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Global growth will accelerate this year thanks to a pick-up in all regions, developed and developing. However, ten years after the first signs of financial turmoil that led to the great global recession, the world economy remains in a state of sub-standard growth thanks to a lack of concerted policy effort to boost demand, particularly in the leading advanced economies. Social and economic inequities exposed by the crisis show few signs of moderating and harbor serious downside risks. Governments have taken measures to strengthen their banking systems and have closed down the most egregious loopholes and toxic instruments exposed by the crisis; but however good their intentions, the reality is that few who caused the crash have been held accountable for their actions, and little has been done to tackle its root causes. Much bolder policies will be needed if growth is to be made more inclusive and sustainable.

Economic growth is picking up but not lifting off

Global growth in 2017 is expected to reach 2.7 per cent, slightly higher than in 2016 but well below the pre-financial crisis average of 3.2 per cent (see table).

World output growth: Annual percentage change

Country or area	*2001–2008*	*2015*	*2016*	*2017[a]*
World	**3.2**	**2.6**	**2.2**	**2.7**
Developed countries	**2.2**	**2.2**	**1.7**	**2.0**
Japan	1.2	1.2	1.0	1.5
United States	2.5	2.6	1.6	2.2
United Kingdom of Great Britain and Northern Ireland	2.5	2.2	1.8	1.5
Eurozone	1.9	2.1	1.7	1.8
Germany	1.3	1.7	1.9	1.9
Developing countries	**6.2**	**3.8**	**3.6**	**4.2**
Africa	5.7	3.0	1.5	2.6
South Africa	4.4	1.3	0.3	0.5
Latin America and the Caribbean	3.9	−0.3	−0.8	1.3
Brazil	3.7	−3.8	−3.6	0.4
Asia	7.3	5.2	5.1	5.2
China	10.9	6.9	6.7	6.8
India	7.6	7.2	7.0	6.5
Transition economies	**7.1**	**−2.2**	**0.4**	**2.0**
Russian Federation	6.8	−2.8	−0.2	1.8

Source: UNCTAD secretariat calculations.
Note: Calculations for country aggregates are based on gross domestic product in constant 2005 dollars.
[a] Forecasts.

Most regions are set to register small gains, with Latin America exiting recession and posting the biggest turnaround, even if only at 1.2 per cent growth. The Eurozone is expected to see its fastest growth since 2010 (1.8 per cent) but is still lagging behind the United States of America.

In the United States, signs of a slowdown towards the end of 2016 continued into the first quarter of 2017; while an acceleration in the second quarter contributed to set the annual growth forecast to 2.2 per cent. However, real wage growth remained sluggish despite falling unemployment, suggesting that private sector spending may not recover its historical strength, while a contraction in government expenditure will continue to represent a drag on GDP growth.

The small revival of growth in the Eurozone, from 1.7 per cent in 2016 to 1.8 per cent in 2017 reflects stronger performance of the smaller and poorer countries in the first half of 2017, but subdued outcomes in the core countries. The good news is that unemployment has, on average, dropped to single-digit levels (with some notable exceptions such as in Greece and Spain), although the quality of new employment is a concern. In the United Kingdom, despite the fact that the somber prognoses following the Brexit vote did not materialize, growth is palpably weakening and the depreciation of the pound sterling is not triggering the expected strong recovery of net exports.

In Japan, the recent recovery is partly reflecting an uptick from a prolonged period of low growth, and partly the effect of a continuing and significant monetary policy accommodation that helped spurred both net exports, through the depreciation of the yen, and domestic demand. As in other developed economies, the growth momentum of household expenditure is unlikely to be sustained with the normalization of monetary policy since real wage growth has remained too weak and the mood of fiscal austerity predominates across the developed countries.

All developing regions have seen growth accelerate this year, albeit still well below the pre-crisis average in Africa and Latin America, and with considerable country-level variation. The absence of a robust recovery in developed countries and renewed volatility of global capital flows have constrained economic growth in developing countries. In general, the rapid recovery from the initial financial shock of 2008 has given way to a persistent slowdown since 2011.

Growth in the world's two most populous economies − China and India − remains relatively buoyant, but the pace is slower than before the crisis and faces some serious downside risks. The start of 2017 has seen other larger emerging economies move out of recession, but with little likelihood of growth at the rates registered in the first decade of the new millennium.

Looking ahead, two factors are likely to exercise a major influence on growth prospects in developing countries. The first is oil and commodity prices; while emerging from their recent troughs, these are generally still well below the highs witnessed during the boom years. This has dampened growth recovery and eroded government revenues in the commodity-exporting countries. The second is policy spillovers; the developed economies excessive reliance on monetary policy to stimulate growth, especially in the absence of a coordinated expansionary push, has contributed to slower growth and increased financial instability in many emerging economies. The reverse moves towards normalization could be even more damaging, especially where austerity becomes the default macroeconomic policy position in emerging economies facing fiscal imbalances and mounting debt levels. Any such downward pressure could worsen if an exit of foreign capital necessitates a cutback in imports in order to reduce trade and current account deficits that become harder to finance. Not surprisingly, anxious policymakers across the South, who are increasingly aware that they have limited control over some of the key elements of their economic future, are closely tracking the United States Federal Reserve's interest rate policy, the actions of commodity traders and the predatory practices of hedge funds.

The Latin America and Caribbean region is expected to register positive growth this year, following two years of contraction in 2015 and 2016 when GDP fell by 0.3 per cent and 0.8 per cent respectively. The average growth rate for the South American economies as a group is projected to be 0.7 per cent, but higher for Mexico, Central America and the Caribbean, at 2.4 per cent. Commodity prices and political developments in Argentina and Brazil, which together account for over half of the region's output, will have a significant bearing on regional growth prospects. Growth in Mexico has flattened at a low but stable rate; however fiscal consolidation and uncertain policies of Mexico's principal trading partner, the United States, have added downside risks to its growth this year.

Growth in developing Asia remains robust, albeit lower than the recent historical trend, rising from 5.1 per cent in 2016 to an estimated 5.2 per cent in 2017. Much will depend on the performance of its two largest economies. How China manages the explosion of domestic debt since 2009 will be of great significance in this regard. China's estimated debt-to-GDP ratio is 249 per cent, compared with 248 per cent in the United States and 279 per cent in the euro zone. As the Chinese Government introduces measures to contain its rising debt, domestic demand could be squeezed, with adverse consequences for the rest of the region. India's growth performance depends to a large extent on reforms to its banking sector, which is burdened with large volumes of stressed and non-performing assets, and there are already signs of a reduction in the pace of credit creation that will contribute to a deceleration of private investment and consumption. In addition, the informal sector, which still accounts for at least one third of the country's GDP and more than four fifths of employment, was badly affected by the Government's "demonetization" move in November 2016, and will likely experience further drawbacks from the roll-out of the Goods and Services Tax from July 2017.

Meanwhile, lower oil prices, especially since 2014, have adversely affected countries in West Asia, where terms of trade effects are compounded with strategic cuts of supply to protect prices. In most cases, fiscal restraint has been the main factor behind the deceleration or flattening of real GDP growth. By contrast, Turkey has benefited from the opposite terms of trade effect and a meaningful relaxation of the fiscal stance. The region as a whole is expected to experience a growth rate of 2.3 per cent this year.

Relatively low oil prices and the end of the commodity boom have affected the growth performance in the African economies (some of which suffered a drought), with regional growth falling from 3.0 per cent in 2015 to 1.5 per cent in 2016. Only East Africa appeared to buck this trend with average growth in 2016 remaining above 5 per cent. This masks significant differences in the growth performance of individual countries in 2016, from above 7 per cent in Côte d'Ivoire and Ethiopia, to 1.1 per cent in Morocco and 0.5 per cent in South Africa. The poor growth performance of South Africa was due to the weakening of manufacturing activities and trade, though there were marked improvements in agriculture and mining. Nigeria, which saw its GDP contract by 1.5 per cent in 2016, is likely to reach a positive growth of 0.5 per cent in 2017. The recent predicament of many of these economies is the result of their continued failure to achieve growth through diversification; most of the countries remain heavily dependent on one or very few commodities.

Testing times for trade and capital flows

Ever since the United States Federal Reserve began to suggest it might taper its quantitative easing policies, capital flows have been volatile. Since the second quarter of 2014, net capital flows to developing and transition economies turned negative, whereas mild resurgences of inflows to some economies during these years have mostly reflected changes of perception based on short-term indicators. The exposure of developing countries' financial systems to waves of global liquidity triggered by monetary policy stances in developed countries could have extremely adverse consequences, as discussed in last year’s *Trade and Development Report*. Capital flight threatens even the stronger emerging economies. For example, China experienced sudden and large capital outflows that caused its foreign exchange reserves to fall from $4.1 trillion in June 2014 to $3.3 trillion in June 2016, and to a further $3.1 trillion by end October 2016. To stem this tide of outflows, the Government imposed some capital controls in November 2016, which had a stabilizing effect. That this could happen in a country that had been the favoured destination for global capital for decades, and still has the largest holdings of foreign exchange reserves in the world, suggests that no country is immune to the potentially destabilizing effects of mobile capital flows.

The growth of world trade is expected to hit 3.5 per cent this year, a marked improvement over the very sluggish performance in 2016. Yet, doubts remain about its sustainability under current conditions. Given the close linkages of global import demand with capital investment, trade is unlikely to serve as a broad stimulus for global growth – other than for particular countries that benefit from special circumstances – as long as the extended episode of weak investment continues. Moreover, hopes of an imminent breakthrough in multilateral trade negotiations, with a strong development orientation are fading.

Relatively faster global demand in the current year has for the most part underpinned commodity prices, which increased last year and at the beginning of 2017. This provided a boost to commodity-exporting developing countries, with potential real-economy feedbacks onto global aggregate demand. However, prices remain significantly below their average in the first decade of the millennium and there is no reason to expect continuing rises in the outlook. Crude oil prices have been volatile since early 2017, but in a generally downward direction during the first half of 2017, despite tensions in West Asia. More recently, the oil price has partly recovered, though it remains stuck at about $50 per barrel, partly because of the pressures emanating from the shale sector (in the context of earlier price increases and technology-driven cost reductions), which is expected to mitigate any upward pressures on oil prices over the medium term. Prices of metals have similarly registered declines during the first half of 2017 before rebounding during the third quarter.

Calling for policy action: a global new deal

In today's unpredictable global environment, efforts to build vibrant economies and inclusive societies along a sustained path of growth will need to intensify. Ending austerity and harnessing finance to serve society once again, rather than the other way around, are the most urgent challenges. Reinvigorating the multilateral trading system as a global public good with renewed momentum and relevance is also essential for achieving the Sustainable Development Goals. However, correcting persistent distortions and injustices will need to drill deeper in to the sources of exclusion, polarisation and fragility that characterize contemporary "winner-takes-most" economies.

At present, too many people in too many places are integrated into a world economy that delivers inequitable and unjust outcomes. Economic and financial crises, like that of 2008−2009, are only the more visible manifestations of a world economy that has become increasingly unbalanced in ways that are not only exclusionary, but also destabilizing and dangerous for the political, social and environmental health of the planet. Even when a country has been able to grow, whether through a domestic consumption binge, a housing boom or exports, the gains have disproportionately accrued to the privileged few. At the same time, a combination of too much debt and too little demand at the global level has hampered expansion. The subsequent turn to austerity in response to the bust has hit some of the poorest communities hardest, leading to further polarization and heightening people's anxieties about what the future might hold. Meanwhile political elites have been adamant that there is no alternative. All this has proved fertile economic ground for xenophobic rhetoric, inward-looking policies and a beggar-thy-neighbour stance.

Identifying technology or trade as the villains of these developments distracts from an obvious point: without significant, sustainable and coordinated efforts to revive global demand by increasing wages and government spending, the global economy will be condemned to continued sluggish growth, or worse. But as long as organized business faces little pushback across several key sectors, increased market concentration and the spread of rent-extracting behaviour will continue apace. This will exacerbate inequalities that have been rising over the past three decades of hyperglobalization, and technological changes may worsen the situation if they hamper job creation, adding to a growing sense of anxiety. As good jobs become scarce, they are also more stringently rationed, and reinforce patterns of social discrimination, particularly along gender lines, but also affecting other disadvantaged groups.

Moving away from hyperglobalization to inclusive economies is not a matter of simply making markets work better, whether by enhancing human capital, filling information gaps, smartening incentives, extending credit to poor people, or providing stronger protection to consumers. Rather, it requires a more exacting and encompassing agenda that addresses the global and national asymmetries in resource mobilization, technological know-how, market power and political influence caused by hyperglobalization, which generate and perpetuate exclusionary outcomes.

Correcting these imbalances requires systematic and concerted action at the national and international levels. Now is the ideal time to crowd in private investment with the help of a concerted fiscal push to get the growth engines revving again, and at the same time help rebalance economies and societies that, after three decades of hyperglobalization, are seriously out of kilter. However, in today's world of mobile finance and liberalized economic borders, no country can do this on its own without risking capital flight, a currency collapse and the threat of a deflationary spiral. What is needed, therefore, is a globally coordinated strategy of expansion led by increased public expenditures, with all countries being offered the opportunity of benefiting from a simultaneous boost to their domestic and external markets.

Indeed, there is a pressing need for a global new deal. In many ways, the current conjuncture is propitious for such a transformative agenda. The established order is under attack from both ends of the ideological spectrum, and its legitimacy is being called into question by the wider public. The Sustainable Development Goals agreed to by all members of the United Nations provide the political impetus for change. The aim should now be to harness this moment of consensus to ensure an appropriate combination of resources, policies and reforms needed to galvanize the requisite investment push and promote inclusive outcomes at both global and national levels.

Despite all the talk of its increasing irrelevance and imminent demise, the nation State still remains the basic unit of legitimacy and leadership in today's interdependent world, and to which citizens ultimately turn for economic security, social justice and political loyalty. But no less than in the past, achieving prosperity for all should involve paying close attention to the biases, asymmetries and deficits in global governance that can stymie inclusive and sustainable outcomes. Effective internationalism continues to rest on responsible nationalism, and finding the right balance remains at the heart of any meaningful multilateral agenda.

With this in mind, there needs to be widespread support for a global new deal. The original New Deal, launched in the United States in the 1930s and replicated elsewhere in the industrialized world, particularly after the end of the Second World War, established a new development path that focused on three broad strategic components: recovery, regulation and redistribution. While these components involved specific policy goals tailored to particular economic and political circumstances, they made job creation, the expansion of fiscal space and the taming of finance a common route to success along this new path.

Building a new deal today could draw on those same components; and, as before, States require the space to tailor proactive fiscal and other public policies to boost investment and raise living standards, supported by regulatory and redistributive strategies that tackle the triple challenges of large inequalities, demographic pressures and environmental problems. However, the specific challenges of inequality and insecurity in the twenty-first century will not be tackled by countries trying to insulate themselves from global economic forces, but rather by elevating, where appropriate, some of the elements of Roosevelt's New Deal to a global level consistent with today's interdependent world.

Elements to consider include:

- **Ending austerity** – This is a basic prerequisite for building sustainable and inclusive economies. It involves using fiscal policy to manage demand conditions, and making full employment a central policy goal. Monetary expansion should also be used differently, so as to finance public investments which add to inclusive and sustainable outcomes. As part of a general expansion of government spending that covers physical and social infrastructure, the state can act as an "employer of last resort"; specific public employment schemes can be very effective in job creation, especially in low-income countries, where much of the workforce is in informal and self-employed activities. Both public infrastructure investments and employment schemes are important for reducing regional imbalances that have arisen in developed and developing countries.

- **Enhancing public investment with a strong caring dimension** – This would include major public works programmes for mitigating and adapting to climate change and promoting the technological opportunities offered by the Paris Climate Agreement, as well as addressing problems of pollution and degradation of nature more generally. It also means dealing with demographic and social changes that erode local communities and extended families by making formal public provision of child care and elderly care a necessity. In both respects, public investments should be designed to enable and attract more private investment, including SMEs and in more participatory ownership forms such as cooperatives.

- **Raising government revenue** – This is key to financing a global new deal. A greater reliance on progressive taxes, including on property and other forms of rent income, could help address income inequalities. Reversing the decline in corporate tax rates should also be considered but this may be less important than tackling tax exemptions and loopholes and the corporate abuse of subsidies, including those used to attract or retain foreign investment.

- **Establishing a new global financial register** – Clamping down on the use of tax havens by firms and high-wealth individuals will require legislative action at both national and international levels. Interim efforts in this direction could include a global financial register, recording the owners of financial assets throughout the world.

- **A stronger voice for organized labour** – Wages need to rise in line with productivity. This is best achieved by giving a strong voice to organized labour. At the same time, job insecurity also needs to be corrected through appropriate legislative action (including on informal work contracts) and active labour market measures. More innovative supplementary income support schemes could be considered for achieving a fairer income distribution, such as a social fund that could be capitalized through shares issued by the largest corporations and financial institutions.

- **Taming financial capital** – Crowding in private investment requires taming financial institutions to make them serve the broader social good. In addition to appropriate regulation of the financial sector, it is important to tackle private banking behemoths, including through international oversight and regulation, as well as to address the highly concentrated market for credit rating and the cosy relationship between rating agencies and the shadow banking institutions that have allowed "toxic" financial products to flourish.

- **Significantly increasing multilateral financial resources** – This should include meeting ODA targets, but also ensuring better capitalized multilateral and regional development banks. In addition, the institutional gap in sovereign debt restructuring needs to be filled at the multilateral level.

- **Reining in corporate rentierism** – Measures aimed at curtailing restrictive business practices need to be strengthened considerably if corporate rentierism is to be reined in. The 2013 OECD BEPS initiative is a start, but a more inclusive international mechanism for the regulation of restrictive business practices will be needed. Earlier attempts in the United Nations, dating back to the 1980s, would be a good place to begin. Meanwhile, stricter enforcement of existing national disclosure and reporting requirements for large corporations would be useful. A global competition observatory could facilitate the task of systematic information gathering on the large variety of existing regulatory frameworks, as a first step towards coordinated international best practice guidelines and policies, and to monitor global market concentration trends and patterns. Competition policy more generally should be designed with an explicit distributional objective.

- **Respecting policy space** – Meaningful reform of the many restrictive investment and intellectual property policies enshrined in thousands of bilateral – and the growing number of regional – trade and investment agreements, will be impossible without a fundamental overhaul of the current international investment regime. This should begin with rethinking its current narrow purpose of protecting foreign investors in favour of a more balanced approach that takes the interests of all stakeholders on board and recognizes the right to regulate at the national level. The international investment dispute settlement and arbitration system needs to be fixed, and if necessary, replaced by a more centralized system with proper appeal procedures and grounding in international law. An Advisory Centre on International Investment Law could help developing country governments navigate disputes with multinational corporations on more egalitarian terms.

In 1947, drawing on the values of the original New Deal, the international community sought to rebalance a world economy shattered by depression and war: the International Monetary Fund (IMF) opened its doors to business, the World Bank provided its first restructuring loan, the General Agreement on Tariffs and Trade (GATT) concluded its first multilateral trade deal, George Marshall launched the most successful development cooperation project in modern history, and the United Nations opened its first regional office and convened its first major conference (on trade and employment). Seven decades later, an equally ambitious effort is needed to tackle the inequities of hyperglobalization in order to build inclusive and sustainable economies.