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Confronting the Covid-19 challenge through South-South cooperation

Greater solidarity among developing countries can provide an effective means for them to deal with the Covid-19 crisis and address existing and new challenges. In highlighting this, the UN Conference on Trade and Development (UNCTAD) has pointed to the potential for South-South cooperation in scaling up financial resources, use of strategic trade and industrial policies, and building resilience to future shocks.

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Strengthening South-South cooperation to combat Covid-19

Greater solidarity among developing countries tackling the coronavirus crisis is needed in mobilizing financial support, reviving trade and industry, and building resilience going forward, says a UN development body.

by Kanaga Raja

GENEVA: Strengthening South-South cooperation and solidarity can offer a positive route forward for developing countries in combating Covid-19 and addressing existing and new challenges, the UN Conference on Trade and Development (UNCTAD) has said.

In a May update to its *Trade and Development Report*, UNCTAD said that given the high vulnerability of the South to the ongoing Covid-19 pandemic and low capacity and preparedness of developing countries at national level, there is an urgent need to strengthen South-South solidarity, involving new financial relations, rebuilding trade competitiveness by reviving industrial growth and strengthening South-South cooperation for taking bold initiatives in health and health-related areas.

It further said that South-South solidarity is needed for carving out policy space in multilateral trade agreements for sustainable recovery of the South.

"Based on results-oriented actions, the countries of the South can cultivate the ambition among themselves to build a strategic partnership, not only to promote cooperation and peer learning, but to translate their commitment to solidarity into common positions in international affairs aiming for a more inclusive global governance," UNCTAD emphasized.

According to the UNCTAD report, the world economy is reeling from the Covid-19 pandemic and most governments have no choice but to lock down social and economic activity – a decision that comes at the cost of a global recession. Global output is estimated to contract by at least 3%, with up to half the global workforce at risk of losing their jobs and billions of people, especially in the South, pushed back into poverty and hunger.

While developed countries are providing trillions of dollars in relief, support and bailouts (to their enterprises and unemployed), developing countries are more constrained on the fiscal, monetary and external payments fronts, making it difficult for many of them to respond to the multiple shocks triggered by the crisis.

Nevertheless, some larger developing countries have provided immediate relief through financial bailouts and income support. In China, the first country affected by the outbreak, an estimated RMB 13 trillion (over 10% of the GDP) of fiscal measures and financing plans have been announced. Right after the outbreak, Brazil's government announced emergency measures to inject nearly 575 billion reals ($106 billion) into the economy to soften the blow from the coronavirus pandemic. India's overall disbursement to date amounts to around 9% of its GDP.

In most other developing economies, however, the allocated funds are minimal. Developed economies have so far committed on average almost 30% of their GDP to fighting the pandemic, while the average size of relief packages in developing countries does not even reach 5% (as of 25 May).

UNCTAD also highlighted significant differences in the composition of these packages – while in advanced economies, over 40% of the total resources are employed to facilitate access to credit for firms operating in the non-financial sector, this component is much lower in the developing economies. This can put at risk many small and medium-sized enterprises which operate in the non-financial sectors in these countries, it said.

South more vulnerable

Overall, this crisis is serving as an important reminder of the significant differences in the underlying economic conditions of developed and developing countries which determine their respective vulnerabilities to external shocks and capacity to respond, said UNCTAD.

In particular, the much higher levels of informality in the economy, the lack of diversity in the formal economy and the heavy reliance on external markets and sources of finance, all of which are closely interlinked, not only make developing countries much more exposed to the adverse economic impacts of the pandemic but also put them in a weaker position to respond with active policy measures.

According to UNCTAD, administrative capacity has over decades been hollowed out in many developing countries by repeated adjustment programmes designed to downsize the public sector, erode the regulatory capacities of the state and generally extend the reach of markets and private firms into the public realm.

At the same time, a weakened fiscal base in most developing countries has not only acted as a direct constraint on government spending but also restricted the room for a more active monetary response, given that the effectiveness and legitimacy of the central bank to manage credit expansion also depend on reliable fiscal revenues.

As a result, developing countries have in recent years become more and more dependent on external private finance as a source of resource mobilization.

Least developed countries (LDCs) are the most exposed to Covid-19 because of their higher capacity constraints in providing even the basic health facilities, due in part to the large percentage of government revenues absorbed by debt servicing.

General government health expenditure in low- and middle-income countries amounts to only 3% of GDP and in the group of LDCs just 1%, against 10% in high-income countries.

While the European Union has four physicians per 1,000 people, low- and middle-income countries have one physician per 1,000 people and low-income countries have one physician per 2,000 people, UNCTAD noted. It said developing countries are especially exposed to the Covid-19 outbreak given their limited ICU (intensive care unit) capacity. In China and India, for example, the number of critical care beds per 100,000 people stands at just 3.6 and 2.3 respectively, compared with 29.2 registered in Germany.

"Beyond the threat to health services, in the absence of effective international support, developing countries will inevitably suffer lasting economic damage from the pandemic, including lower rates of capital formation, persistent debt stress, trade disruption, etc., all of which will severely constrain their recovery as well as halting progress towards meeting the 2030 Agenda [for Sustainable Development]."

If the downside risks identified in the International Monetary Fund (IMF)'s forecasts push global growth below 3% this year and the anticipated rebound in 2021 fails to materialize – both plausible outcomes – the recession that will ripple across the South could turn into a more prolonged depression and, in some regions, another lost decade, said UNCTAD.

UNCTAD said the Covid-19 shock has revealed the lack of a strong vision that unites developing countries, at all levels, around a shared international agenda.

Given their limited room to respond to a major shock, developing countries, at all levels, will need massive international support to avoid the worst-case economic and health scenarios. However, the response to date has been wholly inadequate, UNCTAD added.

There is undoubtedly much greater room for bolder and more comprehensive action. First and foremost, due to the tightening finance constraint caused by the current shock, the Southern countries particularly need external financial support to help mitigate the economic and social damage they are enduring.

UNCTAD said that it has laid out a menu of possible options for the international financial system involving the scaling up of liquidity provision (through a massive injection of Special Drawing Rights by the IMF) and long-term financing (through grants and concessional lending by the World Bank and increased flows of official development assistance) as well as substantial debt relief.

Second, while the packages announced so far have rightly focused on strengthening national health systems, and to a lesser extent helping smaller businesses, much more needs to be done to effectively protect countries' productive capacities, employment, and inter-sectoral linkages within and across borders and enhance social protection systems.

"At the national level, effectively using fiscal tools (including subsidies) and strengthening public institutions to help guide recovery and expand fiscal space would be important but needs to be accompanied by strategic trade and industrial policy measures where South-South cooperation has a crucial role to play through sharing lessons and expertise."

And at the regional and international levels, South-South cooperation could facilitate the scaling up of available finance, for the better integration of developing countries into the existing trading system, as well as supporting new regional/global value chains and forging more coordinated positions in trade negotiations for preserving adequate policy space, said UNCTAD.

South-South solidarity essential to recovery

UNCTAD said the Covid-19 shock has not only exposed the fragile health systems and economic vulnerabilities of the South but also revealed the lack of a strong vision that unites developing countries, at all levels, around a shared international agenda.

Since the outbreak of the pandemic, although cooperation and coordination among the advanced economies themselves has been disappointing, the leading members of the G20 major economies grouping have organized a series of meetings and dialogues to discuss their actions. However, among developing countries, only some general statements (from the G77 and the BRICS countries) have emerged affirming the fight against Covid-19, without any systematic and concrete action plans.

"Given the urgency of multiple challenges, it is essential that the South countries build a strategic partnership and take coordinated actions without further delay. Going beyond the immediate relief packages, there is a need to have in place a plan for recovery and resilience in the South."

Any such initiative cannot substitute for effective multilateral action to ease the pressure on developing countries and drive a resilient recovery for all countries. But the multilateral system is currently weak and rudderless and cooperation measures within the South should not only be reactive and palliative in nature but designed to promote reform of the wider multilateral system, UNCTAD emphasized.

With this in mind, cooperation should be designed around three basic principles: scaling up resources; enhancing policy space; and building resilience. Accordingly, said UNCTAD, a solidarity plan could come in the form of enhanced South-South financial cooperation encompassing initiatives covering mechanisms for both short- and long-term finance; joint action by developing countries for reviving trade and industry; and strengthened South-South cooperation for mitigating the health and food crises.

Scaling up finance

According to UNCTAD, most developing countries do not have large national development banks with access to significant funding at short notice (be it from markets or in the form of treasury transfers) to support emergency programmes on a scale required to protect a country's productive capacity, jobs and the most vulnerable. Given that the multinational and regional development banks thus far have launched narrowly focused financing packages, the two newly created Southern banks (the Asian Infrastructure Investment Bank and the BRICS New Development Bank), plus the Islamic Development Bank (IsDB), could have a significant role to play, it said.

Another area for urgent South-South cooperation is on the liquidity front. Despite promising $1 trillion for crisis countries, the IMF has still to spell out how it will proceed and under what conditions countries may have access to it. It recently created a short-term liquidity line to help countries address emergency balance-of-payments needs but has yet to roll it out. Meanwhile the US Federal Reserve dollar liquidity swap lines have been restricted to advanced economies and very few large emerging economies.

Therefore, South countries should act together to use existing Southern-based liquidity funds to assign much-needed liquidity at this critical juncture. Doing so may, in addition, strengthen the hand of Southern countries in future discussions on reforming the global financial architecture and rule-making, said UNCTAD.

South countries should act together to use existing Southern-based liquidity funds to assign much-needed liquidity at this critical juncture.

Long-established regional liquidity funds could be another important source of scaled-up liquidity, especially for smaller countries with few or no liquidity source alternatives. These funds include the Arab Monetary Fund, the Latin American Reserve Fund (FLAR), the Eurasian Fund for Stabilization and Development (EFSD) and the Chiang-Mai Initiative Multilateralization (CMIM), the latter with a pool of $240 billion serving the ASEAN+3 countries. The value of these four funds reaches a total of $254.2 billion.

According to UNCTAD, these funds can be significant for small and poorer countries for which access to other official liquidity sources is rather limited, slow and burdened with taxing negotiations.

In addition to Southern liquidity funds, regional payments systems could bring further relief to countries facing severe balance-of-payments restrictions.

Finally, said UNCTAD, other regional financial institutions for critical deployment in this crisis are export-import (EXIM) banks, to provide much-needed trade finance for scaling up imports of medical products and other essential needs.

Trade and industrial recovery

The UNCTAD report said that by applying sudden brakes to international trade, Covid-19 has challenged the simple connection between openness (to both trade and capital flows) and development.

Even before the crisis, developing countries had differed significantly in their ability to manage integration into a hyper-globalized international division of labour in ways that could enhance their mobilization of domestic resources in support of sustained and inclusive growth. The picture was one of uneven interdependence; diversification in some countries co-existed with de-industrialization in many, trade surpluses in some with persistent trade deficits in others, and sustained growth with fitful episodes of boom and bust.

While (and contrary to their four-decade-long ideological drive) massive financial subsidies are being rolled out in the North to sustain its businesses during the pandemic, developing countries, which cannot afford comparable bailouts, will, at all levels, need to revive the use of strategic trade and industrial policies.

Learning how to successfully implement these policies can begin through closer South-South arrangements, said UNCTAD.

The importance of providing subsidies as an additional support for industrial recovery during a crisis has been widely recognized, it said. Industrial subsidies including financial support to specific industries, tax credits, rent rebates to small and medium enterprises, export subsidies, debt forgiveness etc. are important policy instruments which will be needed by developing countries to provide additional support to their domestic producers during and post pandemic. These subsidies can enable the rebuilding of labour-intensive and export-oriented industries like textiles and clothing, footwear etc., which are expected to take the hardest hit and lead to massive unemployment in the South.

However, developing countries do not have enough policy space to support their economic recovery given the existing multilateral trade agreements, especially with respect to industrial subsidies, said UNCTAD.

"A sensible place to explore the judicious mix of liberalizing and subsidizing measures in support of economic diversification would be through South-South agreements which could be subsequently used as a model for reform of multilateral rules in this area."

Meanwhile, a temporary WTO peace

clause to use industrial subsidies for reviving their industrial growth and subsequently their exports is desirable to ensure enough policy space during and after the crisis to developing countries.

Apart from industrial subsidies, industrial tariffs are one of the most effective tools in the hands of governments in the South for protecting their infant industries, regulating imports of luxury items and providing a level playing field to their domestic producers. They are also an important source of revenue for many governments, especially small developing countries.

There is a need for developing countries to reassess and judiciously use their existing agricultural and industrial tariffs to help mitigate the damage from the crisis and build future resilience, said UNCTAD.

"Across all these challenges, simplistic pronouncements on free trade (which fail to recognize the dominant role of very large, and often oligopolistic, firms in shaping trade outcomes) should be avoided in favour of selective trade integration for which special and differential treatment to developing countries was enshrined into the Doha Development Agenda."

This pandemic has exposed the lack of capacity of all developing countries to recover on their own and the need for the South to show solidarity in preserving the special and differential status for all developing countries in the WTO as a means to "harnessing the developmental benefit of international trade", in line with G77 principles on South-South cooperation.

Further, strategic and selective trade integration in the digital era will depend to a large extent on the digital capabilities of developing countries. Given the growing digital divide, there is an urgent need for developing countries to pool human and financial resources at the regional level to build their digital infrastructure and skills, said UNCTAD.

Building resilience

There are ways to integrate into the global economy without necessarily sacrificing the policy autonomy of the states which enable them to respond to the developmental and social needs of their citizens by putting people before profits, it added.

While the European Union is in the process of putting in place a new industrial strategy that would increase state powers to scrutinize and potentially block takeover bids in strategic sectors of the economy, the South also needs to protect its vulnerable industries and firms from unfair foreign competition in order to speed its industrial recovery and build a more diversified economy which is a prerequisite for resilience to future shocks.

To recover quickly from the pandemic, developed countries are bound to readjust their supply chains, bringing some links closer to home for shorter delivery time as well as to lower further risk of disruption due to the threat of a prolonged pandemic in the South. Furthermore, automation and digitalization will in all likelihood assist the developed countries in this regard and will further reduce the (labour) cost advantage still enjoyed by countries of the South.

Strengthening intra-regional trade and regional value chains for diversifying export markets needs to be prioritized in the South.

In this changing landscape, said UNCTAD, developing countries will need to re-engineer their existing production and distribution systems, which will be more challenging if the ongoing economic slump persists for some time.

"In the face of falling exports, increasing domestic consumption using expansionary policies to boost domestic demand will be urgently required by the developing countries."

However, given the constraints that many, particularly smaller economies in the South face, regional integration, and more generally South-South trade, can be an important complement to domestic-demand-led growth strategies providing new markets, encouraging complementary investment flows and technological upgrading, and, with appropriate financial arrangements, reducing balance-of-payments constraints.

As such, strengthening intra-regional trade and regional value chains for diversifying export markets needs to be prioritized in the South, said UNCTAD.

Pandemics like Covid-19 have also revealed to the world the importance of scientific discoveries and medical research for human welfare, it noted. Any medicines or medical discoveries which are important for the survival of people need to be shared widely and access made available to all, especially to the most vulnerable countries and communities. This highlights the importance of making the TRIPS moratorium permanent, prohibiting non-violation complaints in the WTO on intellectual property rights (Article 64.2 of the WTO's TRIPS Agreement).

UNCTAD also said that regional trade pacts for emergencies should be forged. Regional trade pacts can be used to avoid trade bans on certain key product categories in times of global and regional shortages, as is the case in the ongoing health emergency.

"As in all dramatic moments in history, despite its enormous cost in terms of human lives and the inevitable economic and social damage generated, the Covid-19 crisis can also present a unique opportunity for change. This is especially true for developing economies and their mutual relationships."

Despite the urgency and sudden nature of the shock, the Covid-19 crisis will inevitably leave a deep and lasting scar on the global economy and its governance, said UNCTAD. Due to the inadequate international response, chaotic preparedness, disruption of travel and trade flows, capital flight and rising geopolitical tension, hyper-globalization, with its hallmarks of financial insecurity, economic polarization and environmental degradation, is not the basis for recovery and resilience in the post-pandemic period.

In combating Covid-19 and addressing both existing and new challenges, strengthening South-South cooperation and solidarity can offer a positive route forward for the developing countries, the UNCTAD report concluded. (*SUNS9133*)

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South sets out developmental priorities in face of Covid-19

At a recent virtual meeting of the WTO's governing General Council, member states outlined their respective priorities for work in the trade body, ranging variously from further trade liberalization to policymaking flexibility.

by D. Ravi Kanth

GENEVA: Many developing countries, including India, Indonesia, South Africa, and the coordinators of the African Group and the African, Caribbean and Pacific (ACP) Group, have set out at the World Trade Organization their developmental priorities in the face of the Covid-19 pandemic.

At a virtual meeting of the WTO's General Council (GC) on 29 May, these countries reiterated that the pandemic could not be used as an opportunity to force permanent trade liberalization measures on members.

Members of the so-called "Friends of the System" – Switzerland, Korea, Australia, New Zealand, Singapore and Chile, among others – had proposed a range of liberalizing measures resulting in binding commitments.

Significantly, the United States and China did not speak during the virtual GC meeting, trade envoys said.

The virtual GC meeting experienced several technical glitches making it difficult for members to make their interventions, trade envoys told the *South-North Development Monitor* (*SUNS*).

Although it was supposed to be a regular GC meeting, no decisions were taken since it was conducted on a virtual platform.

The next regular GC meeting will be held on 22 July, where decisions on the date and venue for the WTO's 12th Ministerial Conference (MC12) and other items like a roadmap for the fisheries subsidies negotiations to be completed by the end of the year, may be reached, trade envoys said.

The agenda for the 29 May virtual GC meeting covered several items such as: (1) report by the WTO Director-General and chairman of the Doha Trade Negotiations Committee (TNC), Roberto Azevedo; (2) implementation of the Bali, Nairobi and Buenos Aires Ministerial Conference outcomes; (3) work programme on small and vulnerable economies; (4) MC12; (5) process of appointment of the next Director-General; and (6) a joint ministerial statement on facilitating trade in goods and services as well as the essential movement of people.

In his report to members, TNC chair Azevedo said the chair of the Doha rules negotiations, Ambassador Santiago Wills from Colombia, who is conducting the fisheries subsidies negotiations, had informed him on 7 May that "as a whole, the Group is not ready to fully engage while still facing the difficulties arising from the pandemic, and that the best course at the moment is to wait a short while longer to see how the situation develops."

According to Azevedo, the Doha rules chair "is continuing to monitor the situation."

Wills had also informed Azevedo that "he remains mindful of the urgency of the negotiations, and of the mandate to agree to new disciplines on fisheries subsidies by the end of the year."

On the Doha agriculture negotiations, Azevedo said "among negotiating topics considered to be directly related to food security, export restrictions, public stockholding, and domestic support got the most attention. References were also made to the special safeguard mechanism, market access and cotton."

According to Azevedo, "several members highlighted the particular importance of transparency right now, calling for all Covid-19 related trade measures to be targeted, proportionate, transparent, and temporary."

On special and differential treatment (S&DT), Azevedo said that the chair of the Doha trade and development negotiating body, Ambassador Kadra Ahmed Hassan from Djibouti, "has initiated a written process to allow a preliminary exchange of views on the G90 submission."

Azevedo said that "the G90 group of 90 countries has asked for some more time to provide its responses. Once they are received, the Chair will be in touch with Members to determine the way forward."

Azevedo also gave an account of the meetings he had held with global businessmen and world leaders to discuss trade-related measures to be adopted during the Covid-19 pandemic.

On the second agenda item, the GC chair, Ambassador David Walker from New Zealand, presented his report on the implementation of the Bali, Nairobi and Buenos Aires decisions.

Sharply differing views

In their interventions, several members took the floor to indicate their priorities as well as concerns.

Uruguay, on behalf of the proponents of the Joint Statement Initiative (JSI) group on plurilateral disciplines for micro, small and medium enterprises (MSMEs), gave a report on the recent webinar meetings. It said that the group would convene a meeting on 21 July to discuss major issues on the MSME negotiating agenda.

Australia, which is one of the coordinators of the JSI on electronic commerce along with Japan and Singapore, said the group would discuss emerging trade issues on 11 June.

Brazil, the European Union, India, Indonesia, South Africa, and several other developed and developing countries highlighted their priorities, said participants.

Brazil called for a work programme for MC12 that would include agriculture, particularly trade-distorting domestic subsidies, and plurilateral JSI agreements on electronic commerce, investment facilitation and domestic regulation.

The EU said its priorities included the fisheries subsidies negotiations and the proposed plurilateral JSI agreements including on electronic commerce and investment facilitation.

Several other industrialized countries such as Canada and Australia also shared these goals for MC12.

India's Ambassador to the WTO J.S. Deepak said that "as many parts of the world continue to witness continued growth in Covid-19 infections and deaths, the primary focus of our governments is to ensure the health and safety of our citizens."

"The exigencies of the current crisis leave us with little bandwidth for negotiations," Deepak said, adding that "several members have underlined the need to recalibrate their priorities and positions at the WTO to contain the economic and social fallout of the crisis."

Therefore, the current situation "makes negotiations in a business-as-usual format difficult," he argued.

"The need of the hour is to use this crisis as an opportunity to build a more inclusive, balanced and resilient multilateral trading system," he emphasized.

Deepak outlined five major priorities for India at the WTO:

1. The resolution of the Appellate Body impasse.

2. A more effective and lasting way to ensure the food security of the most vulnerable and eliminate the historic asymmetries in AMS (Aggregate Measurement of Support) entitlements in the Agreement on Agriculture.

3. The urgent need to build the capacities of developing countries and least developed countries (LDCs) in areas like digital skills and broadband infrastructure so that the benefits of e-commerce applications like e-education, tele-medicine, electronic payments and use of digital platforms for sourcing goods and services are available to everyone. The requirement of new sources of revenue for developing countries, including LDCs, has also underlined the need to end the moratorium on imposing customs duties on electronic transmissions.

4. The completion of the negotiations on disciplines on fisheries subsidies with appropriate special and differential treatment for developing countries, including LDCs, to protect their small and subsistence fishermen.

5. Enable the effective use of flexibilities under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to ensure access to essential medicines, treatments and vaccines to all at affordable prices, especially in the context of the Covid-19 pandemic.

In his farewell statement, the outgoing Indian envoy said "during the last three years, the WTO has faced some of the most challenging times."

"The paralysis of the WTO and its consequential ineffectiveness is not any longer a theoretical possibility; it may turn into a tragic reality. We have, together, to ensure that this does not happen!" he warned.

Deepak said India "has always valued the multilateral trading system embodied by the WTO, not because it has given us special advantages but for its many achievements." He said "the WTO has kept markets open, till recently prevented trade wars, contributed to global growth bringing hundreds of millions out of poverty and served as a global public good. Even more importantly, it has huge potential of ushering in economic growth especially for people in the shadows of life and for countries on the margins of development."

"Therefore, it will be a sad day indeed, and a lost opportunity, if it fails to deliver on this promise," he added.

The paralysis of the WTO and its consequential ineffectiveness is not any longer a theoretical possibility; it may turn into a tragic reality.

In his intervention, Indonesia's Ambassador Syamsul Bahri Siregar said developing countries were among the worst hit by the Covid-19 pandemic, which stretched their health systems to the very maximum limits.

He said while trade should remain open in these challenging times, any flexibilities exercised by governments in line with WTO agreements must be respected.

The Indonesian envoy called for the restoration of the Appellate Body and resolution of mandated issues in agriculture, particularly the permanent solution for public stockholding programmes and the special safeguard mechanism.

In her intervention, South Africa's Ambassador Xolelwa Mlumbi-Peter said the Covid-19 health and economic crisis was felt immediately and most severely by developing countries. Developing countries suffered multiple crises – from capital flight to significant declines in export and remittance earnings, tourism revenues and foreign exchange – because of the pandemic.

"It is therefore not the time for rule-making and negotiations should be kept in abeyance to enable members to respond to the crises," she emphasized.

The grim situation arising from Covid-19 called for "a reflection on the role of the MTS [multilateral trading system] in promoting economic recovery," she said. "Negotiations and negotiating positions will need to be recalibrated so as to promote resilience in national economies which is essential for building resilience in the global economy."

Mlumbi-Peter underscored the need for the following responses:

- Peace clause for all the government measures implemented in the context of Covid-19.
- Strengthening S&DT provisions – Covid-19 has highlighted the critical importance of the G90 proposals in promoting public health, accelerating industrialization, upgrading and modernizing manufacturing, promoting technology transfer and closing the digital divide to promote an inclusive digital economy.
- Preserving the multilateral nature of the WTO so as to promote global cooperation rather than plurilaterals that fragment the MTS.
- Preserving policy tools to promote economic recovery.
- Policy flexibility with a view to promoting rebalancing between global rules and national economic development imperatives.
- Rules that support production-led growth, jobs and structural transformation.
- Addressing distortions in agriculture trade and promoting food security.
- Rules on fisheries subsidies that do not constrain the ability of members to promote sustainable fishing, food security and economic development.
- Review of the moratorium on e-commerce customs duties especially in the context of fiscal constraints in implementing response measures and economic recovery plans.
- Removing the threat presented by non-violation complaints (NVCs) to effective implementation of the TRIPS flexibilities by agreeing that NVC claims are not applicable under the TRIPS Agreement.

On behalf of the ACP Group, Jamaica said that "flexibility, cooperation and diplomacy among the WTO's membership to address issues" were needed due to the Covid-19 crisis.

"This is particularly important for our negotiating mandate on fisheries subsidies, agriculture, services and special and differential treatment," Jamaica said, emphasizing that members must be "mindful of the pace at and manner in which we proceed in these unforeseen circumstances."

The ACP Group called for an "inclusive and transparent" approach, and said that "Covid-19 does not issue a licence to ignore WTO rules".

The pandemic had also brought to the fore inequalities among and within countries, highlighting the need for S&DT for developing and least developed countries. The ACP Group said S&DT remained "an integral part of the architecture of the multilateral trading system" and stressed the importance of many of the issues contained in the G90 proposals on S&DT. It urged WTO members "to earnestly look at these proposals in light of Covid-19."

"The WTO must cater for all its members, especially the most vulnerable among us, to ensure that in our collective effort, no one is left behind," Jamaica said on behalf of the Group.

The delegate from Bangladesh reminded Azevedo that the country had suffered huge losses worth billions of dollars due to cancellation of orders placed with suppliers to global brands. Bangladesh urged Azevedo to address this issue during his meetings with global businessmen.

MC12 venue and date

During the discussion on the venue and date for MC12, GC chair Walker spoke about his consultations with members and Kazakhstan, which has agreed to host MC12 in Nur-Sultan in June 2021.

There is general agreement among members on Nur-Sultan as the venue for MC12. However, there are mixed views on finalizing the date of the conference at this juncture when the current environment is marked by uncertainty.

Botswana, on behalf of the African Group, said while the Group welcomed Kazakhstan for agreeing to convene MC12 in June 2021, "we would like to caution against making a hasty determination on the timing for MC12 at this stage, in view of the evolving Covid-19 crisis and the uncertainty it presents."

South Africa's Mlumbi-Peter said it was "premature to set the date for MC12 and the General Council will need to continue to monitor developments."

The GC chair informed members that he would hold further consultations on the venue and date, adding that a decision would be taken at the regular GC meeting on 22-23 July.

"We do not support permanent tariff liberalization as a response to a temporary crisis" - India

DG selection process

On the selection of a new Director-General to replace Azevedo, who demits office on 31 August, the EU, Canada and several other countries concurred with the GC chair on launching an expedited process. (See the article "Race for WTO chief's post begins" in this issue.)

The African Group argued that "whatever timelines are adopted, the process must be both transparent and inclusive of the participation of all members."

South Africa said the selection process "must be fair, inclusive, transparent, allow for participation, and allow for fair engagement with the candidates, including an equal opportunity for the candidates to share their vision with members."

Joint ministerial statement

Korea along with Australia, Canada, New Zealand, Singapore and Chile issued a joint ministerial statement on action plans to facilitate the flow of goods and services as well as essential movement of people.

According to Korea, the proposed actions included: (1) ensure the flow of goods in global supply chains; (2) facilitate the essential movement of people; and (3) minimize the negative impacts on trade and investment arising from the pandemic to facilitate an inclusive and sustainable economic recovery.

Several members, including the EU, Canada, Australia, New Zealand and Singapore, supported the Korean initiative.

In response to the initiative, India said it agreed with other members that emergency measures taken in the wake of the pandemic should be "targeted, proportionate, transparent, and temporary".

Indian Ambassador Deepak said that "temporary reductions of customs duties on essential medical and agricultural products are well within the rights of a WTO member". "Therefore, we do not support permanent tariff liberalization as a response to a temporary crisis."

Deepak called for greater clarity from the signatories of the Korean initiative on "the establishment of a consultation mechanism between the relevant authorities of the signatory countries to identify and address trade disruptions that affect the trade in essential goods".

He added that "essential cross-border travel during the time of a global pandemic must obviously include the cross-border movement of medical professionals." "We are surprised to see that the signatories of the joint statement did not include this critical category of doctors and nurses in their recommendations on the essential movement of people, and recommend that they consider adding it to make the statement fit for purpose."

Also responding to the Korean initiative, South Africa's Mlumbi-Peter said that "the current environment is marked by great uncertainty." "No one is certain about the duration of the pandemic or how it will evolve across different countries and regions," she said, suggesting that "South Africa and the African continent has not yet reached the peak of the pandemic."

Consequently, the Covid-19 crisis necessitated that "the responses are tailored to respond to the specific circumstances that are facing members using the policy tools and exceptions available in WTO covered agreements, including export restrictions where warranted," said Mlumbi-Peter. With different countries having vastly different capabilities to address the Covid-19 impact, "one-size-fits-all solutions will not work".

The WTO, according to the South

African envoy, "must contribute in facilitating an inclusive and sustainable economic recovery." The pandemic had demonstrated "our shared fate as human beings and why inclusive growth and development should be at the heart of the work of the WTO".

To promote "economic resilience, the multilateral rules must facilitate industrial development, diversification and structural transformation which is key in putting our economies on a sustainable development path," Mlumbi-Peter said.

"Trade cannot be an end in itself," she argued, emphasizing that WTO members "need to come up with a developmental agenda that ensures that trade raises standards of living,."

"This will ensure that we deliver on the objectives of the WTO as set out in the Marrakesh Agreement," she said.

Switzerland, on behalf of more than 50 countries, also issued a strong statement on concrete actions aimed "at facilitating cross-border flows of vital medical supplies and other essential goods and services, including through the application of best practices and simplified procedures and through further trade opening."

It stressed the "necessity of maintaining agriculture supply chains and preserving members' food security."

"We, therefore, pledge to not impose export restrictions and to refrain from implementing unjustified trade barriers on agricultural and food products in response to the Covid-19 pandemic."

In conclusion, the GC meeting, which largely discussed process-related issues and priorities of different members in the coming days and months, has revealed that the developed countries and their allies in the developing world seem determined to push for an aggressive trade liberalization agenda to transform the WTO at MC12, trade envoys told *SUNS*. (*SUNS9130*)

US rejects EU-led interim appeal arbitration arrangement

The US has opposed the use of WTO resources to support a mechanism proposed to fill the void left by a non-functioning Appellate Body.

by D. Ravi Kanth

GENEVA: The United States on 5 June objected to a proposal, mooted by the EU and 18 other nations, for the establishment of a new WTO secretariat division to service an alternate interim appellate arbitration arrangement to overcome the impasse in the WTO Appellate Body that has become dysfunctional since December 2019.

The US objection is both over the creation of a new WTO secretariat division to service the so-called multi-party interim appeal arbitration arrangement (MPIA), and over having its expenses met from the regular budget of the WTO (and thus borne by all WTO members).

The EU and 18 other countries had on 30 April notified the WTO of their proposal for taking recourse to the MPIA in trade disputes among themselves and for implementing the MPIA under Article 25 of the WTO's Dispute Settlement Understanding (DSU).

The signatories to the MPIA sought to create a new WTO division specifically for servicing the new body and to finance it from the WTO's regular budget for its Dispute Settlement Body (DSB).

In a sudden development on 5 June, the US Ambassador to the WTO Dennis Shea sent a three-page letter to WTO Director-General Roberto Azevedo opposing "both the establishment of what appears to be a new WTO Division for the benefit of participants in the China-EU arrangement and the allocation of the staff for the exclusive use of these participants" of the MPIA as well as financing of the arrangement through the regular WTO budget, whose costs are borne by all WTO members.

(Interestingly, the US has not challenged the legality of using Article 25 of the DSU for this purpose. See Chakravarthi Raghavan, "A witch's brew at the WTO", *TWE* No. 699.)

While the US has referred to the new arrangement as "the China-EU arrangement", the MPIA initiative was the brainchild of the EU, which had started discussions on the mechanism in April 2019, when it had already appeared likely that the Appellate Body would become dysfunctional after 11 December 2019. The EU held several rounds of discussions with other members, including China, to finalize the mechanism.

"Particularly inappropriate"

The three-page US missive, seen by the *South-North Development Monitor* (*SUNS*), says that "a permanent support structure [for the MPIA] would be particularly inappropriate in light of the limited expected use of the procedures set for in the arrangement."

It has argued that Article 25 of the DSU does not provide a basis for a member "to direct the WTO Director-General to provide support to an arbitrator, nor the terms of such support. That, however, is what the China-EU arrangement does."

The objection to the WTO budget funding of the MPIA raises the prospect of the EU and its members raising funds through the trust funds for assisting their plurilateral arrangement, said a legal analyst who asked not to be quoted.

Maintaining that it "does not object to WTO members utilizing Article 25 or other informal procedures to help resolve disputes", the US says that it has held discussions "with a number of members regarding alternatives to the traditional WTO dispute settlement system." However, it did not disclose these alternatives in its letter to the Director-General.

The MPIA, according to the US,

"envisages that the support structure will be entirely separate from the WTO Secretariat Staff" and the "WTO divisions [that] support the [dispute settlement] panels." The US added that "if members desire a separate staff for their dispute resolutions, those members (and not the WTO membership as a whole) should finance it," and "members should not be allowed to create their own support structure within the WTO that is separate from the WTO Secretariat and expect other members to pay".

According to the US, the MPIA "incorporates and exacerbates some of the worst aspects of the Appellate Body practices."

"It is an arrangement that seeks to clothe itself with faux Appellate Body authority while impinging on the rights of non-participating members," the US has argued.

Stating that the WTO's dispute settlement system was created "to secure a positive solution to a dispute," the US said it would support such an arrangement if it secures such a positive solution.

However, it said, it would object to "any arrangement that would perpetuate the failings of the Appellate Body". The MPIA, it charged, will exacerbate "the erroneous appellate practice, rather than reforming it", as it "weakens the mandatory deadlines for appellate reports," "contemplates appellate review of panel findings of fact," and "fails to reflect the limitation on appellate review to those findings that will assist the DSB in recommending to a member to bring WTO-inconsistent measure into conformity with WTO rules".

Also, the MPIA, according to the US, promotes the use of precedent by identifying "consistency" as a guiding principle for decisions. The US said while the phrase "consistency and coherence in decision-making" does not appear anywhere in the DSU, the proposed MPIA makes such "consistency and coherence" an explicit objective for different arbitrators in different disputes, and then proposes procedures to facilitate this objective.

Arbitrators under the MPIA, according to the US, are "encouraged to create a body of law through litigation, rather than to focus on assisting the parties in securing a positive solution to a dispute".

"In addition, the arrangement put forth by China, the European Union and some other members seeks to imbue it with WTO authority, which it does not have," the US said.

The US said that "the introduction of a comprehensive set of documents to deal with perhaps two or three disputes over the next few years indicates that the real goal of certain members in preferring this [MPIA] arrangement is not to help themselves resolve disputes but to create an ersatz Appellate Body that would serve as a model for any future WTO Appellate Body."

Further, "the proposal would expend WTO resources to seek to recreate the Appellate Body, its erroneous practices, and the Appellate Body Secretariat through a plurilateral arrangement," the US argued.

"Article 25 provides no basis for the use of WTO resources to support functions that are not part of the arbitration," such as for a "pool of arbitrators" to stay abreast of WTO dispute settlement activities or to "discuss among themselves matters of

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interpretation, practice, and procedure," the US argued.

Further, "the nomination and selection of individuals to serve in a 'pool of arbitrators' is a process necessarily undertaken only by participating members", the US said, emphasizing that "a group of members has no right to expend WTO resources and direct the chairs of various WTO bodies to vet and select individuals to serve on a roster of arbitrators for potential arbitrations."

"Pre-selection process"

The EU's Ambassador to the WTO Joao Aguiar Machado had, also on 5 June, requested WTO Director-General Azevedo to work along with the chairs of WTO bodies in their "personal capacities" to assist the MPIA members in the "pre-selection process" for choosing the arbitrators. "The WTO members participating in the MPIA would be grateful if you [Azevedo], Ambassador Dacio Castillo, Ambassador Hung Seng Tan, Ambassador Mikael Anzen and Ambassador Xolelwa Mlumbi-Peter – in your personal capacities – could assist them in the pre-selection process."

Apparently, the chair of the WTO General Council, Ambassador David Walker from New Zealand, had informed the EU ambassador that he would be unavailable to participate in the pre-selection process due to his heavy agenda, the EU ambassador told the Director-General.

Machado explained that the MPIA provides that "under the appeal arbitration procedure, appeals will be heard by three appeal arbitrators selected from the pool of 10 standing appeal arbitrators composed by the participating members in accordance with Annex 2 (hereafter the 'pool of arbitrators'). The pool of arbitrators will comprise persons of recognized authority, with demonstrated expertise in law, international trade and the subject matter of the covered agreements generally..."

Further, the EU trade envoy clarified that "each participating member may nominate one candidate," and "the candidates will undergo a pre-selection process in order to ensure that the pool of arbitrators comprises only persons of recognized authority, with demonstrated expertise in law, international trade and the subject matter of the covered agreements generally."

"The participating members envisage the completion of this pre-selection process within one month following the expiry of the deadline to nominate candidates," Machado said. (*SUNS9134*)

Race for WTO chief's post begins

The contest to helm the WTO has officially kicked off, with both developing- and developed-country candidates poised to enter the fray.

by D. Ravi Kanth

GENEVA: The race to select the next Director-General to head the WTO began on 8 June, with Mexico nominating its current Under-Secretary for North America, Jesus Seade Kuri, as its candidate.

In a communique sent to the chair of the WTO's governing General Council (GC), Mexico informed members that Seade will be its candidate to replace the current incumbent Roberto Azevedo, who will step down from office at the end of August.

Meanwhile, on 9 June, a press release issued by Hamid Mamdouh, former director of the WTO's services division, said that the Egyptian government has formally submitted to the WTO his nomination for the DG's post. At the moment of writing, there has been no official announcement from the Egyptian mission in Geneva itself.

Azevedo had informed WTO members on 14 May that he would be stepping down on 31 August. Subsequently, the GC chair, Ambassador David Walker from New Zealand, announced on 20 May an expedited selection process that would commence on 8 June, with the filing of candidates to be completed by 8 July. The candidates will be given an opportunity to present their credentials to WTO members and the selection process is to be completed in August to enable the new DG to take office on 1 September.

The Mexican candidate Seade claimed in his curriculum vitae that he has "unique experience in global trade policy negotiations and policy" as well as "extensive interactions with senior authorities in all regions" at the WTO, the International Monetary Fund and the World Bank.

Seade was Mexico's ambassador to the General Agreement on Tariffs and Trade (GATT) and chief negotiator for Mexico during the creation of the WTO. He also served as a Deputy DG of GATT, and founding Deputy DG of the WTO in 1995. Subsequently, according to his CV, he was the chief negotiator of the US-Mexico-Canada Agreement (USMCA).

During the 2012-13 process to select the replacement for the then WTO DG Pascal Lamy, Mexico had put up Herminio Blanco as its candidate. Blanco lost in the final round of the selection process to Brazil's Azevedo, when members of the European Union remained divided between these two candidates.

It remains to be seen how Seade will fare in the current race in which members are required to file their nominations by 8 July.

Fissures emerge over African candidate

In a separate development, fissures have emerged in finalizing the African Union (AU)'s candidate, with Egypt objecting to a change in Nigeria's nominee.

On 4 June, Nigeria had informed the AU of its nomination of Ngozi Okonjo-Iweala, chair of the board of the global vaccine alliance GAVI, to replace Yonov Frederick Agah, a current WTO Deputy DG, as its candidate for the DG's post.

In a letter to AU members on 5 June, Egypt said that Eloi Laourou of Benin (the country's current trade envoy to the WTO), Mamdouh of Egypt and Agah were the three candidates endorsed by the AU's Executive Council in February 2020.

Cairo asked the AU's Ministerial Committee on Candidatures to officially inform the African Group in Geneva that the "candidature of Ambassador Yonov Frederick Agah of the Federal Republic of Nigeria has been withdrawn and disqualified and that Mr Abdulhameed Mamdouh of the Arab Republic of Egypt and Mr Eloi Laourou of the Republic of Benin are currently the only two endorsed African candidates."

In this context, Egypt said that it was holding consultations with Benin "with the aim of reaching a consensus on one African candidate between the two only currently endorsed African candidates and will communicate the outcomes of these consultations to the esteemed Ministerial Committee at the soonest possible date."

According to Egypt, "during the Ambassadorial level Ministerial Committee on Candidatures meeting which was held on 4 June 2020, the Office of Legal Counsel (OLC) gave its legal opinion regarding Nigeria's nomination of a new candidate to the post of WTO-DG, in which the OLC clearly highlighted that – from a legal point of view – such a nomination is not in conformity with the Executive Council decision EX.CL/ Dec. I 090 (XXXVI), since the Council's decision had specifically endorsed the three names of candidates as submitted by the Ministerial Committee's report after thoroughly examining the qualifications and professional experience of each of the three abovementioned candidates."

Egypt asked the AU's OLC to circulate to members of the Candidatures Committee, in writing, its abovementioned legal opinion regarding the conformity of Nigeria's new nomination.

Egypt's "immediate" communication to the AU on 5 June could raise more divisions among African members in finalizing the African candidate to replace Azevedo, said a trade envoy who asked not to be quoted.

Further, it is not clear whether Kenya's former foreign minister and the former WTO GC chair Amina Mohamed, who has also indicated that she wants to contest the WTO's top job, will throw her hat into the ring, the trade envoy said, suggesting that she is also exploring whether she could head the Commonwealth Secretariat in London.

Meanwhile the European Union, which reckons that the next WTO DG ought to be a European, is yet to finalize its candidate, according to media reports.

EU Trade Commissioner Phil Hogan has reportedly expressed his desire to lead the WTO, while Spanish Foreign Minister Arancha Gonzalez (who was chef de cabinet when Lamy was DG) is also likely to stake a claim as the EU's candidate. Gonzalez recently gave a talk to the Washington-based Peterson Institute for International Economics saying that the WTO can be saved with "repairs" and not dismantlement, according to media reports.

The selection of the new DG is being shaped as a race between the developed countries and the developing countries. Although African countries have repeatedly underscored their claim for the WTO's top job since no African candidate has held the post, the EU is maintaining that it is the turn of a developed country to lead the organization after the Brazilian Azevedo, said trade envoys who asked not to be quoted.

So far, four developed-country nationals – Peter Sutherland, Renato Ruggiero and Pascal Lamy, who all hail from EU member states, and Mike Moore from New Zealand – have led the WTO during different periods since its establishment in 1995.

In comparison, two individuals from developing countries – Supachai Panitchpakdi from Thailand and Azevedo – have held the position. (*SUNS9133/9135*)

More than one in six youth out of work due to Covid-19

Young people are disproportionately affected by the economic fallout from the Covid-19 pandemic, suffering major disruptions to their employment and education, according to the International Labour Organization.

by Kanaga Raja

GENEVA: More than one in six young people have stopped working since the onset of the Covid-19 crisis, the International Labour Organization (ILO) has said.

According to the fourth edition of the *ILO Monitor*, among young people who have remained in employment, working hours have fallen by 23%.

The ILO also said that around half of young students report a likely delay in the completion of their current studies, while 10% expect to be unable to complete them at all.

"The Covid-19 economic crisis is hitting young people – especially women – harder and faster than any other group. If we do not take significant and immediate action to improve their situation, the legacy of the virus could be with us for decades," said ILO Director-General Guy Ryder.

"If their talent and energy is sidelined by a lack of opportunity or skills, it will damage all our futures and make it much more difficult to rebuild a better, post-Covid economy," he added.

According to the *ILO Monitor*, 94% of the world's workers are living in countries with some sort of workplace closure measures in place. Although more and more countries are easing these measures to gradually allow workers to return to their workplaces, as at 17 May, 20% of the world's workers lived in countries with required workplace closures for all but essential workers. An additional 69% lived in countries with required workplace closures for some sectors or categories of workers, and a further 5% lived in countries with recommended workplace closures.

According to the ILO, young people constitute major victims of social and economic consequences of the pandemic, and there is a risk that they will be scarred throughout their working lives – leading to the emergence of a "lockdown generation".

Young people are disproportionately affected by the Covid-19 crisis, with multiple shocks including disruption to education and training, employment and income losses, and greater difficulties in finding a job.

A total of 178 million young workers around the world – more than four in 10 young people employed globally – were working in hard-hit sectors when the crisis began, said the ILO.

Almost 77% (or 328 million) of the world's young workers were in informal jobs, compared with around 60% of adult workers (aged 25 and above). The youth informality (employment) rate ranges from 32.9% in Europe and Central Asia to 93.4% in Africa.

Even before the crisis, more than 267 million young people were not in employment, education or training (NEET), including almost 68 million unemployed young people.

Decline in work activity

The ILO also said that the crisis continues to cause an unprecedented reduction in economic activity and working time.

An estimated 4.8% of working hours were lost during the first quarter of 2020 (equivalent to approximately 135 million full-time jobs, assuming a 48-hour working week), relative to the fourth quarter of 2019. This represents a slight upward revision of around 7 million jobs since the third edition of the *Monitor*.

The estimated decline in work activity in the first quarter of 2020 is uneven across regions, said the ILO. While the number of hours worked in the first quarter of 2020 declined by 6.5% in Asia and the Pacific (driven by an 11.6% decrease in East Asia), all other major regions experienced decreases of 3% or less. "This labour market pattern is closely related to the timing of outbreaks and the introduction of physical distancing measures in different regions of the world."

According to the ILO, global patterns in hours lost in the first quarter are driven to a great extent by the exceptional impact of the Covid-19 crisis in China during that quarter.

The prospects for the second quarter of 2020 remain dire, it said. As at 17 May, estimates indicate that working hours will decline in the current quarter by around 10.7% relative to the last quarter of 2019, which is equivalent to 305 million full-time jobs (assuming a 48-hour working week).

From a regional perspective, the Americas and Europe and Central Asia present the largest losses in hours worked. In the Americas, the loss of working hours in the second quarter is expected to reach 13.1% relative to the pre-crisis level. In Europe and Central Asia, the decline is estimated at 12.9%. The estimates for the other regions follow closely, all being above 9.5%.

South America and Southern and Western Europe are the regions with the largest upward revisions to loss of hours worked (by more than one percentage point) since the third edition of the *Monitor*. This reflects, respectively, the deteriorating situation in South America and the fact that the labour market impact of the measures taken in Europe has been more severe than expected, said the ILO.

However, through intensive testing and tracing, some countries have managed better than others to control the spread of Covid-19 and to minimize the restrictions to economic activity, it noted.

The ILO said its estimates suggest that testing and tracing (T&T) is associated with a reduction in working-hour losses by as much as 50%. It cited three reasons for this: T&T reduces reliance on strict confinement measures; it promotes public confidence and so encourages consumption and supports employment; and it helps minimize operational disruption at the workplace.

The estimated average loss of working hours for countries with the lowest T&T intensity is around 14%, compared with 7% for those with the highest intensity, said the ILO.

The ILO also said there are indications that the financial resources required for effective T&T are far less than the overall economic impact of the pandemic. It estimated that testing expenditures in two countries with extensive T&T programmes are below 0.1% of gross domestic product (GDP).

"Given the need to promote a safe return to work and the highly favourable benefit-to-cost ratio of T&T, investing in such a strategy provides a large expected return both in economic and social terms," the ILO emphasized.

"Creating an employment-rich recovery that also promotes equity and sustainability means getting people and enterprises working again as soon as possible, in safe conditions," said Director-General Ryder.

"Testing and tracing can be an important part of the policy package if we are to fight fear, reduce risk and get our economies and societies moving again quickly," he added. (*SUNS9128*)

Economic ghosts block post-lockdown recovery

In looking to adopt the far-reaching policy measures needed to kickstart their lockdown-battered economies, governments are set to face familiar opposition from neoliberal deficit hawks.

by Jomo Kwame Sundaram

As governments the world over struggle to revive their economies after the debilitating lockdowns they imposed following their failure to undertake adequate precautionary containment measures to curb Covid-19 contagion, neoliberal naysayers are already warning against needed deficit financing for relief and recovery.

The range of deficit financing options has changed little since first legitimized by Roosevelt and Keynes in the 1930s and used extensively to finance wartime government spending.

First, debt financing has typically involved government borrowing. More recent understandings of sovereign debt stress the implications of the source of borrowing, domestic or external. For example, Japan's total government debt now greatly exceeds double its annual national income, but this is not considered problematic as most of it is domestically held by Japanese.

Second, price controls, general or selective, can cut both ways, and may require subsidies. Price controls on extracted natural resources can also enable governments to capture resource rents to augment revenue.

Third, the widespread use of unconventional monetary measures since the 2008 global financial crisis has forced economists to reconsider earlier monetarist articles of faith about deficit financing by "taxing" everyone via inflation, also giving an unexpected boost to modern monetary theory.

Finally, an overvalued exchange rate has been favoured by elites who travel and purchase abroad wanting strong currencies, which they often portray as cause for national pride. After all, governments collect taxes in domestic currency, but pay for international debt and imports with foreign exchange.

However, a strong exchange rate only provides a temporary solution, worsening balance-of-payments difficulties in the longer term, favouring consumers over producers, and importers over exporters, besides encouraging consumption at the expense of savings. Increasing imports for consumption either deplete foreign exchange reserves or require external borrowing.

Overvalued exchange rates' potential for fighting inflation is risky as balance-of-payments deficits cannot be sustained indefinitely. Exchange-rate-based currency board and stabilization arrangements in transition and developing economies are similarly problematic. Economies maintaining overvalued exchange rates have often later experienced severe currency crises.

Quasi-nationalist development ideologies and weak elite opposition enabled many East Asian economies to use undervalued exchange rates to discourage imports and promote exports, with effective protection for import-substituting industries conditional on successful exports.

Macroeconomic populism?

Deficit spending supposedly responded to "populist" demands by "distributional coalitions" of interest groups demanding higher wages, cheap housing, public healthcare and free schooling. The narrative implies that regimes could not resist demands for redistribution, presumably the price of retaining political authority and influence.

In recent decades, "macroeconomic populism" has become a catch-all explanation for deficit financing, ostensibly to finance redistributive government spending, regardless of actual expenditure patterns. But rather than populist redistribution, deficit spending was often for "security" (i.e., the military and police) or physical infrastructure, rather than social expenditure, or corruption.

Sovereign debt and fiscal crises, due to borrowing to spend beyond budgetary means, were rarely due to "excessive" populist demands. The actual reasons for budgetary deficits were often multiple as well as historically and politically specific, rather than simply due to regimes succumbing to redistributive claims.

Undoubtedly, government capacities to directly tax incomes and assets have been constrained, with the influential generally better able to evade taxes. US presidential endorsement of Arthur Laffer's "supply side" economics' claim of greater growth due to more investments with lower taxes on the rich fuelled the counter-revolution against progressive taxation.

Nevertheless, macroeconomic populism became the default explanation for all manner of deficit financing, including "soft budget constraints" in "communist" "command economies".

Although there have been few truly "populist" regimes in Latin America, most famously Peronist Argentina, "macroeconomic populism" has become a catch-all term, used to explain why governments increase spending and run budgetary deficits.

Undoubtedly, many Latin American regimes pursued import-substituting industrialization using high tariffs to protect "infant industries" from the 1930s. But high import tariffs augmented rather than diminished government revenues, in contrast to the tax breaks and subsidies for export growth.

Although precipitated by then US Federal Reserve Bank chairman Paul Volcker raising bank interest rates from 1980 to kill inflation, the Latin American debt crises from 1982 were again misleadingly primarily attributed to preceding populist macroeconomic policies.

Similarly, the significant improvements in popular wellbeing earlier this century in Brazil under the Workers Party, Uruguay under the Frente Amplio, Ecuador under Rafael Correa and Bolivia under Evo Morales primarily involved massive employment generation and, secondarily, "productive" social protection, rather than the unsustainable transfers depicted by "macroeconomic populism" claims.

Neoliberal ghosts return

Macroeconomic populism thus became the default formulaic Washington

Consensus "explanation" for deficit financing from the 1980s to explain away all manner of fiscal deficits, and to justify policies imposed by the Bretton Woods institutions, precipitating Latin America's "lost decade".

The International Monetary Fund (IMF) required short-term macroeconomic (price) stabilization policies to counter often runaway inflation. The World Bank's typically medium-term "neoliberal" structural adjustment policies sought to liberalize not only goods and services markets, but also those for finance, labour and social services, previously provided by governments and state enterprises.

Reviving ideological ghosts from the past, neoliberal commentators are once again warning against deficit financing. Instead of recognizing the need for consistently counter-cyclical fiscal policies over the duration of business cycles, they dogmatically insist on minimal annual budget shortfalls in the short term, and on balancing budgets by next year, regardless of the recession's nature and duration.

The stagnation of the last decade was due to the failure to reform adequately after the global financial crisis. Covid-19 recessions are undoubtedly different from recent financial crises, and will need bolder monetary, supply-side and industrial policy measures to catalyze and sustain economic relief, recovery and restructuring measures to address previous maladies and the post-lockdown malaise. The crisis presents us with an opportunity to do better, to move forward.

There is much to learn and do to progress, including abandoning the very modes of thinking which have led to the mess we are in. Exorcising ghosts from the past will be imperative. (*IPS*)

__Jomo Kwame Sundaram__, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

Politics, profits undermine public interest in vaccine race

The scramble to develop a vaccine against Covid-19 is well underway, but what is also needed is affordable access once one becomes available.

by Anis Chowdhury and Jomo Kwame Sundaram

With millions of Covid-19 infections worldwide, the race for an effective vaccine has accelerated since the SARS-CoV-2 virus was first identified as the culprit.

Expecting to score politically from being "first" to have a vaccine, US President Donald Trump's Operation Warp Speed promises to get 300 million doses to Americans by January, after the November polls, following several failed attempts to monopolize vaccines being developed by European companies.

More than 115 vaccine development efforts are ongoing around the world. Eight human trials are underway, including five in China, with the most promising one government-financed.

Meanwhile, affordable access is the primary concern for most of the world.

Fighting epidemics together

Sixty-five years ago, Jonas Salk insisted that the polio vaccine he had developed remain patent-free. Asked who owned the patent, he replied, "The people, I would say. There is no patent. You might as well ask, could you patent the sun?"

Making vaccines and life-saving drugs available freely or affordably has been crucial for containing infectious diseases such as tuberculosis, HIV/AIDS, polio and smallpox.

Smallpox had a 30% mortality rate among those infected and was responsible for 10% of the world's blind. In 1958, the Soviet Union urged the World Health Organization (WHO) to eradicate smallpox, offering funding for a plan. Surprising many, the US, already WHO's major funder, agreed, resulting in the rivals' most successful collaboration during the Cold War.

Smallpox was eradicated in 1977, following a WHO campaign seeking total eradication within a decade, launched in 1967, when there were over 2.5 million cases worldwide. However, the paltry budget approved by WHO would not even have paid for the vaccines required. The programme was launched in developing countries with vaccines donated by other countries, including both Cold War rivals. Developing countries quickly developed vaccine producing and vaccination capabilities with generous technical assistance from abroad.

More than 140 world leaders and experts signed an open letter before WHO's World Health Assembly (WHA) began on 18 May, calling on governments to commit to a "people's vaccine" against Covid-19, with all vaccines, treatments and tests patent-free, mass-produced, fairly distributed and available to all, in every country, free of charge.

Leaders of Italy, France, Germany, Norway, and the European Commission and Council urged that the vaccine be "produced by the world, for the whole world" as a "global public good of the 21st century".

President Xi Jinping promised that a China-developed vaccine would be a "global public good", with "accessibility and affordability in developing countries", with French President Emmanuel Macron pledging likewise.

The United Nations Secretary-General also emphasized that everybody must have access to the vaccine when available.

The WHA unanimously acknowledged that vaccines, treatments and tests are global public goods, but was vague on implications.

Nevertheless, the US disassociated itself from overriding patents in the interests of public health, objecting that it would send the "wrong message to innovators".

Both Johnson & Johnson and French pharmaceutical giant Sanofi have US government contracts to develop potential treatments, but the US Health and Human Services Secretary refuses to guarantee that they will be affordable.

Earlier, the US did not join the 24 April world leaders' pledge to increase cooperation against Covid-19, besides ignoring a 4 May pledge by international leaders and organizations to spend $8 billion to make available a vaccine and treatments.

"America first" vs global public interest

Unfortunately, three decades after the Cold War ended, the context is very different now, due to politics and profits.

Trump's "America first" administration and some key allies seeking to check China fear that Beijing's handling of the Covid-19 crisis has boosted its already fast-rising standing.

By April, the US and its allies were blaming China for the pandemic due to the "Chinese virus". Trump upped the ante on 27 April by threatening retaliatory measures against China for billions of dollars of damages worldwide, claiming that China could have stopped the epidemic at source but did not. Offering no evidence, US Secretary of State Mike Pompeo has also accused "China-affiliated" hackers of trying to steal intellectual property for Covid-19 vaccines, treatments and testing. Meanwhile, some US states, politicians and companies have also filed lawsuits against China for damages.

All this has also undermined WHO, now depicted as China's puppet. On 29 May, Trump announced that the US would terminate its relationship with the global health agency.

With elections just a few months away, Trump's recent rhetoric and policies appear preoccupied with boosting his re-election prospects, which are slipping due to his handling of the outbreak.

Unsurprisingly, international concerns over US control of an effective Covid-19 vaccine have grown.

German weekly *Die Welt am Sonntag* reported in March that the Trump administration had offered German biotech company CureVac about $1 billion for exclusive access to the vaccine it is developing.

Sanofi hastily backed down after the French Prime Minister insisted that access for all was "non-negotiable", following the CEO's 13 May announcement that the US government had "the right to the largest pre-order because it's invested in taking the risk", despite French government support for Sanofi worth hundreds of millions of euros.

Profits vs public interest

Only a few giant companies can develop and produce a vaccine from start to finish, due to the expense and range of expertise required. Historically, most vaccines have been developed in the North, often reaching the South much later. During the 2009 swine flu pandemic, some developed-country governments contracted with pharmaceutical giants to monopolize the H1N1 swine flu vaccine.

After developing a promising Zika vaccine in 2017, the US Army assigned production rights to Sanofi, but the deal fell through following profiteering charges by US watchdog organizations and Senator Bernie Sanders.

Despite enjoying the patent system's extended monopolies, at the expense of public health, limited prospects for lucrative profits have generally discouraged investments to develop affordable medicines and vaccines for developing countries.

Some pharmaceutical giants, e.g., GlaxoSmithKline and Sanofi, claim they do not expect to profit from a Covid-19 vaccine. But such recent industry promises not to profiteer from making the vaccine globally available are hard to reconcile with the record that drug research and development has long been driven by the prospect of massive profits.

Such firms have been urged to make the Open Covid pledge to voluntarily relinquish their intellectual property rights (IPRs), at least until the Covid-19 pandemic is over. But Oxfam fears this may not be enough. As Big Pharma has long enjoyed massive government subsidies, national authorities can enforce the pledge.

Governments can also use "compulsory licensing", permitted by World Trade Organization rules, to enable companies that do not have the IPRs, to make, manufacture and sell generic versions of patented medicines, as the Bush administration did with Tamiflu a decade and a half ago in the face of the avian flu threat. (*IPS*)

Anis Chowdhury*, Adjunct Professor at Western Sydney University (Australia), held senior United Nations positions in New York and Bangkok.* ***Jomo Kwame Sundaram****, a former economics professor, was UN Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.*

The inefficient and incredibly lucrative chase for a coronavirus vaccine

The very thing that's hindering quicker development of a vaccine for Covid-19 is also what's lavishing pharmaceutical industry executives with inflated paycheques, writes *Sam Pizzigati* from the US.

Centuries ago, back in the Middle Ages, battles against plagues seldom went well. Medieval public health warriors had little scientific knowledge about their viral assailants. And what little knowledge they did gain, they couldn't easily share. Kingdoms had no vehicles for rapid and reliable communicating.

We don't have that problem today as we do viral battle. Our scientists can share their pandemic insights – to colleagues anywhere else on the planet – in just seconds.

We have a different problem. Our scientists aren't sharing because they can't share. Our scientists aren't sharing because their bosses won't let them. And our elected leaders don't seem to mind. They've essentially entrusted control over Covid-19 vaccine development to biotech corporations.

These corporations make money by locking up information, not by giving it away freely. Their singular focus: gaining patents that let them price new drugs at whatever the market can bear. The biggest threat to that market might: the free flow of scientific information. If the scientists these corporations employ shared everything they're learning, other companies might beat them to the patent punch.

But if scientists working on Covid-19 vaccines can't share what they're learning, can't get feedback from their peers elsewhere, can't access the research their peers are conducting, won't developing an effective corona vaccine take longer? Won't hundreds of thousands, maybe millions of people die unnecessarily if research advances stay secret until they can be, as Wall Streeters like to say, "monetized"?

The simple answer: yes. Knowledge only efficiently advances, historians of science continually remind us, when investigators can share notes and build upon each other's insights. "If I have seen further," as Sir Isaac Newton explained way back in 1675, "it is by standing on the shoulders of giants."

Apologists for our current economic order have a justification for keeping research secret until they can make big bucks off it. Companies need an incentive to invest in research. Take away that incentive, the argument goes, and the research we need just doesn't happen.

Lawmakers over recent decades have accepted this argument – as well as hundreds of millions in campaign contributions from Big Pharma and other knowledge-based industries. The US Congress has time and again, Center for Economic and Policy Research economist Dean Baker points out, lengthened and strengthened patent and copyright "protections," moves that let our corporate giants keep charging monopoly prices year after year.

Who ultimately benefits from this patent regime? Moderna Inc. – a 10-year-old biotech start-up almost totally unknown to the American general public until just recently – neatly offers up one object lesson.

On 18 May, a couple of hours before Wall Street's daily opening bell, a Moderna press release trumpeted the news that the company had "positive interim clinical data" to report on its vaccine gameplan for the coronavirus. That announcement triggered a whopping 20% rise in Moderna's share price – and an impressive 3.2% jump in the overall S&P 500 index.

None of this surprised the big boys on Wall Street. They already knew all about Moderna. The company's "Initial Public Offering" had raised an industry-record $604 million in 2018. The top beneficiary of that IPO: Moderna CEO Stéphane Bancel. His reward for the company's successful first foray onto Wall Street would be the nation's most lavish biotech CEO pay deal of 2019.

The deal bestows upon Bancel a ton of stock options that began vesting last year. At that point, the Moderna chief exec had an option to buy 900,000 company shares at $14.22 each. Analysts at BMO Capital see Moderna shares hitting $112. If Bancel exercises his option to buy his 900,000 shares when Moderna shares reach that level, and then sells his shares at market rate, he could pocket nearly a $100 profit on each share and register a windfall worth $90 million.

The 47-year-old Bancel has another 4.59 million shares that start vesting this year at the $23 price Moderna set for its 2018 IPO. If Moderna's market value – the sum total of the company's shares – eventually hits the $44 billion target some Wall Streeters are now predicting, Bancel's pay deal could put his personal net worth north of $4 billion.

Bancel has already become a billionaire. He joined the 10-digit club early this spring after Moderna announced over $400 million in federal coronavirus contracts. Last year, Moderna's entire revenue only amounted to $60.2 million.

Since early spring, at least two other Moderna insiders appear to have reached billionaire status.

The much more modestly compensated scientists at the National Institute for Allergy and Infectious Diseases, the US federal agency that Dr Anthony Fauci directs, most likely know all about the supersized rewards top figures at Moderna are reaping. The Institute's scientists have been busily partnering with Moderna on its vaccine development effort and also aiding other companies working on corona vaccines.

But some observers suspect that Moderna has an inside track at the coronavirus vaccine jackpot, and not just because the company has been the first out of the chute with test results. The new chief of the Trump administration's corona vaccine initiative, "Operation Warp Speed," just happens to be Moncef Slaoui, a former GlaxoSmithKline executive who served on the Moderna board until May.

Moderna's competitors and independent researchers, for their part, have been ripping the blockbuster corona vaccine news release the company released on 18 May as a wildly overhyped mash-up of "partial findings from a small, early-stage study," all served up without any serious accompanying data.

Enterprises like Moderna, charges

former Harvard Medical School research leader William Haseltine, "are holding news conferences to report potential breakthroughs that cannot be verified," a trend that's "damaging trust" in medicine's fundamental methods.

"This is not how you do science," adds Dr Peter Hotez, the co-director of the Texas Children's Hospital Center for Vaccine Development.

So our national chase for a corona vaccine seems to have a bit of everything unsavoury. Greed grabs. Conflicts of interest. Suspect science.

Could we be doing this chase any differently? We most certainly could, say top critics of our drug-development status quo like the economist Dean Baker. Instead of granting patents that give corporations monopoly pricing power over new drugs for long stretches of time, Baker compellingly argues, the federal government could increase direct funding for medical research.

This funding would come with strings. Enterprises that get contracts to conduct research would have to share their research findings online, notes Baker, "as soon as practical" so other researchers could benefit from them. All patents resulting from the research would also go into the public domain "so newly developed drugs could be sold immediately as generics."

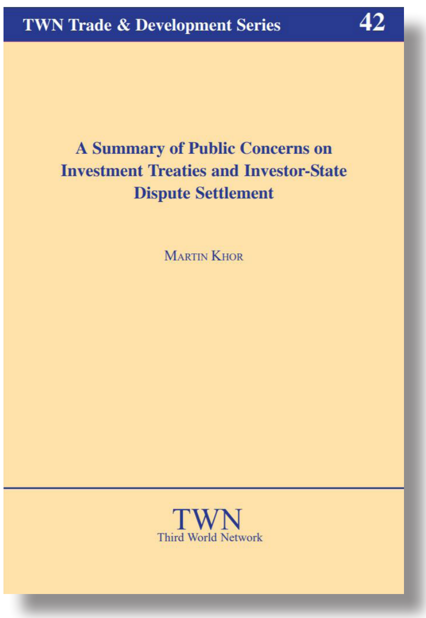
Under our current private-domain patent regime, Baker points out, Americans last year spent about $460 billion "on drugs that would likely sell for less than $80 billion in a true free market."

This system made no sense before the pandemic. This system – enriching the few at the expense of the many – makes even less sense now.

Sam Pizzigati *co-edits [Inequality.org](), where this article first appeared. His recent books include* The Case for a Maximum Wage *and* The Rich Don't Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class, 1900-1970. *Follow him at @Too_Much_Online.*

A Summary of Public Concerns on Investment Treaties and Investor-State Dispute Settlement

by Martin Khor



International investment agreements, specifically bilateral investment treaties and the investment chapters in free trade agreements, have come under the spotlight for what are seen as skewed provisions that grant excessive rights to foreign investors and foreign companies at the expense of national policymaking flexibility. Of particular concern is the investor-state dispute settlement framework embedded in many of these treaties, which enables foreign investors to sue host-country governments in opaque international tribunals.The serious risks involved have prompted a rethink of investment pacts in developing and developed countries alike. In place of the current lopsided system, calls are growing for agreements which would balance legitimate investor rights with the rights of the state to regulate investment and formulate policies in the public interest.

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