

Debt-fuelled 'economic sugar-rush' in US spells danger, despite world growth: UN trade report

The world's economy remains on "shaky ground", overshadowed by escalating trade tariffs and an unpredictable financial climate dominated by debt-fuelled growth, UN experts said on Wednesday.

According to this year's Trade and Development report from UNCTAD, the [UN Conference on Trade and Development](#), global debt has risen sharply to \$250 trillion – three times the total world income.

A decade ago – when the global financial crisis hit – the deficit was \$140 trillion.

"The excessive reliance on debt in the current global economy will not end well for many economies," said Richard Kozul-Wright, UNCTAD Director of its Globalization and Development Strategy division.

Despite these potentially worrying indicators, by the end of 2018, global output is forecast to remain unchanged from last year, at 3.1 per cent, UNCTAD says.

And while the global economy has "picked up" overall since 2017, regionally, economic growth has been sporadic, according to the UNCTAD report.

"The world economy is walking a tightrope between debt-fuelled growth and financial instability," Mr. Kozul-Wright said. "There's certainly been a recovery in the United States. The question is whether that's an economic sugar-rush driven by tax cuts and military spending, or whether there's a sustainable growth parked behind that. We tend to think it's the former."

Noting that the US economy's performance has been "far better" than most of Europe, where growth is "softening" across the continent, the UNCTAD senior economist said that Japan had also shown "rather weak performance" that has been echoed in a significant number of larger emerging economies threatened by recession.

The world economy is walking a tightrope between debt-fuelled growth and financial instability – *Richard Kozul-Wright, UNCTAD*

According to the UNCTAD report, bigger emerging economies which rely on commodity exports – Russia and the four BRICS countries: Brazil, India, China and South Africa – can expect some improvement "while prices remain firm".

But this is not the case for many other developing economies where "economic

storm clouds" are gathering, UNCTAD says, pointing to the fact that their share of global debt rose from 7 per cent in 2007, to 26 per cent this year.

Private and corporate debt is behind this surge in borrowing, but it has not been used to invest in businesses, such that "growing indebtedness observed globally is closely linked to rising inequality", Mr. Kozul-Wright said.

On trade tensions, the UNCTAD report suggests that any serious escalation of tariff hikes imposed by the US, China and the Eurozone could threaten much-needed investment in vulnerable economies.

The fact that, in the top 1 per cent of countries, big firms account for well over half of exports is also linked to falling returns for emerging countries – with the exception of newly industrialized economies in Asia and China.

"Trade is a big-firm game," Mr. Kozul-Wright explained. "Over 50 per cent of world trade is run through 1 per cent of corporations. Big firms have been a major source of inequalities. It's about the growing power of monopolies and concentrated markets."

A sign of China's prolific growth is its growing share of exports in the BRICS group of nations, which rose from 5 per cent in 1990, to more than 20 per cent by 2016, UNCTAD says.

The UN report also notes that among developing economies, it is only those in East Asia that house the headquarters of leading transnational firms to any significant degree.

This has led to East Asia seeing its share of profits generated by the world's top 2,000 transnationals, rising from 7 per cent in 1995 to more than 26 per cent in 2015.

"The world economy is again under stress," said Mukhisa Kituyi, UNCTAD Secretary-General. "The immediate pressures are building around escalating tariffs and volatile financial flows, but behind these threats to global stability is a wider failure – since 2008 – to address the inequities and imbalances of our hyperglobalized world."

Despite the probability of economic stability this year, the report warns of potential economic decline in the near future.

There's urgent need for Governments to work together on global policy coordination to better manage the multilateral trading system, UNCTAD's Kozul-Wright said.