilateral trade surplus with the US, from around 7 per cent of China's GDP in 2007 to 3.3 per cent in 2015. However, the US trade deficit with China as a proportion of US GDP shows an increase during the same period, from around 1.7 per cent to 2 per cent, because of slower growth of the US economy. Thus, looking from the US side, trade imbalance with China appears to have been rising while from the Chinese side it is on a declining trend.

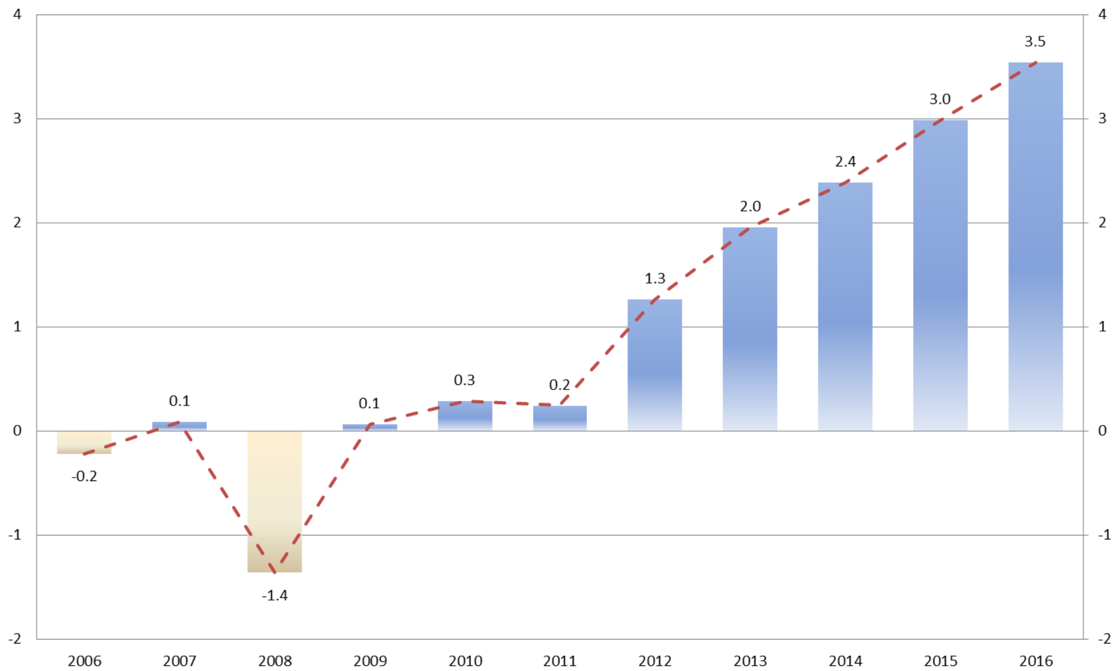
Finally, there is a large shift in the external balances of the Eurozone as a result of austere policies pursued in response to the crisis (Chart 14). The current account balance of the region as a whole has swung from a deficit to a surplus, by over 5 per cent of GDP, since the onset of the crisis, starting to suck in demand from the rest of the world and export unemployment. Germany is the main culprit; its current account surplus rose from 5.5 per cent of GDP to 8.5 per cent, surpassing China by a large margin. It has also forced the crisis-hit periphery countries to reduce their current account deficits significantly by retrenching growth and imports.

Chart 13: Convergence of external imbalances: US and China *(per cent of GDP)*



Source: US Department of Commerce, IMF WEO Database

Chart 14: Eurozone current account (per cent of GDP)



Source: IMF WEO Database

IV. PROSPECTS FOR GROWTH AND STABILITY

The evolution of the world economy over the coming years would depend very much on how systemic and structural problems would play out and the policies and conditions in three key economies – the US, Europe and China. There are two central problems in the world economy that impede growth and stability. First, growing inequality, notably the decline in the share of labour and the concentration of wealth at the top is creating a problem of underconsumption, restraining aggregate demand and growth. Secondly, the attempt of some major countries to address the demand gap by creating debt-driven spending bubbles tend to deepen the financialization of the world economy and generate significant fragility and instability. In the same vein, the beggar-thy-neighbour policies pursued to overcome stagnation by relying on foreign demand create significant tension in the international trading system. Policies pursued in major economies in the new millennium have aggravated the problems of demand gap and financial fragility in the world economy, impinging strongly on development prospects of EDEs. They will continue to shape stability and growth in the world economy in the years ahead.

IV.1. Inequality, demand gap and financial fragility

The global economy suffers from a deflationary gap because of growing inequality in major economies.[12] Contrary to the predictions of mainstream economics, the share of wages in national income has been on a downward trend in all major advanced economies including the US, the EU and Japan since the 1970s (Chart 15). It was also on a downward trend in China until 2011 when it was reversed thanks to efforts to rebalance external and domestic sources of growth, and investment and consumption. Still, compared to major advanced economies, the shares of wages and private consumption in China are still very low, hovering around 50 per cent and 38 per cent of GDP, respectively.

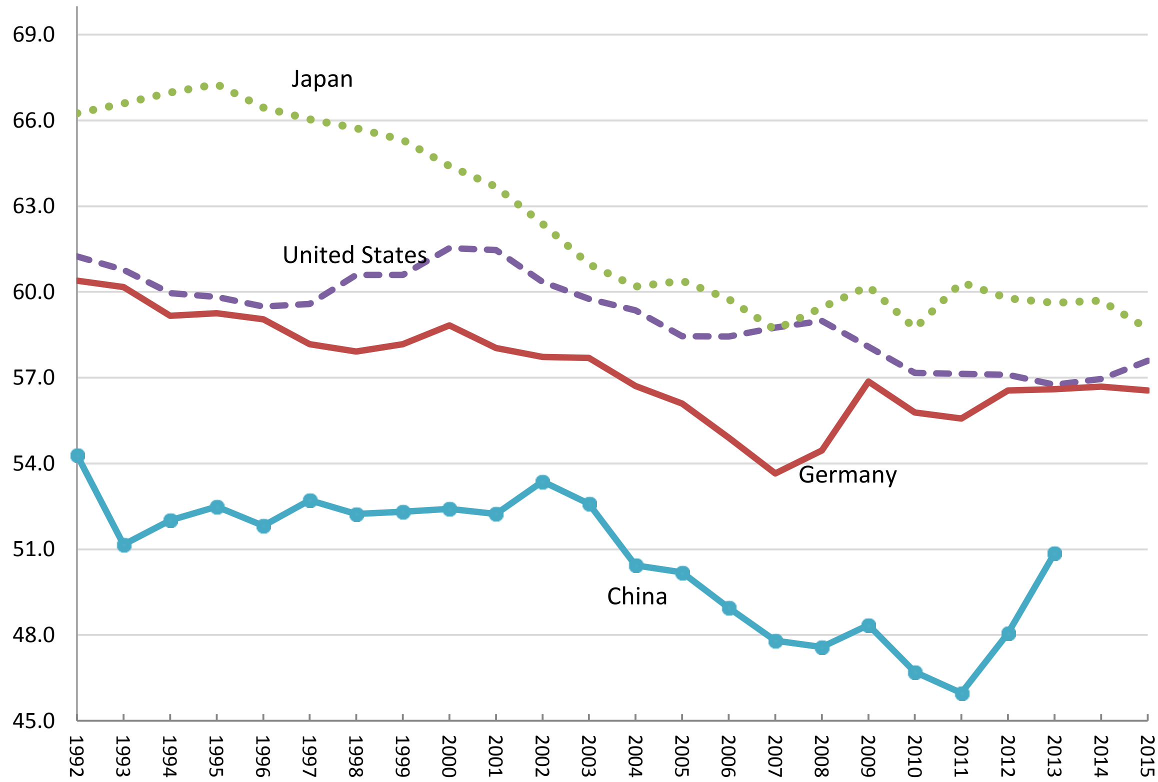
Declining share of wages in income, together with increased concentration of wealth and asset incomes at the top means that the purchasing power of workers over the goods and services they produce have been falling, resulting in underconsumption and a structural demand gap in the world economy. This is also the main reason why investment has been sluggish despite historically low interest rates. In other words, rising inequality is not just a social concern but also a macroeconomic problem.

Sluggish wages also reduce inflationary pressures and allow and encourage central banks to pursue expansionary monetary policy. This is all the more so because, with unrelenting fiscal orthodoxy, monetary policy has remained the only major instrument left for stimulating growth and employment. In the US, for instance, over the past three cycles the Federal Reserve pushed its policy rates sequentially lower, cutting it more and more during downturns and raising it less and less during upturns, creating a downward bias in interest rates (Palley 2016). Thus, there is a remarkable correlation between declining wage share and declining real interest rates (Goodhart and Erfurth 2014). Moreover, there is also a strong inverse correlation between declining real interest rates and rising debt as a proportion

[12] For a detailed account see, Akyüz (2017).

of GDP in major advanced economies. Since rising debt makes it even more difficult for central banks to raise interest rates, wage suppression and growing inequality tend to push capitalist economies into a debt trap (Borio and Disyatat 2014).

Chart 15: Wage Share (as per cent of GDP)



Source: AMECO, European Commission and NBS (National Bureau of Statistics of the People's Republic of China).

Countries respond to demand gap resulting from rising inequality in two different ways. First, they create debt-driven spending booms, mainly in consumption and real estate. The US has done this constantly in the past three decades – first the Savings and Loans bubble in the 1980s, then the technology (dot-com) bubble in the 1990s, followed by the subprime bubble in the new millennium, and now the zero interest rate and quantitative easing bubble created in response to the subprime crisis. Since the financial crisis China has also gone in that direction, creating debt-driven investment bubbles. Second, they rely on foreign markets to fill the demand gap, generating export surpluses through macroeconomic, labour market, trade and exchange rate policies, as done by Germany throughout the new millennium, and Japan and China before the crisis. Now under the new administration the US seems to be striving to join this group.

The problem with debt-driven spending booms is that they often culminate in crises and aggravate the problem of demand gap and stagnation. The boom-bust cycles create supply-side distortions. Financial expansion crowds out productive sectors while artificially favourable financial conditions sustain many activities that would not be viable under normal conditions (Cecchetti and Kharroubi 2015). Misallocations created by booms are exposed during the ensuing crises when the economy would have to make a shift back to viable sectors and companies, but this is impeded by credit crunch and deflation (Borio *et al.* 2015). The boom-bust cycles also redistribute to the top, widening the demand gap. When the crash comes, the economy would need even bigger bubbles to recover and grow. In the US the bursting of the dot-com bubble in the early 2000s was followed by a bigger (subprime) bubble, and the policy response to the subprime crisis generated even more debt and greater inequality.

Until the crisis China, Germany and Japan all relied on foreign markets to close the demand gap and had GDP growing faster than domestic demand (Table 4). In Japan and Germany export growth was moderate, but their contribution to growth was much greater than that in China because in both countries domestic demand was sluggish. In all three countries, the shares of wages and private consumption in GDP were on a downward trend. However, unlike the other two, in China the decline in the wage share was associated with a strong growth in real wages as well as in employment. As noted, Germany kept a lid on domestic demand and engaged in "competitive disinflation" by keeping wages behind productivity and bringing down inflation rapidly relative to its main trading partners both within and outside the Eurozone.

Table 4: GDP, Domestic Demand and Current Account in Main Surplus Countries
(Annual per cent change unless otherwise indicated)

	2004-07	2010	2011	2012	2013	2014	2015
Germany							
GDP growth	2.2	3.9	3.7	0.6	0.4	1.6	1.5
Domestic demand	1.1	2.9	3.0	-0.9	0.9	1.3	1.4
Private consumption	0.5	0.3	1.3	0.9	0.8	1.0	1.9
CA (% of GDP)	5.9	5.6	6.1	7.0	6.8	7.3	8.5
Japan							
GDP	1.9	4.7	-0.5	1.7	1.4	0.0	0.5
Domestic demand	1.1	2.9	0.4	2.6	1.7	0.0	0.0
Private consumption	1.2	2.8	0.3	2.3	1.7	-0.9	-1.3
CA (% of GDP)	4.0	4.0	2.2	1.0	0.8	0.5	3.3
China							
GDP	12.1	10.6	9.5	7.7	7.7	7.3	6.9
Domestic demand	10.3*	12.1	10.3	7.5	7.8	7.2	6.5
Consumption (total)	8.8*	9.4	11.4	8.2	6.9	6.9	7.1
CA (% of GDP)	7.1	4.0	1.8	2.5	1.6	2.1	2.7

Source: South Centre estimates based on IMF WEO database; IMF Article IV Consultation Reports with the People's Republic of China.
* 2005-2007 average.

After the crisis China rebalanced domestic and external demand and shifted to a debt-driven investment boom, pushing its investment ratio towards 50 percent of GDP and credit growth well ahead of GDP. This created excess capacity in several sectors and has left a legacy of a large stock of debt in public enterprises and local governments. The ratio of debt to GDP reached 250 per cent of GDP in 2015. By contrast Germany has relied even more on exports, and replaced China as a major surplus country, running a current account surplus of 8.5 per cent of GDP. In almost every year since the crisis growth of domestic demand in Germany has continued to remain below that of GDP. Now Japan is also looking more and more to foreign markets for growth with policies of Abenomics, by printing money and weakening the yen: at 4.5 per cent of GDP Japanese current account surplus in 2016 was the highest since 2007.

Thus, for demand gap and stagnation, debt-driven bubbles are not part of the solution but part of the problem. Similarly, for large economies export surpluses cannot provide a sustainable and reliable solution since they suffer from fallacy of composition and entail conflict. To resolve the demand gap it is necessary to rebalance capital and labour, restrain finance and assign a greater role to the public sector in aggregate demand management and income and wealth distribution. However, the dominant neoliberal ideology rules out such socially progressive and economically effective solutions. Consequently, stagnation is likely to remain the new normal in the years to come with governments attempting to reignite growth by creating credit and asset bubbles and/or trying to export unemployment through beggar-thy-neighbour macroeconomic, labour, trade and exchange rate policies, thereby generating financial and economic instability and tensions in international economic relations with significant repercussions for EDEs.

IV.2. Potential spillovers from the US, Europe and China

Given their importance in international trade, investment and finance, economic policies and conditions in the US, Europe and China will have a significant influence over the course of the world economy and the external economic environment of EDEs in the coming years. In this respect recent attention has focussed particularly on the US in view of radical policy changes advocated by the newly-elected president Donald Trump.

i. The United States

It is not clear to what extent the policies advocated by Donal Trump during the election campaign, including tax cuts for corporations and high-income groups, large-scale infrastructure investment, and import taxes and export subsidies would be implemented and with what effect on the US economy itself or the rest of the world. However, such a policy mix is generally expected to give a boost to growth and result in rising public deficits and debt, tighter labour market conditions and faster wage and price increases in the US. Under these conditions monetary policy is likely to be normalized much faster than hitherto planned, producing a steeper path to interest rates. This combination of tight money and expansionary fiscal policy could lead to a significant appreciation of the dollar, as seen during the Reagan years. The tendency of the dollar to strengthen would be reinforced to the extent that trade measures improve the US current account balance.

However, different components of this policy mix could push in different directions and create counteracting influences on fiscal and trade balances, and employment. The balance of these forces would determine the outcome in these respects. While tariffs would add to fiscal revenues, tax cuts, investment and export subsidies and higher interest rates would increase public deficits and debt. The latter effects may well dominate and rising public sector debt could start acting as a break over economic expansion, eventually leading to a policy reversal. Again a strong dollar operates on the current account against tariffs and export subsidies, counteracting the impact of trade measures on jobs. The stronger the dollar, the higher the tariffs needed to improve the US current account and fiscal balances, but there is a limit to how much tariffs the US can impose on the rest of the world.

While there is considerable uncertainty regarding the benefits of these policies for the US economy, they can inflict severe damage on the rest of the world. Hikes in US interest rates could trigger global deleveraging and impair growth. Strong dollar and higher US interest rates are anathema to financial instability and crises in the South through their effects on capital flows and commodity prices noted above. Steeper rise in interest rates could also cause severe disruptions in US financial markets addicted to cheap money for almost a decade. This is why the US Federal Reserve seems to be uneasy about fiscal expansion.

Tariffs and export subsidies could significantly reduce the benefits that faster US expansion might provide to the rest of the world through trade. The incidence of these would depend on how they are designed as well as trade linkages of countries with the US.

The US incurs bilateral deficits in its trade with several countries; large and small (Table 5). The South accounts for 60 per cent of US imports and 70 per cent of its trade deficits. China alone accounts for almost half of US trade deficits. However, if measured as a proportion of total trade to allow for differences in the size of the economies trading with the US, differences in relative magnitudes of trade surpluses with the US narrow significantly. Vietnam tops the list in terms of surplus it generates with the US per dollar of trade, followed by China. Germany and Japan are also in the top 5. Measured as a proportion of GDP to account for the demand stimulus that the US provides to its trading partners, the top five countries running trade surpluses with the US are all in the South; Vietnam, Mexico, Malaysia, Thailand and China in that order.

Table 5: Merchandise trade with the United States: 2015

	Total Trade	Exports to US	Trade Surplus	Exports/GDP	Surplus/GDP	Surplus/Trade
		(in Billion $)		(per cent of GDP)		(per cent of trade)
China	598	482	366	4.3	3.3	61.2
Canada	575	295	15	19.7	1.0	2.6
Mexico	531	295	58	25.9	5.1	10.9
Japan	204	139	73	3.5	1.8	35.8
Germany	175	124	74	3.7	2.2	42.3
Korea	104	62	21	4.4	1.5	20.2
India	64	42	20	2.1	1.0	31.3
Malaysia	40	27	14	9.1	4.7	35.0
Thailand	38	26	14	6.5	3.5	36.8
Vietnam	30	25	20	13.1	10.5	66.0
EU	*699*	*426*	*153*	*2.8*	*1.0*	*21.9*
Total US	3783	2273[a]	-763	12.6[b]	-4.2	-20.2

a. Total imports by the US

b. US imports as percent of GDP.

Source: Office of the US Trade Representative and WB WDI

Blanket tariffs on all imports, including tariffs proposed as a border adjustment tax (Khor 2017a) or a destination-based corporate tax would affect countries according to the share of their exports to the US in GDP, independent of how much surplus they generate with the US or in aggregate. In this respect Mexico and Canada top the list, followed by three EDEs, Vietnam, Malaysia and Thailand. However, with the exception of Mexico, the shares of these countries in total US trade deficits are very small compared to China, Germany and Japan. If such a tax is used to eliminate the US trade deficit by reducing its imports from all countries, China, Germany and Japan, as well as smaller EDEs, Vietnam, Malaysia and Thailand, could continue to run surpluses with the US, albeit at reduced levels, while Mexico and particularly Canada could start running large deficits. Such a plan cannot be defended on grounds of adjustment of international imbalances and can create significant frictions in the trading system. Thus, it would not be easy to implement.

On the other hand, country-specific tariffs, such as those mentioned for imports from China and Mexico, could allow new entrants to replace obstructed importers, particularly in areas where the US lacks competitiveness, without much effect on the US trade deficit. Clinton’s tariffs on import of tires from China did not result in a large increase in production in the US, but in imports from other countries (Rapoza 2012). They also entail other complications resulting from trade interdependencies among exporters to the US. Tariffs on imports from the hubs in international production networks such as China and Mexico would also hit their suppliers since their exports are highly import-intensive. As noted above, despite import-substitution in export industries that has taken place in recent years, the average import content of Chinese exports is still high, in the order of 35 per cent, mostly consisting of parts and components supplied by Japan, Korea, Taiwan (China) and other East Asian emerging economies. This proportion is higher in processing exports which constitute a very large share of Chinese exports to the US (Akyüz 2011a). Thus, tariffs on Chinese exports to the US would hurt East Asian suppliers as well as China itself. Exports from Malaysia, Vietnam and Mexico have even higher import contents. Thus tariffs targeting their exports to the US would have even a bigger impact on their suppliers, including in the US, particularly in the case of Mexico.

The burden of tariffs also falls on profits of TNCs since a relatively important part of the domestic value-added generated by exports from hubs in global production networks accrue to foreign firms. This is particularly the case for Chinese processing exports where foreign firms are dominant. In China profits of foreign-owned enterprises, including US firms, account for as much as two-thirds of domestic value-added generated in export sectors. Because of high-import content of exports and high profits by TNCs, China earns no more than $30-$35 from every $100 worth of exports to the US. Thus, about one-third of income losses resulting from the relocation of such firms to the US would fall on China and the rest on its suppliers and the profits of TNCs.[13]

There are strong arguments that the trade measures proposed by Trump may not be WTO-compliant although this may have little practical consequences in view of shortcomings in the WTO dispute system (Khor 2017b). The US often resorted to currency manipulation argument in threatening its trading partners with protectionism. The current

[13] It is notable that total exports by all foreign firms in China do not meet their import bills and profit remittances so that their contribution to China’s balance-of-payments is negative; Akyüz (2015b).

watch list of the US Treasury includes Germany and Japan as well as China. But the currency manipulation argument is now difficult to invoke. As noted above, China has left the yuan mainly to markets since 2015. Now the yuan is included in the SDR with a weight higher than that of the yen and the pound sterling, enjoying the blessings of the IMF as a reserve currency. Furthermore, China is now fighting against depreciation rather than appreciation of its currency. As for Germany and Japan, the monetary policies that helped to weaken their currencies are no different from those practiced by the US since 2008.

All these create considerable uncertainty over the nature, timing and effect of trade policy measures that may be adapted by the new US administration in the period ahead. However, it is quite likely that the US will engineer a reduction in its trade deficit in the coming years – be it through unilaterally imposed tariffs or self-restraints by surplus countries or agreements on voluntary export restraints of the kind that the US imposed in the 1980s and 1990s. This may well push the global imbalances further against the South.

ii. *Europe*

Even without further shocks and disruptions, Europe does not promise much growth or stability in the years ahead. Policy has allowed the crisis to inflict a severe and permanent damage to productive capacities in the Eurozone. The region is financially highly fragile. Too many banks have been allowed to survive the crisis and many of them are now infested with bad debt. The spectre of Grexit has not gone away. The country's debt is clearly unsustainable but Its European creditors are refusing to write-off debt, pushing the country to the brink of default. There is no agreement between the EU and the IMF on how to remove the debt overhang, but both are imposing austerity on the country which has already lost over a quarter of its real income since the beginning of the crisis, as much as the US during the Great Depression.

The Brexit is another source of concern for stability and growth in the region. The political tug of war between the two sides may well amplify the global fallouts from the separation by creating significant tension and instability in currency and financial markets. Matters could be made much worse by economic shocks from the US and political shocks from forthcoming elections in a number of major European countries. Before fully resolving the crisis that started 8 years ago, Europe may thus face another and even a more serious crisis. Even with a fundamental redirection of policies, it would take years to repair the damage inflicted by misguided policies and put Europe on a right track.

iii. *China*

China continues to suffer from over-indebtedness and underconsumption and the jury is still out if it can avoid financial turbulence and growth collapse. After the crisis it moved away from exports towards greater reliance on domestic demand. However, rather than starting to boost household incomes and private consumption, it focused on a debt-driven boom in investment, pushing its investment ratio towards 50 percent of GDP and credit growth well ahead of GDP, creating excess capacity and a debt overhang. Efforts since 2011 to raise household and wage incomes and rebalance domestic investment and consumption, and services and industry have yielded some results, but not enough to provide a sound basis for sustained expansion in economic activity. In fact as the economy started to falter and instability in currency and equity markets heightened in the course of 2015, China turned once again to a debt-driven investment bubble in order to boost short-term growth at the risk of aggravating structural imbalances.

After hovering over ten per cent from the early 1990s until the crisis, growth in China has started to slow rapidly since 2010, falling steadily to less than 7 per cent, once seen as the minimum socially acceptable rate. The slowdown appears to be structural rather than cyclical, reflecting a decline in the potential growth rate. For reasons on both demand and supply sides, the deceleration of Chinese trend growth can be expected to continue in the years ahead, possibly dropping to less than 6 per cent in the coming decade. Demand is likely to remain relatively sluggish because of slow progress in raising the shares of household incomes and consumption, the growing debt burden and limits on export expansion. US protectionism may also accelerate the decline in growth, though not as much as commonly believed for the reasons already noted. On the supply side investment is concentrated mainly in traditional, low-productivity, capital intensive sectors in an attempt to boost growth and create jobs rather than in areas which promise strong productivity gains.

The slowdown in China appears to be faster than that experienced by late industrializers such as Korea when they were at similar levels of development. At initial stages of development China had a higher average growth rate than Korea, but as it reached middle-income levels, its growth decelerated faster. For instance between $1000 and $4000 per capita income at constant dollars, the average growth rate of Korea was below 9 per cent while that of China was over 10 per cent (Table 6). However, between $4.000 and $6.000 (which China reached in 2014), the average growth rate in China was 9 per cent compared to 10 per cent in Korea. After reaching in the second half of the 1980s the same per capita income as China has today, Korea maintained an average growth rate of 9 per cent for a decade. This is significantly faster than 5-6 per cent growth that China is widely expected to achieve in the coming decade – rates that may not be enough to secure a rapid graduation of China since its current per capita income is around 15 per cent of the major advanced economies such as Germany and Japan.

Table 6: Growth and household consumption in Korea and China

Per capita Income (US Dollars)	Average growth (Percent)		Household Consumption (Percent of GDP)	
	Korea	China	Korea	China
1000-2000	8.7	9.9	79.1	44.9
2000-4000	9.0	11.4	68.9	39.0
4000-6000	9.9	9.0	63.0	36.4
6000-12000	8.3	6.0[a]	55.6	?

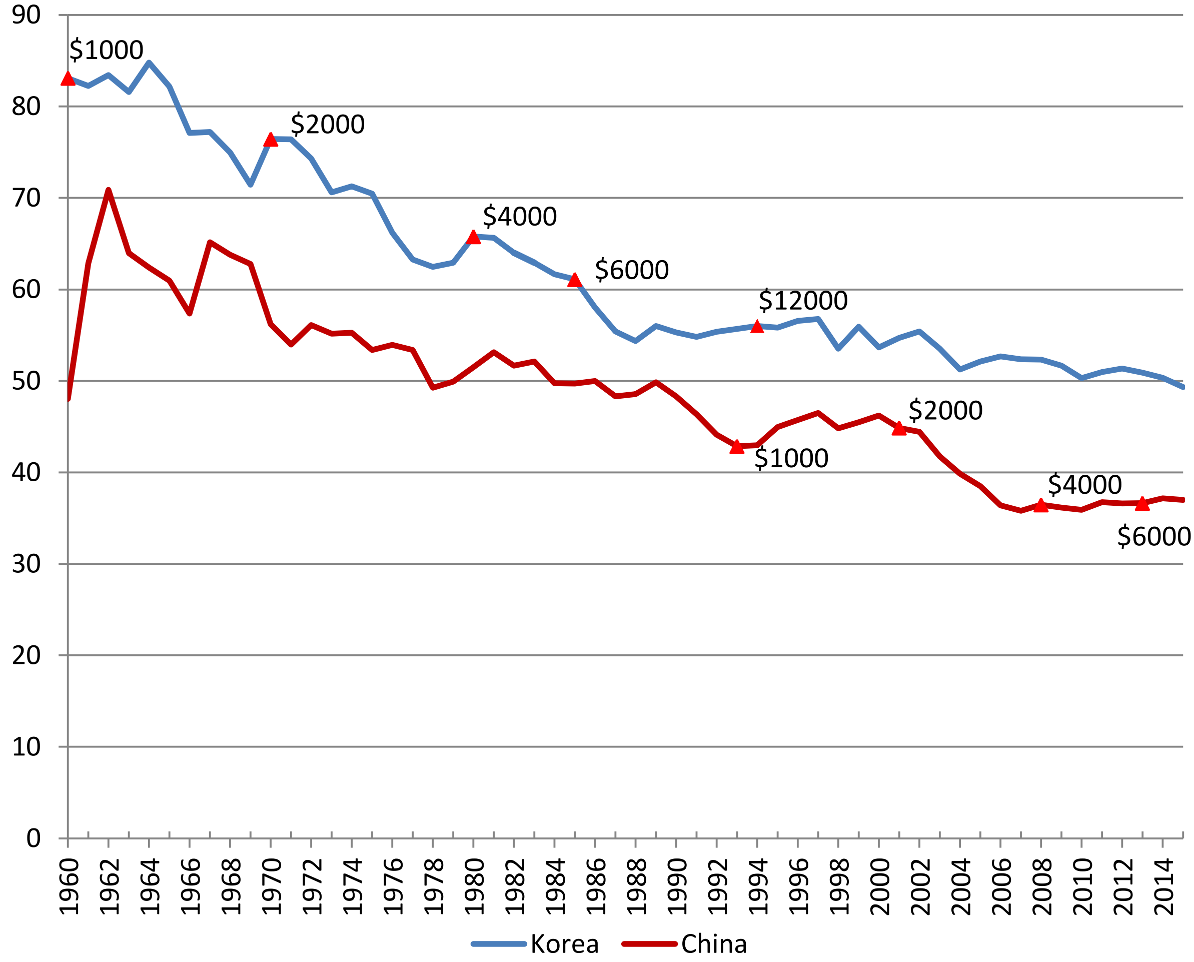
Source: WB WDI

a. Projections

An important difference between the Korea and China in the course of development is the extent to which they relied on domestic and foreign markets. In both cases, household consumption as a share of GDP shows a downward trend in the course of development (Chart 16). But at similar per capita income levels, private consumption as a percentage of GDP is much higher in Korea than China (Table 6). At the same level of income of China today, the share of household consumption in GDP was over 60 per cent in China compared to less than 40 per cent in China. Thus, after the early stages of development China appears to have relied to a much greater extent on foreign markets than Korea, rather than building a diversified and vibrant consumer market. Thus, as exports lost momentum, it has had to resort to debt-driven investment bubbles to sustain growth since even a relatively rapid expansion of consumer spending could not add much to growth because of its low share in aggregate demand. For China establishing a diversified and dynamic domestic market appears to be proving more difficult than expansion in foreign markets with the help of TNCs from AEs.

Many observers draw a close parallel between the conditions in China today with those in the US on the eve of the subprime crisis and project a similar financial crisis that can jeopardize the prospects of making a soft landing to a lower but sustainable growth path. However, a Lehman-type meltdown in China is highly unlikely in view of close public control over creditors (banks) and debtors (state enterprises and local governments). On the other hand, global spillovers from a financial turbulence in China can be expected to remain much more limited than those from the subprime crisis. The international financial system is not very much exposed to Chinese banks as they are to US banks. The vulnerability of emerging economies to financial instability in China is also limited since these economies do not have large volume of assets and liabilities in yuan. Nevertheless, turbulence in Chinese financial markets can have a strong impact on global risk appetite with attendant consequences for capital flows to the South.

Chart 16: Share of household total consumption in Korea and China (per cent of GDP)*



Source: World Bank WDI

* Numbers on lines show per capita income at constant dollars.

V. CHALLENGES AND POLICY ISSUES FOR THE GLOBAL SOUTH

Even in the absence of renewed external trade and financial shocks, EDEs are unlikely to repeat their pre-crisis growth performance in the years ahead because of weak underlying fundamentals, investment and productivity growth, and a less favourable global economic environment. On the other hand, their resilience to external shocks is weak, particularly in comparison to that during the subprime crisis.

The significantly deepened integration of many of these economies into the international financial system in the new millennium has resulted in new vulnerabilities and heightened their exposure to external financial shocks (Akyüz 2015a). There has been a massive build-up of debt by their non-financial corporations since the crisis, reaching $25 trillion or 95 per cent of their GDP. An important part of this is in dollars and hence carries significant interest rate and currency risks: the dollar-denominated debt securities issued by emerging economies increased from some $500 billion in 2008 to $1,25 trillion in 2016 (BIS 2017). On the other hand, the presence of non-residents in local financial markets of these economies has reached unprecedented levels, increasing their susceptibility to global financial boom-bust cycles.

Second, many countries in the South have seen a significant deterioration in their current account balances and net foreign asset positions since the crisis. In most countries international reserves built up in recent years came from capital inflows rather than current account surpluses. They are thus “borrowed” rather than “earned” reserves – they have their counterparts in increased liabilities to non-residents in one form or another, and are inadequate to meet large and sustained outflows of capital.

Finally, they have limited macroeconomic policy options in responding to deflationary and destabilizing impulses from abroad. Their fiscal space for countercyclical policy response to deflationary shocks is much more limited today than in 2009. There is also a significant loss of monetary policy autonomy and loss of control over the whole spectrum of interest rates as a result of their deepened global financial integration. Flexible exchange rate regimes adopted in many emerging economies since the last bouts of crises are no panacea in the face of severe and sustained financial shocks, particularly in view of currency risks assumed by non-financial corporations.

Most EDEs economies have not only lost their growth momentum but find themselves in a tenuous position with an uncanny similarity to the 1970s and 1980s when the combined booms in capital flows and commodity prices that had started in the second half of the 1970s ended with a debt crisis as a result of a sharp turnaround in the US monetary policy, costing them a decade in development. It would now be difficult for some of them to avoid international liquidity crises and even debt crises and significant loss of growth in the event of severe financial and trade shocks.

This state of affairs raises three sets of policy issues for the South. The first one concerns the policy response to severe balance-of-payments shocks that can result from trade and macroeconomic policies of the new US administration, deepened instability in Europe and financial turbulence and economic slowdown in China. In the face of such shocks, the orthodox, conventional response would be to hike interest rates, use reserves and borrow from the IMF to maintain an open capital account and stay current on debt payments to foreign creditors, and socialize private liabilities, and resort to austerity. Such a "business-as-usual" response needs to be avoided. Rather, EDEs need to seek to bail in international creditors and investors by introducing, *inter alia*, exchange restrictions and temporary debt standstills, and use selective import controls to safeguard economic activity and employment. They would also need to mobilize action at the multilateral level in support of such policies through provision of adequate international liquidity without deflationary conditionality and protection against creditor litigation.

Second, there is a need for rethinking global integration. Most EDEs have allowed too much room for global market forces to drive their development, relying excessively on foreign markets and capital, and TNCs. In many cases income and wealth are highly concentrated but there are little savings and investment by the rich, and hopes are pinned on foreign investors to come and lift the economy. The pendulum has swung too far and would have to be rebalanced, but this requires putting one's house in order in the first place. One of the key lessons of history of economic development is that successful policies are associated not with autarky or full integration into the global economy, but strategic and selective integration suitable to the stage of economic development reached, seeking to use the opportunities that a broader economic space may offer while minimizing the potential risks it may entail.

Many emerging and developing economies are bewildered by the popular backlash against globalization in the North. This should not have come as a surprise. It is the outcome of inequalities, instabilities and insecurities produced by global economic integration driven by corporate interests. It was indeed warned during the heydays of globalization by UNCTAD that the resolution of inequality in the North is "essential for defusing the threat of a popular backlash against globalization, which might put the gains of global economic integration at risk" (UNCTAD TDR 1997: viii).

What is more surprising is that several EDEs have been more than willing to join arrangements such as the TPP designed mainly to promote the interests of TNCs, or that backlash against NAFTA did not come from Mexico which has had a very poor performance in growth, wages, poverty reduction, productivity, and total and manufacturing trade balances since its inception (Weisbrot *et al*. 2014, Weisbrot *et al*. 2017, Blecker 2014). It is striking that both Mexico and the US could claim that they lost from NAFTA. The question is often posed whether international trade and investment are zero-sum games among nations, but they are rarely seen as negative-sum games. But nations are not the correct focus here; it is not nations that lose or gain, but different segments of population – corporations, bankers, workers, farmers etc. So perhaps one should move from a nations-based analysis of the impact of globalization, international trade, investment and finance, to a class-based analysis to understand the popular backlash. Certain classes in both source and destination countries can lose while others win – finance capital and TNCs almost always do so. And welfare theorems say that we cannot aggregate losers and winners to arrive at a national outcome.

Finally, the challenges that EDEs now face raise once again the question of global economic governance – reform of the international trading and financial architecture so as to prevent beggar-my-neighbour policies of major economic powers, to reduce exposure of the South to external shocks, and to introduce adequate mechanisms for the prevention and effective management of financial crises with international origins and consequences. Several ideas for reform have been advanced in the past three decades in these areas, including the multilateral policy surveillance; governance of international financial institutions; the international reserves and exchange rate systems; regulation of international finance and capital flows; statutory debt workout mechanisms; and provision of international liquidity. Although some of these have found their way from time to time into the international agenda, particularly after bouts of virulent crises, hardly any action has been taken to bring them to conclusion because of opposition of major advanced economies.

The global South has not been very effective in pursuing these matters and suffers from a collective action problem. Political solidarity and a common reflection may be needed among them about the policy response against the next major turmoil and in setting priorities and the agenda for change in global economic governance. But the G77 as a group lacks a strong secretariat to support and coordinate their efforts. UNCTAD is increasingly impaired in pursuing the interest of developing countries and the South Centre has limited capacity. The G20 is captured by the OECD and the Bretton Woods Institutions and developing-country groupings such as BRICS and other South-South organizations are inward-looking, shying away from global and systemic issues and reform of the global economic governance. However, now the stakes are getting too high for EDEs to leave the organization of the global economy and its governance to one or two major economic powers and the multilateral institutions they control.

References

- Adler, G. and S. Sosa (2011).Commodity Price Cycles: The Perils of Mismanaging the Boom. IMF Working Paper 11/283, Washington, D.C.

- Akyüz, Y. (2006). *From Liberalization to Investment and Jobs: Lost in Translation.* TWN Global Economy Series 8. Penang, Malaysia.

- Akyüz, Y. (2011a). Export Dependence and Sustainability of Growth in China and the East Asian Production Network. *China and World Economy*, 19(1) January 2011.

- Akyüz, Y. (2011b). Capital Flows to Developing Countries in a Historical Perspective: Will the Current Boom End with a Bust? South Centre Research Paper 37, March. Also in Y. Akyüz, The *Financial Crisis and the Global South. A Development Perspective*. Pluto Press, London.

- Akyüz, Y. (2011c). Global Economic Prospects: The Recession May be Over but Where Next? *Global Policy*, May 2011. Also in Y. Akyüz, *The Financial Crisis and the Global South. A Development Perspective*. Pluto Press, London.

- Akyüz, Y. (2012). The Staggering Rise of the South? South Centre Research Paper 44, March. Also in Y. Akyüz, *Liberalization, Financial Instability and Economic Development*. Anthem Press, London, 2014.

- Akyüz, Y. (2015a). Internationalization of Finance and Changing Vulnerabilities in Emerging and Developing Economies. South Centre Research Paper 60, January.

- Akyüz, Y. (2015b). Foreign Direct Investment, Investment Agreements and Economic Development: Myths and Realities. South Centre Research Paper 63, October.

- Akyüz, Y. (2017). Inequality, Financialization and Stagnation. South Centre Research Paper 73, February.

- Amadeo, K. (2013). What was the Stimulus Package? About.com US Economy, 10 September. http://useconomy.about.com/od/candidatesandtheeconomy/a/Obama_Stimulus.htm?p=1 (Accessed 10 November 2013).

- Atoyan, R., J. Manning, and J. Rahman (2013). Rebalancing: Evidence from Current Account Adjustment in Europe. IMF Working Paper WP 13/74, Washington, D.C.

- Ball, L.M. (2014). Long-Term Damage from the Great Recession in OECD Countries. NBER Working Paper 20185. http://www.nber.org/papers/w20185 (Accessed 10 August 2015).

- Bastourre, D., J. Carrera, J. Ibarlucia, and M. Sardi (2013). Common Drivers in Emerging Market Spreads and Commodity Prices. BIS. 15 March. http://www.bis.org/search/?q=bastourre (Accessed 10 September 2013).

🕮 Bernanke, B. (2013). Monitoring the Financial System. Speech at the 49th Annual Conference on Bank Structure and Competition sponsored by the Federal Reserve Bank of Chicago, Chicago, Illinois, May 10. http://www.federalreserve.gov/newsevents/speech/bernanke20130510a.htm (Accessed 12 May 2013).

🕮 Birds, M. (2015). 'The World is Still in Love with Debt' and There's $50 Trillion More of It Since the Financial Crisis**.** Business Insider UK. http://uk.businessinsider.com/baml-global-debt-has-rise-by-50-trillion-since-the-financial-crisis-2015-10 (Accessed 12 January 2016).

🕮 BIS (2013). Quarterly Review. International Banking and Financial Market Developments. September.

🕮 BIS (2017). Quarterly Review. International Banking and Financial Market Developments. March.

🕮 Blecker, R.A. (2014). The Mexican and U.S. Economies after Twenty Years of NAFTA. *International Journal of Political Economy*, 43(2): 5-26.

🕮 Blinder, A. S, and M. Zandi (2010). How the Great Recession was Brought to an End. http://www.economy.com/mark-zandi/documents/end-of-great-recession.pdf (Accessed 3 January 2013).

🕮 Borio, C. and P. Disyatat (2014). "Low Interest Rates and Secular Stagnation: Is debt the missing link?" Vox, 25 June. http://voxeu.org/article/low-interest-rates-secular-stagnation-and-debt (Accessed 13 December 2015).

🕮 Borio, C., E. Kharroubi, C. Upper, and F. Zampolli (2015). Labour reallocation and productivity dynamics: financial causes, real consequences. BIS Working Paper 534, Monetary and Economic Department, December. http://www.bis.org/publ/work534.htm (Accessed 22 February 2016).

🕮 Cecchetti, S.G. and E. Kharroubi (2015). Why does financial sector growth crowd out real economic growth? BIS Working Paper 490, February.

🕮 Chen, R., G-M. Milesi-Ferretti and T. Tressel (2012). External Imbalances in the Euro Area. IMF Working Paper 12/236, Washington, D.C.

🕮 Cohan, D. (2016). 'Too Big to Fail' Banks Thriving a Few Years after Financial Crisis. *New York Times*, 22 January.

🕮 Cui, C. (2016). In Emerging Markets, Capital Controls Are Ratcheted Up to Stem Outflow of Funds. *The Wall Street Journal*, January 21.

🕮 De Grauwe, P. (2010). Fighting the Wrong Enemy. Vox, 19 May. http://www.voxeu.org/article/europe-s-private-versus-public-debt-problem-fighting-wrong-enemy (Accessed 24 September 2012).

Dobbs, R., S. Lund, T. Koller, and A. Shwayder (2013). QE and Ultra-low Interest Rates: Distributional Effects and Risks. McKinsey Global Institute, November. http://www.mckinsey.com/insights (Accessed 15 November 2013).

Dobbs, R., S. Lund, J. Woetzel, and M. Mutafchieva (2015). Debt and (Not Much) Deleveraging. McKinsey Institute, February. http://www.mckinsey.com/global-themes/employment-and-growth/debt-and-not-much-deleveraging (Accessed 12 September 2015).

Domanski, D., J. Kearns, M. Lombardi, and H.S. Shin (2015). Oil and debt. BIS Quarterly Review, March.

Dufour, M. and O. Orhangazi (2016). Growth and Distribution after the 2007-2008 US Financial Crisis: Who Shouldered the Burden of the Crisis? *Review of Keynesian Economics* 4(2), Summer: 151-174.

EC (European Commission) (2011). Public Finances in EMU 2011. European Economy 3/2011. http://ec.europa.eu/economy_finance/publications/european_economy/2011/ee3_en.htm (Accessed 12 May 2013).

EC (2015). Report on Public Finances in EMU. 2015 Institutional Paper 014, December. http://ec.europa.eu/economy_finance/publications/eeip/ip014_en.htm (Accessed 1 March 2016).

Economist (2016). The European Central banks fires another salvo. 10 March. http://www.economist.com/news/business-and-finance/21694605-qe-gets-further-boost-euro-area-and-interest-rates-are-cut-further (Accessed 19 March 2016).

ERP (2016). Economic Report of the President Together with the Annual Report of the Council of Economic Advisers, February. https://www.gpo.gov/fdsys/pkg/ERP-2016/pdf/ERP-2016.pdf (Accessed 17 March 2016).

Farooki, M.Z, and R. Kaplinsky (2011). *The Impact of China on Commodity Prices*. London: Francis and Taylor.

Ferguson, N. (2013). Currency wars are best fought quietly. Financial Times, Opinion, 25 January. http://www.ft.com/intl/cms/s/0/cdc80aa0-6638-11e2-b967-00144feab49a.html#axzz2PDTzy8AU (Accessed 23 March 2013).

Filimonov, V., D. Bicchetti, N. Maystre, and D. Sornette (2013). Quantification of the High Level of Endogeneity and of Structural Regime Shifts in Commodity Markets. UNCTAD Discussion Paper No 212, November.

Fitoussi, J-P. (2006). Diverging Tendencies of Competitiveness. Briefing Paper 1. European Parliament Committee for Economic and Monetary Affairs, October.

Fontevecchia, A. (2013). Janet Yellen: No Equity Bubble, No Real Estate Bubble, And No QE Taper Yet. Forbes, 14 November.

http://www.forbes.com/sites/afontevecchia/2013/11/14/janet-yellen-no-equity-bubble-no-real-estate-bubble-and-no-qe-tapering-yet/ (Accessed 23 November 2013).

🕮 Fox News (2015). Fox News Poll: Voters believe White House incompetent, US still in recession and ISIS has moved next door. 15 May. http://www.foxnews.com/politics/2015/05/15/fox-news-poll-voters-believe-white-house-incompetent-us-still-in-recession-and.html (Accessed 4 January 2016).

🕮 Frankel, J.A. (2006). The Effect of Monetary Policy on Real Commodity Prices. NBER Working Paper 12713, December.

🕮 Giles, C. (2013). IMF changes tune on global economic assessment. *Financial Times*, September 4.

🕮 Giles, C. (2016). Kuroda calls for China to tighten capital controls. *Financial Times*, 23 January.

🕮 Goodhart, C.A.E., and P. Erfurth (2014). Monetary policy and long-term trends. Vox, 3 November. http://www.voxeu.org/article/monetary-policy-and-long-term-trends (Accessed 8 October 2015).

🕮 Idzelis, C. and C. Torres (2014). Fed Bubble Bursts in $550 Billion of Energy Debt: Credit Markets. Bloomberg Business December 11. http://www.bloomberg.com/news/articles/2014-12-11/fed-bubble-bursts-in-550-billion-of-energy-debt-credit-markets (Accessed 3 December 2015).

🕮 IIF (Institute of International Finance) (various issues). Capital Flows to Emerging Market Economies.

🕮 IIF (2016). Capital Flows Tracker, December.

🕮 IMF (2012). The Liberalization and Management of Capital Flows: An Institutional View, November, Washington, D.C.

🕮 IMF GFSR (various issues). Global Financial Stability Report, Washington, D.C.

🕮 IMF WEO (various issues). *World Economic Outlook*, Washington, D.C.

🕮 Jones, C. (2016). ECB Cash Giveaway to Banks Hit by Scepticism. *Financial Times*, 18 March.

🕮 Katz, L. F. and A. B. Krueger (2016). The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015. NBER Working Paper 22667, September.

🕮 Khor, M. (2017a). Beware of the New US Protectionist Plan, the Border Adjustment Tax. South Views 143, 17 February. South Centre, Geneva.

🕮 Khor, M. (2017b). The planned US border tax would most likely violate WTO rules. South Views 144, 17 February. South Centre, Geneva.

📖 Koopman, R., Z. Wang, and S-J. Wei (2012). 'Estimating Domestic Content in Exports When Processing Trade Is Pervasive.' *Journal of Development Economics* 99(1): 178-89.

📖 Kuttner, R. (2013). *Debtors' Prison: The Politics of Austerity versus Possibility*. Alfred A. Knopf, New York.

📖 Lapavitsas, C., A. Kaltenbrunner, G. Lambrinidis, D. Lindo, J. Meadway, J. Michell, J.P. Painceira, E. Pires, J. Powell, A. Stenfors, and N. Teles (2010). The Eurozone between Austerity and Default. RMF Occasional Report, September. www.researchonmoneyandfinance.org (Accessed 12 January 2013).

📖 Leduc, S., K. Moran, and R.J. Vigfusson (2016). The Elusive Boost from Cheap Oil. FRBSF Economic Letter, April 18. http://www.frbsf.org/economic-research/publications/economic-letter/2016/april/elusive-boost-from-cheap-oil-consumer-spending/ (Accessed 23 April 2016).

📖 Leong, R. (2015). Profits at Big U.S. Banks Soar Since Crisis: New York Fed. Reuters, October 7. http://www.reuters.com/article/us-usa-banks-marketmaking-idUSKCN0S11KS20151007 (Accessed 8 January 2016).

📖 Leubsdorf, B. (2016). Fed Sent Record $97.7 Billion in Profits to U.S. Treasury in 2015. The Wall Street Journal, January 11. http://www.wsj.com/articles/fed-sent-record-97-7-billion-in-profits-to-u-s-treasury-in-2015-1452531787 (Accessed 28 January 2016).

📖 Lopez, L. (2017). "One of the Most Brilliant China minds in the World has a Warning for the 2nd half of 2017." Business Insider, January 10. http://uk.businessinsider.com/charlene-chu-on-china-outflows-outlook-2017-2017-1?r=US&IR=T (Acceded 12 January 2017).

📖 Marcus, G. (2012). Consider the small nations caught in the central bank crossfire. *Financial Times*, May 3.

📖 McCauley, R.N., P. McGuire, and V. Sushko (2015). Dollar Credit to Emerging Market Economies. BIS Quarterly Review, December.

📖 Münchau, W. (2016). The European Central Bank has lost the plot on inflation. *Financial Times*, 13 March.

📖 OECD (2016). Global Economic Outlook and Interim Economic Outlook, 18 February.

📖 Palley, T.I. (2013). Europe's Crisis without End: The Consequences of Neoliberal Run Amok. Macroeconomic Policy Institute (IMK) Working Paper, 111, March, Dusseldorf, Germany.

📖 Palley, T.I. (2016). Zero Lower Bound (ZLB) Economics: The Fallacy of New Keynesian Explanations of Stagnation. Macroeconomic Policy Institute Working

Paper 164, February. http://www.boeckler.de/pdf/p_imk_wp_164_2016.pdf (Accessed 28 April 2016).

Rannenberg, A, C Schoder, and J Strasky (2015). The Macroeconomic Effects of the Euro Area's Fiscal Consolidation 2011-2013: A simulation-based approach. Research Technical Paper 03/RT/2015, Central Bank of Ireland.

Rapoza, K. (2012). Obama's Half-Truth on China Tire Tariffs. Forbes, January 25. https://www.forbes.com/sites/kenrapoza/2012/01/25/obamas-half-truth-on-china-tire-tariffs/#214fd8eb3f26 (Accessed 24 February 2017).

Reinhart, C. (2016). The Post-Crisis Economy's Long Debt Hangover. Project Syndicate, April 21. https://www.project-syndicate.org/print/debt-restructuring-needed-as-policy-option-by-carmen-reinhart-2016-04 (Accessed 28 April 2016).

Reuters (2012). IMF chief economist says crisis will last a decade. October 3. www.reuters.com/ assets/print?aid=USL6E8L34VH20121003 (Accessed 6 October 2012).

Reuters (2013). Too few European Banks Have Been Wound Down – EBA's Enria. 18 November. http://uk.reuters.com/article/2013/11/18/uk-europe-banks-idUKBRE9AH05X20131118 (Accessed 19 November 2013).

Rogoff, K. (2015). Oil Prices and Global Growth. Project Syndicate, December 14. https://www.project-syndicate.org/print/oil-prices-global-growth-by-kenneth-rogoff-2015-12 (Accessed 3 January 2016).

Saez, E. (2015). Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2014 preliminary estimates), UC Berkeley, June 25. https://eml.berkeley.edu/~**saez**/**saez**-UStop**income**s-2014.pdf (Accessed 15 March 2016).

Sharf, S. (2015). Fed Sending $98.7 Billion of 2014 Profits to U.S. Treasury. Forbes, 9 January. http://www.forbes.com/sites/samanthasharf/2015/01/09/fed-sending-98-7-billion-of-2014-profits-to-u-s-treasury/#328c12d22fe0 (Accessed 8 July 2015).

Singh, K. (2010). Financial Crisis Conducive to Instability of Asia's Currency Markets: South Korea Imposes Currency Controls. Global Research 23 June. http://www.globalresearch.ca/financial-crisis-conducive-to-instability-of-asia-s-currency-markets-south-korea-imposes-currency-controls/19857 (Accessed 25 June 2010).

Sinn, H-W. (2011). Germany's capital exports under the euro. Vox, 2 August. www.voxeu.org/article/germany-s-capital-exports-under-euro (Accessed 24 September 2012).

Snyder, M. (2016). Financial Crisis 2016: High Yield Debt tells us that just about everything is about to Collapse. Right Side News. 15 February. http://www.rightsidenews.com/us/economics/financial-crisis-2016-high-yield-debt-tells-us-just-everything-collapse/ (Accessed 24 March 2016).

- Stein, J.C. (2013). Overheating in Credit Markets: Origins, Measurement, and Policy Responses. Remarks at the research symposium sponsored by the Federal Reserve Bank of St. Louis, St. Louis, Missouri. www.federalreserve.gov/newsevents/speech/stein20130207a.pdf (Accessed 12 October 2013).

- Stiglitz, J. and H. Rashid (2016). What's Holding Back the World Economy? Project Syndicate, February 8. http://www.project-syndicate.org/print/whats-holding-back-the-global-economy-by-joseph-e--stiglitz-and-hamid-rashid-2016-02 (Accessed 2 March 2016).

- UNCTAD TDR (Various issues). Trade and Development Report. United Nations: Geneva.

- UNEP (2013). Recent Trends in Material Flows and Resource Productivity in Asia and the Pacific. Bangkok.

- Upward, R., Z. Wang and J. Zheng (2013). 'Weighing China's Export Basket: The Domestic Content and Technology Intensity of Chinese Exports.' *Journal of Comparative Economics* 41(2): 527–43.

- Vila, S.T. and M. Peters (2017). The Bail Out Business. Who Profits from Bank Rescues in the EU? Issue Brief. Transnational Institute. February. https://www.tni.org/files/publication-downloads/tni_bail_out_eng_online.pdf (Accessed 12 March 2017).

- Warren, E. (2013). Americans for Financial Reform and the Roosevelt Institute. Speech delivered at the Roosevelt Institute, Washington, DC, November 12. www.warren.senate.gov/files/documents/AFR%20Roosevelt%20Institute%20Speech%202013-11-12.pdf (Accessed 14 November 2013).

- Weeks, J. (2016). EU Stagnation Continues: Deja Vu All Over Again. Social Europe. 25 February. https://www.socialeurope.eu/2016/02/eu-stagnation-continues-deja-vu-all-over-again/ (Accessed 28 February 2016).

- Weisbrot, M., S. Lefebvre, and J. Sammut (2014). Did NAFTA Help Mexico? An Assessment after 20 Years. CEPR, February. http://cepr.net/publications/reports/nafta-20-years (Accessed 12 June 2016).

- Weisbrot, M., L. Merling, V. Mello, S. Lefebvre, and J. Sammut (2017). Did NAFTA Help Mexico? An Update after 23 Years. CEPR, February. http://cepr.net/publications/reports/did-nafta-help-mexico-an-update-after-23-years (Accessed 4 April 2017).

- Wessel, D. (2015). Fiscal drag abates, and budget deal will reduce it further. Brookings Upfront, October 29. http://www.brookings.edu/blogs/up-front/posts/2015/10/29-fim-budget-deal-wessel (Accessed 1 February 2016).

🕮 White, W.R. (2012). Ultra Easy Monetary Policy and the Law of Unintended Consequences. Federal Reserve Bank of Dallas Globalization and Monetary Policy Institute Working Paper No. 126, September. http://www.dallasfed.org/assets/documents/institute/wpapers/2012/0126.pdf (Accessed 8 February 2013).

🕮 White, W.R. (2016). Interview by The Telegraph, Ambrose Evans-Pritchard, in Davos. World Faces Wave of Epic Debt Defaults, Fears Central Bank Veteran. The Telegraph, 3 February. http://www.williamwhite.ca/content/william-whites-interview-telegraph-ambrose-evans-pritchard-davos (Accessed 15 March 2016)

🕮 Wildau, G. (2016). China steps up capital controls to stem outflows. *Financial Times*, January 8.

🕮 Yellen, J.L. (2013a). A Painfully Slow Recovery for America's Workers: Causes, Implications, and the Federal Reserve's Response. Remarks made at "A Trans-Atlantic Agenda for Shared Prosperity", conference sponsored by the AFL-CIO, Friedrich Ebert Stiftung, and the IMK Macroeconomic Policy Institute, Washington, D.C., 11 February. https://www.federalreserve.gov/newsevents/speech/yellen20130211a.htm (Accessed 14 February 2013).

🕮 Yellen, J.L. (2013b). Speech at the "Rethinking Macro Policy II", a conference sponsored by the International Monetary Fund, April 16, Washington, D.C. Board of Governors of the Federal Reserve System, http://www.federalreserve.gov/newsevents/speech/yellen20130416a.htm (Accessed 19 April 2013).

SOUTH CENTRE RESEARCH PAPERS

No.	Date	Title	Author
1	November 2005	Overview of the Sanitary and Phytosanitary Measures in QUAD Countries on Tropical Fruits and Vegetables Imported from Developing Countries	Ellen Pay
2	November 2005	Remunerating Commodity Producers in Developing Countries: Regulating Concentration in Commodity Markets	Samuel G. Asfaha
3	November 2005	Supply-Side Measures for Raising Low Farm-gate Prices of Tropical Beverage Commodities	Peter Robbins
4	November 2005	The Potential Impacts of Nano-Scale Technologies on Commodity Markets: The Implications for Commodity Dependent Developing Countries	ETC Group
5	March 2006	Rethinking Policy Options for Export Earnings	Jayant Parimal
6	April 2006	Considering Gender and the WTO Services Negotiations	Meg Jones
7	July 2006	Reinventing UNCTAD	Boutros Boutros-Ghali
8	August 2006	IP Rights Under Investment Agreements: The TRIPS-plus Implications for Enforcement and Protection of Public Interest	Ermias Tekeste Biadgleng
9	January 2007	A Development Analysis of the Proposed WIPO Treaty on the Protection of Broadcasting and Cablecasting Organizations	Viviana Munoz Tellez and Andrew Chege Waitara
10	November 2006	Market Power, Price Formation and Primary Commodities	Thomas Lines
11	March 2007	Development at Crossroads: The Economic Partnership Agreement Negotiations with Eastern and Southern African Countries on Trade in Services	Clare Akamanzi
12	June 2007	Changes in the Governance of Global Value Chains of Fresh Fruits and Vegetables: Opportunities and Challenges for Producers in Sub-Saharan Africa	Temu A.E and N.W Marwa
13	August 2007	Towards a Digital Agenda for Developing Countries	Dalindyebo Shabalala
14	December 2007	Analysis of the Role of South-South Cooperation to Promote Governance on Intellectual Property Rights and Development	Ermias Tekeste Biadgleng
15	January 2008	The Changing Structure and Governance of Intellectual Property Enforcement	Ermias Tekeste Biadgleng and Viviana Munoz Tellez
16	January 2008	Liberalization of Trade in Health Services:	Joy Kategekwa

		Balancing Mode 4 Interests with Obligations to Provide Universal Access to Basic Services	
17	July 2008	Unity in Diversity: Governance Adaptation in Multilateral Trade Institutions Through South-South Coalition-Building	Vicente Paolo B. Yu III
18	December 2008	Patent Counts as Indicators of the Geography of Innovation Activities: Problems and Perspectives	Xuan Li
19	December 2008	WCO SECURE: Lessons Learnt from the Abortion of the TRIPS-plus-plus IP Enforcement Initiative	Xuan Li
20	May 2009	Industrialisation and Industrial Policy in Africa: Is it a Policy Priority?	Darlan F. Marti and Ivan Ssenkubuge
21	June 2009	IPR Misuse: The Core Issue in Standards and Patents	Xuan Li and Baisheng An
22	July 2009	Policy Space for Domestic Public Interest Measures Under TRIPS	Henning Grosse Ruse – Khan
23	June 2009	Developing Biotechnology Innovations Through Traditional Knowledge	Sufian Jusoh
24	May 2009	Policy Response to the Global Financial Crisis: Key Issues for Developing Countries	Yılmaz Akyüz
25	October 2009	The Gap Between Commitments and Implementation: Assessing the Compliance by Annex I Parties with their Commitments Under the UNFCCC and its Kyoto Protocol	Vicente Paolo Yu III
26	April 2010	Global Economic Prospects: The Recession May Be Over But Where Next?	Yılmaz Akyüz
27	April 2010	Export Dependence and Sustainability of Growth in China and the East Asian Production Network	Yılmaz Akyüz
28	May 2010	The Impact of the Global Economic Crisis on Industrial Development of Least Developed Countries	Report Prepared by the South Centre
29	May 2010	The Climate and Trade Relation: Some Issues	Martin Khor
30	May 2010	Analysis of the Doha Negotiations and the Functioning of the World Trade Organization	Martin Khor
31	July 2010	Legal Analysis of Services and Investment in the CARIFORUM-EC EPA: Lessons for Other Developing Countries	Jane Kelsey
32	November 2010	Why the IMF and the International Monetary System Need More than Cosmetic Reform	Yılmaz Akyüz
33	November 2010	The Equitable Sharing of Atmospheric and Development Space: Some Critical Aspects	Martin Khor
34	November 2010	Addressing Climate Change through Sustainable Development and the Promotion of Human Rights	Margreet Wewerinke and Vicente Paolo Yu III

35	January 2011	The Right to Health and Medicines: The Case of Recent Negotiations on the Global Strategy on Public Health, Innovation and Intellectual Property	Germán Velásquez
36	March 2011	The Nagoya Protocol on Access and Benefit Sharing of Genetic Resources: Analysis and Implementation Options for Developing Countries	Gurdial Singh Nijar
37	March 2011	Capital Flows to Developing Countries in a Historical Perspective: Will the Current Boom End with a Bust?	Yılmaz Akyüz
38	May 2011	The MDGs Beyond 2015	Deepak Nayyar
39	May 2011	Operationalizing the UNFCCC Finance Mechanism	Matthew Stilwell
40	July 2011	Risks and Uses of the Green Economy Concept in the Context of Sustainable Development, Poverty and Equity	Martin Khor
41	September 2011	Pharmaceutical Innovation, Incremental Patenting and Compulsory Licensing	Carlos M. Correa
42	December 2011	Rethinking Global Health: A Binding Convention for R&D for Pharmaceutical Products	Germán Velásquez and Xavier Seuba
43	March 2012	Mechanisms for International Cooperation in Research and Development: Lessons for the Context of Climate Change	Carlos M. Correa
44	March 2012	The Staggering Rise of the South?	Yılmaz Akyüz
45	April 2012	Climate Change, Technology and Intellectual Property Rights: Context and Recent Negotiations	Martin Khor
46	July 2012	Asian Initiatives at Monetary and Financial Integration: A Critical Review	Mah-Hui (Michael) Lim and Joseph Anthony Y. Lim
47	May 2013	Access to Medicines and Intellectual Property: The Contribution of the World Health Organization	Germán Velásquez
48	June 2013	Waving or Drowning: Developing Countries After the Financial Crisis	Yılmaz Akyüz
49	January 2014	Public-Private Partnerships in Global Health: Putting Business Before Health?	Germán Velásquez
50	February 2014	Crisis Mismanagement in the United States and Europe: Impact on Developing Countries and Longer-term Consequences	Yılmaz Akyüz
51	July 2014	Obstacles to Development in the Global Economic System	Manuel F. Montes
52	August 2014	Tackling the Proliferation of Patents: How to Avoid Undue Limitations to Competition and the Public Domain	Carlos M. Correa
53	September 2014	Regional Pooled Procurement of Medicines in the East African Community	Nirmalya Syam
54	September 2014	Innovative Financing Mechanisms:	Deborah Ko Sy, Nirmalya

		Potential Sources of Financing the WHO Tobacco Convention	Syam and Germán Velásquez
55	October 2014	Patent Protection for Plants: Legal Options for Developing Countries	Carlos M. Correa
56	November 2014	The African Regional Intellectual Property Organization (ARIPO) Protocol on Patents: Implications for Access to Medicines	Sangeeta Shashikant
57	November 2014	Globalization, Export-Led Growth and Inequality: The East Asian Story	Mah-Hui Lim
58	November 2014	Patent Examination and Legal Fictions: How Rights Are Created on Feet of Clay	Carlos M. Correa
59	December 2014	Transition Period for TRIPS Implementation for LDCs: Implications for Local Production of Medicines in the East African Community	Nirmalya Syam
60	January 2015	Internationalization of Finance and Changing Vulnerabilities in Emerging and Developing Economies	Yılmaz Akyüz
61	March 2015	Guidelines on Patentability and Access to Medicines	Germán Velásquez
62	September 2015	Intellectual Property in the Trans-Pacific Partnership: Increasing the Barriers for the Access to Affordable Medicines	Carlos M. Correa
63	October 2015	Foreign Direct Investment, Investment Agreements and Economic Development: Myths and Realities	Yılmaz Akyüz
64	February 2016	Implementing Pro-Competitive Criteria for the Examination of Pharmaceutical Patents	Carlos M. Correa
65	February 2016	The Rise of Investor-State Dispute Settlement in the Extractive Sectors: Challenges and Considerations for African Countries	Kinda Mohamadieh and Daniel Uribe
66	March 2016	The Bolar Exception: Legislative Models And Drafting Options	Carlos M. Correa
67	June 2016	Innovation and Global Intellectual Property Regulatory Regimes: The Tension between Protection and Access in Africa	Nirmalya Syam and Viviana Muñoz Tellez
68	June 2016	Approaches to International Investment Protection: Divergent Approaches between the TPPA and Developing Countries' Model Investment Treaties	Kinda Mohamadieh and Daniel Uribe
69	July 2016	Intellectual Property and Access to Science	Carlos M. Correa
70	August 2016	Innovation and the Global Expansion of Intellectual Property Rights: Unfulfilled Promises	Carlos M. Correa
71	October 2016	Recovering Sovereignty Over Natural Resources: The Cases of Bolivia and Ecuador	Humberto Canpodonico
72	November 2016	Is the Right to Use Trademarks Mandated by the TRIPS Agreement?	Carlos M. Correa

73	February 2017	Inequality, Financialization and Stagnation	Yılmaz Akyüz
74	February 2017	Mitigating the Regulatory Constraints Imposed by Intellectual Property Rules under Free Trade Agreements	Carlos M. Correa
75	March 2017	Implementing Farmers' Rights Relating to Seeds	Carlos M. Correa

Chemin du Champ d'Anier 17
PO Box 228, 1211 Geneva 19
Switzerland

Telephone: (41 22) 791 8050
Fax: (41 22) 798 8531
Email: south@southcentre.int

Website :
http://www.southcentre.int

ISSN 1819-6926