The Mirage of Global Economic Recovery

What is the issue?

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- False economic optimism based on the apparent revival of economic activity in the major advanced capitalist regions has become the norm in world forums.
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- However, critical challenges need to be addressed before any real hope for growth revival.
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Is this optimism justified?

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- There is little in terms of real change in policy orientation, and even lesser scope for internationally co-ordinated fiscal expansion.
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- But optimistic observers are basing their hopes on the belief that globalisation has been the driver of the current minor rises in world GDP growth.
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- But this ignores the fact that the role of cross-border trade in goods and services in pushing economic growth has changed since the global crisis.
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- Notably, in the period before the global crisis, trade increased faster than income every year.
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- But since then, not only has trade growth been much slower than that of income, but in several years, it did not grow at all.
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How did the trade in goods fare?

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- Trade in goods was flat between 2011 and 2014, and fell in the subsequent 2 years, and even the projected recovery for 2017 doesn’t seem sufficient.
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- Since 2009, trade volumes have grown at less than half the rate achieved in the decade before the global crisis.
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- But even more significantly, trade unit prices have collapsed, showing zero change in SDR terms and absolute decline in US dollar terms.
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- While oil exporters were the worst hit due to the fall in prices, even non-fuel exporters among developing countries have scarcely benefited in price terms.
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What lies ahead?

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- Trade trends and patterns of this type cannot be indicative of greater global economic dynamism.
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- Clearly, the current recovery will not be sustained unless trade expansion is also put on a more secure footing through concerted global efforts.
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- This will involve a fiscal push and more emphasis on higher wage incomes across the world as that is the only way to trigger demand.
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Source: Business Line

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