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COVID-19 clouds economic, poverty outlook

As the COVID-19 pandemic rages on, its ruinous economic impacts continue to mount, with the latest estimates by the United Nations Conference on Trade and Development (UNCTAD) projecting sharp falls in trade and foreign direct investment flows. The economic fallout from the crisis is expected to darken the global poverty picture as well: researchers predict not only greater numbers becoming impoverished but also more severe poverty.

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Global trade in goods set to fall a further 27%

The downturn in world goods trade in the first quarter of this year will be followed by an even sharper drop in the second quarter, according to a UN body's forecast, as coronavirus-induced halts in economic activity take their toll.

by Kanaga Raja

GENEVA: The value of international trade in goods is expected to further decline by 27% in the second quarter of this year, following a fall of about 5% in the first quarter, the UN Conference on Trade and Development (UNCTAD) has said.

According to UNCTAD's Global Trade Update, released on 11 June, the dramatic fall in trade in goods has been due to the economic and social disruptions brought about by the COVID-19 pandemic.

Leading indicators, such as the Purchasing Manager Indices (PMIs), also signal further deterioration of international trade in the second quarter of 2020, said UNCTAD.

"International trade is likely to remain below the levels observed in 2019 in the second half of the year," it added.

The magnitude of the decline in trade will be dependent not only upon additional economic disruptions brought by the pandemic but also on the type and extent of policies that countries will adopt to restart their economies.

Assuming persisting uncertainty, UNCTAD said its forecast indicates a decline of around 20% for the year 2020. This is in line with the estimates of the World Trade Organization, which expects the decline in international trade to be between 13% and 32%. The European Commission expects that EU trade will decline by 10-16% in 2020. The wide range of estimates is a sign of the still high uncertainty about the possibility of any economic recovery in the second half of the year, said UNCTAD.

Bleak picture

According to UNCTAD, statistics for some of the major economies further reinforce the bleak picture for international trade.

Firstly, most recent trade figures indicate further deterioration in April and May. Secondly, except for the first two months of 2020, China appears to have fared better than other major economies. In fact, China's exports grew by 3% in April. However, most recent data for China indicate that such recovery may be shortlived as imports and exports fell by about 8% in May.

Thirdly, said UNCTAD, intra-regional trade appears to have declined to a much lower rate for countries in the East Asia and Pacific regions. For the European Union, intra-regional trade has declined at a similar pace as overall trade. On the other hand, statistics for the United States indicate a much stronger decline of intra-regional trade.

According to UNCTAD, the general decline in international trade in the first quarter of 2020 has been followed by a much more substantial decline in April, with this trend being observed for both developing and developed countries.

However, trade in developing countries appears to have fallen faster in April relative to developed countries, and this is especially noticeable for imports. For developing countries, while declines in exports are likely driven by reduced demand in destination markets, declines in imports may indicate not only reduced demand but also exchange rate movements, concerns regarding debt and shortage of foreign currency. Trade among developing countries (South-South) has also significantly declined in April, said UNCTAD.

No region has been spared from the decline in international trade, but trade in the East Asia and Pacific regions appears to have fared better than other regions, said UNCTAD. Trade declines for these regions have remained in the single digits both in the first quarter of 2020 as well as in April, although preliminary data for April suggest a sharp downturn in all other regions, with declines of up to 40%

for countries in South Asia and Middle East regions.

At the sectoral level, UNCTAD said, economic disruptions brought about by COVID-19 have affected some sectors significantly more than others.

In the first quarter of 2020, textiles and apparel declined by almost 12%, while office machinery and automotive sectors fell by about 8%. On the other hand, the value of international trade in the agri-food sector increased by about 2%.

Preliminary data for April indicate further declines in most sectors and a very sharp contraction in trade in energy and automotive products, of about -40% and -50% in value terms respectively. Significant declines of above 10% are also observed in chemicals, machineries and precision instruments. Conversely, office machinery appears to have rebounded in April, largely because of the positive export performance of China. Trade in agri-food products has so far been the least volatile.

In general, the variance across sectors has been driven by decreases in demand and disruptions of supply capacity and global value chains due to COVID-19.

Trade in medical products

UNCTAD said that one of the side-effects of the pandemic has been the increase in demand for medical goods and equipment such as ventilators, monitors, thermometers, hand sanitizers, protective masks and garments.

In the early months of 2020, the rapid diffusion of COVID-19 across the globe resulted in a race to secure supply of such goods, and in export restrictions in some instances.

Product-level data for the three major economies (China, the EU and the US) show that international trade played a positive role in meeting demand for medical products related to COVID-19, said UNCTAD. While international trade in such medical goods contracted at the onset of the pandemic, it then increased in February and March and almost doubled in April, thus contributing to the availability of critical equipment to countries affected by COVID-19.

For instance, the first two months of 2020 saw that the increase in Chinese domestic demand for such medical products resulted in a strong increase in imports. This demand was largely met by increased exports from Europe and the US, which were not yet significantly hit by COVID-19. UNCTAD also noted that Chinese exports of such equipment declined by 15% in the first two months of 2020 as Chinese supply reoriented towards domestic demand.

Data for March show that imports of medical equipment continued to increase in China (by 41%) but also in the EU (by 21%).

April saw a massive increase in Chinese exports of medical equipment (by 338%). This surge was largely driven by exports of protective equipment.

April data for the US reflect the increasing concern over the pandemic as imports of medical products increased by almost 60% while exports declined by approximately 20%, said UNCTAD. (*SUNS9137*)

FDI flows to plunge 40% in 2020

Global flows of foreign direct investment are expected to decline sharply this year and the next as a result of supply, demand and policy shocks from the coronavirus crisis, with developing economies being the hardest hit, according to UNCTAD.

by Kanaga Raja

GENEVA: Global foreign direct investment (FDI) flows are forecast to fall by up to 40% in 2020, bringing their value to below $1 trillion for the first time since 2005, the UN Conference on Trade and Development (UNCTAD) has said.

In its *World Investment Report 2020 (WIR)*, released on 16 June, UNCTAD has projected FDI to decrease by a further 5-10% in 2021 and to initiate a recovery in 2022.

A rebound in 2022 with FDI reverting to the pre-COVID-19 pandemic underlying trend is possible, but only at the upper bound of expectations.

The outlook is highly uncertain and prospects depend on the duration of the health crisis and on the effectiveness of policy interventions to mitigate the economic effects of the pandemic. In addition, geopolitical and financial risks and continuing trade tensions add to the uncertainty, said UNCTAD.

Economic impact on developing countries

At a virtual media briefing, UNCTAD Secretary-General Mukhisa Kituyi said that the economic impact of COVID-19 will hit developing countries hard, especially the structurally vulnerable economies in Africa and least developed countries in all regions, with disruptions to major productive sectors and industries, declining remittances and receipts from tourism, and contracting world trade. The shock will be further compounded by the impact on food security as production of major food items is concentrated in a few big countries where the pandemic is expanding rapidly.

Managing the disease is only part of the persistent challenges facing the developing world, Kituyi said. The development impact of the pandemic is also aggravated by decreasing demand and falling prices of natural commodities, especially oil. For many developing regions, export earnings and foreign investment are still tied to a large degree to natural resources.

The dual shock of COVID-19 and falling commodity prices puts many countries in precarious economic and financial positions, undoing progress towards structural transformation and economic diversification.

This is compounded by projected dramatic falls in FDI in 2020 and beyond. UNCTAD has forecast that global FDI flows will decrease by up to 40% this year, down from the 2019 value of $1.54 trillion, reaching the lowest level in the last two decades.

Developing economies are expected to see the biggest fall in FDI because they rely more on investment in global value chain (GVC)-intensive and extractive industries, which have been severely hit, and because they are not able to put in place the same economic support measures that developed economies are able to.

Kituyi said the pandemic represents a supply, demand and policy shock for FDI. Lockdown measures are slowing down existing investment projects, prospects of a deep recession are leading multinational enterprises to reassess new projects, and crisis measures taken by governments include new investment restrictions.

However, added Kituyi, COVID-19 is not the only game-changer for FDI and international production. The new industrial revolution, the policy shift towards more economic nationalism, and sustainability trends will all have far-reaching consequences for the configuration of international production in the decade to 2030.

The directional trend identified in the *WIR* points towards shorter value chains, higher concentration of value added and declining international investment in physical productive assets, he said.

This will bring challenges for developing countries. For decades, their development and industrialization strategies have depended on attracting FDI, increasing participation and value capture in GVCs, and gradual technological upgrading in international production networks.

But the expected transformation of international production, despite its inherent challenges, also brings opportunities for development, such as promoting resilience-seeking investment, building regional value chains and entering new markets through digital platforms, said Kituyi.

In this new context, a degree of rebalancing towards growth based on domestic and regional demand, and promoting investment in infrastructure, domestic services, the green economy and the blue economy are necessary, he added.

"Despite the drastic decline in global FDI flows during the crisis, the international production system will continue to play an important role in economic recovery and development. Global FDI flows will continue to add to the existing FDI stock, which stood at $37 trillion at the end of 2019," said James Zhan, Director of the UNCTAD Division on Investment and Enterprise.

Dramatic drop in FDI

According to the *WIR*, the COVID-19 crisis will cause a dramatic drop in FDI in 2020 and 2021. It will have an immediate negative impact in 2020, with a further deterioration in 2021.

In relative terms, the projected fall is expected to be worse than the one experienced in the two years following the global financial crisis. At their lowest level ($1.2 trillion) then, in 2009, global FDI flows were some $300 billion higher than the bottom of the 2020 forecast.

UNCTAD said the downturn caused by the pandemic follows several years of negative or stagnant growth; as such, it compounds a longer-term declining trend.

The expected level of global FDI flows in 2021 would represent a 60% decline since 2015, from $2 trillion to less than $900 billion.

The outlook beyond 2021 is highly uncertain. A U-shaped trajectory, with a recovery of FDI to its pre-crisis trend line before 2022, is possible but only at the upper bound of the expectations. Economic and geopolitical uncertainty look set to dominate the investment landscape in the medium term. At the lower bound of the forecast, further stagnation in 2022 will leave the value of global FDI well below the 2019 level.

According to the *WIR*, the COVID-19 crisis has had immediate effects on FDI and will have potentially lasting consequences.

The sudden and simultaneous interaction of supply- and demand-side shocks, combined with policy reactions to the crisis around the world, is triggering a series of effects on FDI. The impact will be felt with exceptional vehemence in 2020 when the cumulative effect across all transmission mechanisms is strongest.

The physical closure of places of business, manufacturing plants and construction sites to contain the spread of the virus causes immediate delays in the implementation of investment projects. Some investment expenditures continue (e.g., the fixed running costs of projects), but other outlays are blocked entirely.

Announcements of greenfield projects are also delayed. Similarly, many mergers and acquisitions (M&As) are temporarily suspended. Like greenfield projects, M&As are generally long-term commitments to overseas markets. Completions of already announced M&A transactions have been running into delays that could result in cancellations.

Foreign affiliates are facing exceptionally challenging operational, market and financial conditions. Their profits are expected to plummet in 2020. The vast majority of the top 5,000 largest multinational enterprises revised their earnings expectations for 2020 between February and May, with the average downward revision surpassing 35%. With reinvested earnings accounting for more than 50% of FDI flows, on average, the impact of lower foreign affiliate profits on global FDI could be severe, said the *WIR*.

On the policy side, in parallel with temporary trade restrictions taken in some countries to prevent shortages of critical medical supplies during the pandemic, several governments have taken measures to avoid firesales of domestic firms during the crisis, introducing new screening requirements and investment restrictions. For example, the European Union brought out guidance concerning investment from non-member economies for the protection of member states' strategic assets; and Australia introduced investment reviews to protect national interest and local assets from acquisition.

Already in the early stages of the pandemic, macroeconomic forecasts for 2020 were revised down into negative territory. Current expectations are for a modest and highly uncertain recovery of gross domestic product (GDP) in 2021 if economic activity picks up with the support of policy stimulus, said UNCTAD.

A deep contraction of demand will have strongly negative effects on international production. Uncertainty about economic prospects will dampen new investment plans. Financial distress and liquidity issues limit the room for manoeuvre for many businesses, which during this crisis are forced to divert any funds available for investment to working capital. Depending on the severity of the recession, ongoing or announced projects that were initially delayed due to the lockdown measures could be shelved indefinitely.

"Over the two critical years 2020 and 2021, the demand shock will be the biggest factor pushing down FDI. Although in general the trend in FDI reacts to changes in GDP growth with a delay, the exceptional combination of the lockdown measures and the demand shock will cause a much faster feedback loop on investment decisions."

As to the long-term effects, UNCTAD said the pandemic will drive multinational enterprises to consider options to achieve greater supply chain resilience and could lead to a policy push for a higher degree of national or regional self-sufficiency in the production of critical supplies – which may extend to broader strategic industrial capacity.

Tighter restrictions on international trade and investment have already emerged as a result of the pandemic. The trend towards rationalization of international operations, re-shoring, near-shoring and regionalization looks likely to accelerate, leading to downward pressure on FDI, added UNCTAD.

Global and regional forecasts for FDI

UNCTAD said its forecasts show a sharp decline in global FDI in 2020 and 2021, to a level about 40% lower than in 2019.

Even before the outbreak of COVID-19, UNCTAD's model forecast a stagnant trend (-3% in 2020 and +1% in 2021) as a result of political and trade tensions and an overall uncertain macroeconomic outlook.

All regions and economic groupings will see negative FDI growth rates in 2020. Developed economies as a group are projected to see a decline of between -25% and -40%.

FDI in Europe will fall most (-30% to -45% relative to 2019), as the vehemence of the virus adds to economic fragility in several large economies. Due to the economic integration of investment and trade within the EU, shocks in individual countries will easily propagate within the region.

Developing economies as a group are expected to see a larger decrease in the range of 30% to 45%. Developing economies appear more vulnerable to this crisis (contrary to the situation after the global financial crisis, which had a much stronger effect on FDI to developed countries). Their productive and investment footprints are less diversified and thus more exposed to systemic risks.

Dependence on commodities for Latin America and the Caribbean and Africa and on GVC-intensive industries for Asia push these regions to the frontline of the crisis from an FDI perspective.

Political responses and support measures – critical at this juncture to limit the depth of the crisis and initiate a recovery – are likely to be significantly weaker in these regions than in developed economies because of their tighter fiscal space.

Longer term, developing economies may be further penalized by the trend towards re-shoring or regionalization of international production, which could accelerate in response to the COVID-19 crisis, said the *WIR*.

Projections indicate that FDI in developing Asia, normally the growth engine of FDI worldwide, will decrease by 30% to 45%. While early indicators suggest that the region has already initiated an investment recovery after the shock of the early outbreak of the virus in China, the dependence on GVC-related investment leaves international production and FDI in Asia highly exposed to economic and policy trends in developed economies.

Latin America and the Caribbean is expected to experience the largest decline, with a projected drop in FDI of between 40% and 55% in 2020. Much of FDI in the region is concentrated in extractive industries, which make up a significant share of total FDI in Argentina, Brazil, Chile, Colombia and Peru. The combination of collapsing oil prices and the demand shock due to the pandemic affecting prices of most commodities is driving down FDI forecasts in this region more than elsewhere. Relatively weak starting conditions due to structural vulnerabilities and political uncertainty also make the region more exposed to the shock.

Africa is expected to see a decline of FDI between 25% and 40% in 2020. Despite early concerns about the potential spread of COVID-19 in Africa, the continent appears to have been spared the initial outbreak seen in other parts of the world. Although it also suffers from structural vulnerabilities and commodity dependence, recent macroeconomic indicators show a relatively more solid growth path than in other regions.

FDI flows to transition economies are expected to fall by 30% to 45%. In natural-resource-based projects, prospects are being revised downward as demand for commodities weakens and the price of oil, one of the main exports from several economies in transition, remains depressed. Export-oriented production for GVCs, e.g., in special economic zones, will also be heavily affected, said UNCTAD. (*SUNS9140*)

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South concerned over TRIPS barrier to affordable vaccines

Concerns that intellectual property protections may impede access to the medical products needed to tackle the coronavirus pandemic were aired at a recent WTO meeting, reports *D. Ravi Kanth*.

GENEVA: Many developing countries have expressed sharp concerns over the barriers imposed by the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) on affordable access to vaccines and therapeutics that are currently being developed for combating the COVID-19 pandemic, as well as the likely emergence of so-called "vaccine nationalism".

At a virtual informal meeting of the WTO's TRIPS Council on 19 June, the developing countries also called for "multilateral cooperation" to ensure an effective response to the pandemic, cautioning that so-called "unilateral" initiatives are inadequate and will not address the intellectual property (IP) barriers.

The developing countries – India, Indonesia, South Africa and the coordinator of the African, Caribbean and Pacific (ACP) Group, among others – further called for the convening of a regular TRIPS Council meeting to discuss the IP measures put in place by various countries following the pandemic. They also called for a standing agenda item on IP-related measures for addressing the pandemic.

But the United States, the European Union and Switzerland flatly opposed the demand for a regular TRIPS Council meeting, saying that there was no need for such a meeting until October, according to a participant at the informal session.

Given the convening of virtual meetings of the Committee on Agriculture and other WTO committees, the opposition by the US, the EU and Switzerland to a virtual TRIPS Council meeting exposed their "double standards," the participant said.

COVID-19-related IP measures

Ahead of the 19 June informal meeting, the chair-designate of the TRIPS Council, Ambassador Xolelwa Mlumbi-Peter from South Africa, had circulated on 8 June the agenda on the two items that would be discussed at the meeting. The two items were exchanging of views on the COVID-19 implications for the work of the Council, and sharing of information on IP measures adopted in the context of COVID-19. Members were also invited to "share information and best practices on IP measures taken in the context of the COVID-19 pandemic."

Prior to the meeting, the TRIPS division of the WTO secretariat issued a detailed chart of "COVID-19 measures regarding TRIPS" that were in place until 17 June.

According to the chart, Argentina, Australia, Brazil, Canada, Chile, China, Ecuador, the EU, Germany, Hungary, India, Israel, Italy, Korea, the Philippines, Saudi Arabia, Singapore, Switzerland, Thailand, the United Kingdom and the US had adopted various IP measures over the past four months.

Germany and Italy among others adopted IP measures that could constitute compulsory licensing. Other countries also informed about the measures their respective IP authorities took in the context of COVID-19.

Germany, according to the WTO chart, announced that "an amendment to the German Act on the Prevention and Control of Infectious Diseases in Humans grants the Parliament the competence to determine the existence of an epidemic situation of competent authority to allow the use of patent-protected inventions to ensure the supply of various health technologies, including medicines, diagnostics and personal protection equipment."

In a similar vein, the US Patent and Trademark Office (USPTO), for example, said that it "considers the effects of coronavirus to be an 'extraordinary situation' within the meaning of 37 CFR 1.183 and 37 CFR 2.146 for affected patent and trademark applicants, patentees, re-examination parties, and trademark owners. Therefore, the USPTO is waiving petition fees in certain situations for customers impacted by the coronavirus."

Other measures announced by the USPTO included: (1) extending certain deadlines for patent and trademark matters; (2) waiving the requirement of 37 CFR 1.4(e)(1) and (2) for original handwritten signature for certain correspondence with the Office of Enrollment and Discipline and certain payments by credit card; (3) launching a website called Patents 4 Partnerships, which lists patents and published applications relating to COVID-19 that the owners have indicated are available for licensing, along with contact information; and (4) accepting plant patent applications and follow-on documents through the USPTO patent electronic filing systems (EFS-Web or Patent Center).

According to the WTO chart, the USPTO also launched the COVID-19 Prioritized Patent Examination Pilot Program under which it "will grant requests for prioritized patent examination for applicants which qualify for small and micro-entity status with respect to applications that cover a product or process that is subject to US Food and Drug Administration (FDA) approval for use in the prevention and/or treatment of COVID-19."

On its part, the EU, according to the WTO chart, announced that "the European Committee for Standardization and the European Committee for Electrotechnical Standardization, in collaboration with their members, agreed to make freely available certain copyrighted European standards for certain medical devices and personal protective equipment."

Against this backdrop, developing-country delegates at the informal TRIPS Council meeting underscored the need for a virtual regular meeting to share information on these measures and their impacts.

The regular TRIPS Council meeting which should have taken place in March was cancelled due to lockdown of the WTO for the past three months as a result of the pandemic.

The TRIPS Council chair, according to participants, held consultations to explore the way forward for convening the regular meeting but the US, the EU and Switzerland said there was no need for it at this juncture, insisting that the next regular meeting take place in October.

"The EU supported the resumption of the work of the TRIPS Council, in a digital format, if required, as planned in October, until the situation allows all WTO members to travel safely from capitals to Geneva so as to allow the TRIPS Council to meet in its usual format," an EU official told the *South-North Development Monitor* (*SUNS*).

"The EU also supported continuing the transparency exercise regarding IP measures taken in the context of COVID-19," the EU official said, adding that "as some delegations proposed earlier resumption of work of the TRIPS Council, this matter will be subject to further consideration and consultations."

However, the EU is ready to discuss COVID-19-related measures without delay in other committees, and also to restart the WTO fisheries subsidies negotiations, said a South American trade official who asked not to be quoted.

Challenge of access

At the informal TRIPS Council meeting, the coordinator of the ACP Group argued that "the unprecedented global health crisis caused by COVID-19 represents a challenge to the essential security interests of all countries and the most vulnerable are those living in developing and least developed countries, like ours, with less equipped health systems".

"Access to affordable medicines, vaccines, diagnostics and medical equipment, as well as access to the technologies to produce them, are indispensable to the fight against this pandemic," the Group emphasized, suggesting that "such technologies should be broadly available to manufacture and supply what is needed to address this pandemic."

"The existence of patents on products or processes generally prevents the acquisition of pharmaceutical products at low prices or in sufficient quantities," the Group argued.

"The ACP Group wishes to emphasize that the TRIPS Agreement should continue to be interpreted and implemented in a manner supportive of WTO members' right to protect public health and, in particular, to promote access to medicines for all."

"In respect of the commercial aspects of intellectual property rights, the WTO has a vital and ethical role to play in striking an acceptable balance between, on the one hand, preserving the health of our populations and on the other, saving the lives of our people," the Group said.

"To this end it might prove useful for the Council to give consideration to facilitating a webinar/seminar on the now very relevant issue of 'TRIPS and public health in the context of COVID-19'."

In the intervention by South Africa, the country's representative spoke about the alarming trends of the spread of COVID-19 across Africa, saying that "South Africa is the most affected, accounting for 25% of the continent's total cases."

The South African official pointed to recent analysis from the country indicating that people living with HIV and people with past or current tuberculosis infections have a two to three times greater risk of dying of COVID-19. These data are the first to come from a country with a high burden of HIV and tuberculosis, the official said, adding that these co-morbidities "are likely to make the task of controlling the impact of COVID-19 so much more difficult".

"The existence of patents on products or processes generally prevents the acquisition of pharmaceutical products at low prices or in sufficient quantities"

"Given this present context of global emergency," the South African official said, "it is important for WTO members to work together to ensure that intellectual property rights such as patents, industrial designs, copyright and protection of undisclosed information do not create barriers to the timely access to affordable medical products including vaccines and medicines."

The official emphasized that "an effective response to COVID-19 pandemic requires rapid access to affordable medical products including diagnostic kits, medical masks, other personal protective equipment and ventilators, as well as vaccines and medicines for the prevention and treatment of patients in dire need."

The official said there has been a swift increase in global demand for such products, with many countries facing acute shortages, constraining the ability to effectively respond to the outbreak. These shortages put the lives of health and other essential workers at risk, and are also threatening to spread COVID-19 further.

Therefore, WTO members "should assess to what extent TRIPS flexibilities can be useful to deal with the pandemic," the South African official said.

The Doha Declaration on the TRIPS Agreement and Public Health, added the official, reaffirms the right of WTO members to protect public health, clearly stating that "the TRIPS Agreement does not and should not prevent members from taking measures to protect public health."

While reiterating its commitment to the TRIPS Agreement, South Africa said that "the Agreement can and should be interpreted and implemented in a manner supportive of WTO members' right to protect public health".

Nonetheless, "many developing country member states may also face legal, technical and institutional challenges in using TRIPS flexibilities," the South African official cautioned, saying that "national patent laws may not even have the necessary provisions to issue compulsory licences in the public interest or government use licences."

"Sometimes, provisions on compulsory licensing in national legislation are subject to specific processes and as such, the issuance of compulsory licence may involve lengthy processes that are time-consuming."

In addition, the South African official said, "domestic manufacturing capacity to produce COVID-19-related pharmaceutical products, diagnostics and [personal protective equipment] is lacking in most countries of the world, making them dependent on imports to meet their medical needs". "Access to Article 31bis of the TRIPS Agreement many not be effective in securing access to much needed pharmaceuticals, medical devices, diagnostics and therapeutic technologies to address the health impact of COVID-19."

It is in this context that "IP rights may constitute a barrier to the diagnosis, treatment and overall management of COVID-19 and co-morbidities."

"Multilateral cooperation is going to be critical in ensuring an effective response to the pandemic and may require drawing from both current and past experiences in finding an innovative solution to this unprecedented crisis," the South African official said.

"In anticipation that intellectual property may pose a barrier to access, several ad hoc unilateral initiatives have emerged. However, these initiatives, while commendable, are simply inadequate to address the IP barriers," said the official, as "holders of protected technologies that are crucial in the battle against COVID-19 may not participate in such initiatives and voluntarily surrender their IP." Further, "licences granted under such schemes tend to limit the number of countries that can be supplied by the licensee; upper-middle-income countries are often excluded."

The South African official underlined that the role of governments acting in the public interest will be important to address possible obstacles to access to medicines and medical technology posed by IP rights.

During its intervention, India said that "it is important to provide maximum flexibility to member countries in the implementation of the TRIPS Agreement, so as to enable them to face the extraordinary challenge posed by COVID-19."

It is "imperative", India said, that IP rights "do not become a barrier to access to medicines, vaccines, medical equipments, treatments and technologies critical for countries' response to the ongoing pandemic".

India also reiterated "the pressing need to remove the procedural complexities in effective implementation of paragraph 6 system or Article 31bis of the TRIPS Agreement." It urged members to "constructively engage on this issue to improve the effectiveness of this provision and to ensure that it could benefit members with insufficient or no manufacturing capacities in the pharmaceutical sector."

In sharp opposition, Switzerland, the US and the EU argued that the TRIPS Agreement does not present barriers to affordable supplies of vaccines and therapeutics for fighting COVID-19, according to participants present at the TRIPS Council meeting. (*SUNS9145*)

South faces new threat of rise in imports of e-transmissions

The continuing freeze on customs duties on electronic transmissions is undermining developing countries' ability to regulate imports, generate tariff revenues and promote digital industrialization, according to a study published by a UN development agency.

by D. Ravi Kanth

GENEVA: Developing countries are facing fresh threats to their existing catalogue of development challenges due to the COVID-19 pandemic, including the threat of an "exponential rise in imports of electronic transmissions" due to the WTO's moratorium on customs duties on such transmissions, two senior officials from the UN Conference on Trade and Development (UNCTAD) have said.

In an UNCTAD Research Paper (No. 47), titled "Moratorium on Electronic Transmissions: Fiscal Implications and Way Forward", Richard Kozul-Wright and Rashmi Banga of the UNCTAD Division on Globalization and Development Strategies said that imports of electronic transmissions (ET) include luxury items such as movies, music, video games and printed matter that are not being subjected to any customs duties because of the moratorium.

In their paper, which was released on 24 June, Kozul-Wright and Banga said that while the profits and revenues of the digital players (Google, Amazon, Facebook, Apple and Microsoft) are rising steadily, the ability of governments to check these imports and generate additional tariff revenues during this heightened period of the COVID-19 pandemic is being severely limited due to the moratorium.

The authors pointed out that the moratorium was agreed in 1998 "with no clarity on what ET were, let alone how the scope of the moratorium might unfold with the digital revolution."

While the participants of the plurilateral Joint Statement Initiative group on e-commerce, led by the US, the European Union, Japan, Australia and Singapore among others, are demanding that the moratorium be made permanent, Kozul-Wright and Banga have shown that the fiscal and other losses suffered by developing countries will further multiply in the coming years.

"Since most of the developing countries are net importers of ET, with the rising digitalization, these countries are losing customs duties as well as their ability to regulate imports of luxury items," they said.

Unclear scope

Given the lack of clarity on the scope of the moratorium, which depends on how ET are classified, Kozul-Wright and Banga proposed a basis for deciding the scope by using the trichotomy of "goods", "intangible goods" and "services".

Such an approach, they said, "provides justification for treating electronic transmissions as 'intangibles' which are classified as 'goods' and are significantly different from 'services'."

The authors said "developing countries need to retain the flexibility of regulating their imports, especially imports of luxury items, and to generate tariff revenues when needed." But the moratorium on customs duties on electronic transmissions "takes away this important flexibility from the governments and that too in a growing area of imports which includes mainly luxury items".

At present, "while there is a growing awareness that with advancing digital technologies, the scope of the moratorium is expanding and many more goods are being electronically transmitted, limited attempts are being made to classify ET and thereby agree on the scope of the moratorium," they added. "Even without an agreed classification of ET, it is clear that … trade in electronic transmissions will grow manifolds, expanding the scope of the moratorium and thereby adversely impacting customs tariff revenues of the developing countries."

According to the research paper, using different classifications of ET, the tariff revenue implications of the moratorium have been estimated by a number of studies.

For example, when the decision on the moratorium was taken, the scope of ET was identified as "digitized products" and "digitizable" products. These digitized products were identified as those products which were electronically transmitted. Accordingly, five categories of digitized products were identified, namely, sound recordings, audiovisual works, video games, computer software and literary works. But there was no clarity provided on the classification of ET. In 2017, after discussions with the WTO secretariat, Indonesia made a statement which included a footnote: "it is understood that such moratorium shall not apply to electronically transmitted goods." Accordingly, Indonesia added a new HS Chapter 99 for electronically transmitted goods like e-books.

However, said Kozul-Wright and Banga, this identified and commonly understood scope of ET was extended by the European Centre for International Political Economy (ECIPE), which identified ET as "digitizable products and services" under the scope of the moratorium. Four broad categories of services were identified as ET:

- wholesale and retail trading services – including all retail sales, wholesale trade and commission trade, hotels and restaurants, repairs of motor vehicles and personal and household goods and retail sale of automotive fuel;
- recreational and other services – recreational, cultural and sporting activities, other service activities and private households with employed persons (servants);
- communications – including post and telecommunications services;
- business services n.e.c. – real estate, renting and business activities.

"This expanded scope of ET changed the goalpost for developing countries as adding these services to the scope of ET completely alters the development implications of the moratorium," Kozul-Wright and Banga said.

Supporting this expanded scope, the Organization for Economic Cooperation and Development (OECD) identified ET as "digital deliveries" which cover, along with digitizable products, digitally delivered business services.

The UNCTAD paper "highlights the consensus reached in the economic literature on the need to have trichotomy categorizing 'goods', 'intangible goods' and 'services' where 'intangible goods' are different from services." Advancing technologies have the potential to convert physical goods into intangible goods, which are very different from traditional goods (disciplined under the General Agreement on Tariffs and Trade) and traditional services (disciplined under the General Agreement on Trade in Services).

Trade in electronic transmissions will grow manifold, expanding the scope of the moratorium and thereby adversely impacting customs tariff revenues of the developing countries.

Revenue implications

However, even without an agreed definition of ET, the revenue implications of the moratorium can be estimated based on different scenarios of the scope of the moratorium, said Kozul-Wright and Banga.

Their paper estimates customs revenue implications if only "online" imports of digitizable goods are considered by the moratorium. It also estimates the impact of the moratorium if services which are electronically transmitted under Mode 1 are considered as ET (as per the OECD-proposed scope).

Under the first scenario, the potential tariff revenue loss to the developing countries is estimated at $10 billion per annum. The potential tariff revenue loss to least developed country (LDC) WTO members is $1.5 billion while sub-Saharan African countries' loss is estimated to be around $2.6 billion. In comparison, WTO high-income countries will experience a tariff revenue loss of only $289 million, as their average bound duties are at 0.2%.

"But this impact of the moratorium will increase manifolds if electronically transmitted services are also included under the scope of the moratorium," Kozul-Wright and Banga pointed out. "Using WTO's TISMOS database, the total imports of services under Mode 1 for developing countries (excluding LDCs) is estimated as USD 705 billion as compared to USD 80 billion of digitizable products. The imports of services under Mode 1 are found to be more than 10 times … the imports of digitizable products for Sub Saharan Africa as well as for Middle East and North Africa, while they are 20 times more in the case of WTO LDC members."

Further, according to Kozul-Wright and Banga, due to the advancement of new digital technologies like 3D printing, the implications of the moratorium extend far beyond customs tariff revenue losses for developing countries. "These emerging digital technologies have the potential to exponentially expand the trade in ET. The ongoing trend shows that the use of 3D printing is growing very fast and the industry has expanded by 62% in 2019 since 2017. 3D printing has adversely impacted the export competitiveness of the labour abundant countries, shifting the comparative advantages towards capital abundant countries.

"It is therefore urgent for developing countries to support the removal of the moratorium in order to preserve their policy space for regulating the imports of luxury items and generating tariff revenues at the time of crisis. This will also assist their digital advancement by providing a level playing field to their budding digital industry." (*SUNS9147*)

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Coronavirus could drive global poverty up for the first time since the 1990s

The COVID-19 crisis will likely lead to a rise in the incidence and severity of poverty, as well as a shift in its geographical distribution.

by Andy Sumner, Christopher Hoy and Eduardo Ortiz-Juarez

As COVID-19 slows in developed countries, the virus's spread is speeding up in the developing world. Three-quarters of new cases detected each day are now in developing countries. And as the pandemic spreads, governments face juggling the health consequences with economic ones as this shifts to becoming an economic crisis.

Our research shows that the poverty impact of the crisis will soon be felt in three key ways. There is likely to be more poverty. It is likely to become more severe. And as a consequence, the location of global poverty will also change.

Having looked at estimates from a range of sources – including the Asian Development Bank, Goldman Sachs, IMF and OECD – we considered three possible economic scenarios stemming from COVID-19, where global income and consumption contracted by 5%, 10% or 20%. We found that the economic shock of the worst-case scenario could result in up to 1.12 billion people worldwide living in extreme poverty – up from 727 million in 2018.

This confirms our earlier estimates that the coronavirus could push up to 400 million people into extreme poverty, defined by the World Bank as living on less than $1.90 per day – the average poverty line in low-income developing countries. This number rises to over 500 million if the World Bank's higher average poverty lines for lower-middle-income ($3.20) and upper-middle-income ($5.50) developing countries are used.

The potential increase is driven by millions of people living just above the poverty line. These people are likely to be badly affected because many of them work in the informal sector, where there is often little in the way of social security. Such a rise in extreme poverty would mark the first absolute increase in the global count since 1999 – and the first since 1990 in terms of the proportion of the global population living in poverty.

On the intensity of the poverty, the resources needed to lift the incomes of the poor to above the poverty line could increase by 60%, from $446 million a day in the absence of the crisis to above $700 million a day. For the existing extreme poor and those newly living in extreme poverty, their loss in income could amount to $500 million per day.

In terms of where poverty is located, it is likely to increase dramatically in middle-income developing countries in Asia, such as India, Pakistan, Indonesia and the Philippines. This points to the fact that much of the previously poor population in these countries moved to just above the poverty line. In other words, these countries' recent economic progress has been relatively fragile. We'll also likely see new poverty in countries where it has remained relatively high over the last three decades, such as Tanzania, Nigeria, Ethiopia and the Democratic Republic of the Congo.

How to respond to the poverty pandemic

COVID-19 poses a significant threat to developing countries, as their health systems tend to be weaker. More severe cases have also been linked to high blood pressure, diabetes and air pollution, all of which are prevalent in developing countries. Meanwhile, there are suggestions that COVID-19 could hinder the treatment of other illnesses such as tuberculosis, HIV/AIDS and chronic malaria.

But developing countries generally have a lower proportion of people at high risk from COVID-19 in terms of age (>70 years). As such, economic shocks may pose a greater relative risk to their populations. The question emerges as to whether lockdowns are the best option to contain the virus in developing countries if they entail severe income losses. Estimates of the share of jobs that can be performed at home are less than 25% for many developing countries – much lower than the ~40% recorded in, for example, the US and Finland. It's as low as ~5% in countries such as Madagascar and Mozambique.

Consequently, there's also a clear need for a range of social safety-net policies. These already exist in many developing countries, but their coverage and funding need to be expanded substantially. Such policies include cash transfer programmes, universal one-off cash payments, in-kind

There is likely to be more poverty. It is likely to become more severe.

food/vouchers, school feeding schemes and public works programmes. In middle-income developing countries, these are funded by the national government, whereas in low-income countries these are often co-funded by donors. Any set of policies should also incorporate "pay to stay home" or "pay to get tested" schemes.

The long crisis

Looking further ahead, the poverty impacts beyond 2020 are closely related to if or when an effective vaccine is developed. Even if we take the best-case scenario and a vaccine is discovered later this year, it's uncertain how long it would take to reach the entire global population. It could take years.

There is no guarantee developing countries would get access to the vaccine at a reasonable cost, or if everyone in developing countries would get the vaccine for free. We could end up living in a new COVID-19 apartheid, with the vaccinated and non-vaccinated residing in separate areas and working in different labour markets. This is a startling but very real possibility that no one is talking about much yet.

While this might sound far off, there are already some countries – such as Chile – issuing "immunity passports". Such passports might determine what work people can do by determining where they can go. This could leave the poorest without access to earning opportunities or only with lower-income opportunities if their movement is restricted.

The crisis is increasingly looking like a long crisis. If so, it will have repercussions on global poverty for years to come.

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Development finance in the time of COVID-19: Time for a rethink

María José Romero cautions against pursuing a private-finance-driven approach to funding development in the wake of the coronavirus crisis.

Before COVID-19, most discussions on development finance were focused on using public money and institutions to "leverage" private finance. The World Bank's "Maximizing Finance for Development" (MFD) approach is perhaps the most widely known illustration of this drive. The pandemic has, however, exposed the consequences of decades of austerity policies and privatization strategies that have undermined public health systems and stifled progress on universal social protection. With calls to rethink the prevailing development model, under the imperatives of "building back better" economies and societies, it is critical to learn lessons and consider a change of course.

MFD and the financialization of development finance

The MFD approach has structured the World Bank's operations since 2017. The objective is to attract the trillions of dollars managed by private institutional investors to help finance the Sustainable Development Goals (SDGs). "De-risking" private finance is central to this approach and implies changing the investment climate and using financing instruments like guarantees and public-private partnerships (PPPs).

The financialization of development lending refers to the creation of financial products out of bundled loans, ostensibly to diversify risk, which can then be traded. Recent announcements from JP Morgan and BlackRock suggest the financial sector is increasingly warming to the investment prospects being offered. This brings opportunities – but also challenges – to the fulfilment of SDG commitments and accountability. A 2018 open letter, signed by over 100 academics, detailed MFD's many structural flaws, stressing that its focus on the financial sector to create investable opportunities in essential services such as water, health and infrastructure can have long-term negative consequences for equity in service provision.

MFD is being increasingly integrated into country-level planning with the support of various diagnostic tools, such as the World Bank's Country Private Sector Diagnostic (CPSD). The CPSD "takes an investor perspective in reviewing all economic sectors" to identify investment opportunities. A report by the European Network on Debt and Development (Eurodad), "Repeat Prescription", exposes the role of the CPSD in shaping the domestic policies in target countries. For instance, in the case of Ghana, policy recommendations included measures for the commercialization of public services, including education, while in the case of Kenya, the government was encouraged to pursue health PPPs.

Lessons to draw from PPPs

The economic downturn in the wake of the pandemic risks deepening fiscal austerity and intensifying the turn to private investment, as soon as fiscal stimulus in response to lockdowns is over. However, there is a growing body of evidence about problematic PPPs in both developed and developing countries. It shows, firstly, that PPP projects tend to be more expensive than publicly financed projects, due to the high cost of private finance, profit margins and the transaction costs associated with the negotiation of complex PPP contracts. In developing countries, the returns required by investors are higher, due to higher perceived risks.

Secondly, PPPs effectively delay budget expenditures and do not lower the fiscal impact of projects. The true cost of PPPs is often unknown as operations are recorded off-balance sheet and they frequently lack transparency and scrutiny, in part due to commercial confidentiality.

Thirdly, PPPs are usually risky business for the public sector, and hence for citizens. Non-transparent contingent liabilities are a great risk. These are financial obligations whose timing and magnitude depend on the occurrence of some uncertain future event outside the control of the government, such as if the demand for the requested service or facility falls below a specified level. PPP projects can therefore be a source of debt in countries that are already at high risk of debt distress.

For instance, a flagship PPP project in Ghana, the Sankofa offshore gas project – backed by the World Bank – is an increasing fiscal burden for the public purse. In 2019, the country's bill for "unused gas" primarily due to a "take or pay" clause in the contract amounted to $250 million. This was due to a lack of demand and delays in building associated infrastructure.

The PPP hospital in Lesotho – also supported by the World Bank – swallows up almost a third of the nation's health budget. As a result, last year the Deputy Minister of Health called on citizens to "only go" to the PPP hospital "when there is a serious need", as the government's bill to the private company is now reaching unaffordable levels.

The International Monetary Fund (IMF)'s Fiscal Affairs Department has already pointed to the fiscal risks of PPPs, and analysis post-COVID-19 argues that "major PPP contracts should be reviewed to identify likely materialization of contingent obligations".

Fourthly, PPPs can shift public sector investment priorities, which can have detrimental effects on women and the most vulnerable. The strong focus on identifying profitable projects limits the extent to which PPP projects can proceed in areas which are at first not profitable. There are concerns that PPPs could become a mechanism for securing revenue streams for private investors rather than reducing poverty and inequalities.

Business as usual or building back better?

The financialization inherent in MFD has already had significant consequences, contributing to increasing inequalities and financial instability, as developing countries have been left vulnerable to external shocks. The implementation of MFD, therefore, greatly contributes to the underlying conditions that make the economic crisis triggered by COVID-19 significantly worse.

As the economic downturn deepens and countries deal with acute difficulties to deliver on the SDGs, the fight against inequalities and climate change, it is vital that the World Bank embraces the imperatives of "building back better". This means a people-centred approach to development finance that builds resilience and strengthens public systems. Given the problematic track record of MFD, the World Bank should seriously re-evaluate this approach. Its promotion can only mean "business as usual".

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Meritocracy legitimizes, deepens inequality

Instead of democratizing society, a meritocratic system may end up becoming a new means of social exclusion, contends *Jomo Kwame Sundaram.*

How often have you heard someone lamenting or even condemning inequality in society, concluding with an appeal to meritocracy? We like to think that if only the deserving, the smart ones, those we deem competent or capable, often meaning the ones who are more like us, were in charge, things would be better, or just fine.

Since the 1960s, many institutions the world over have embraced the notion of meritocracy. With post-Cold War neoliberal ideologies enabling growing wealth concentration, the rich, the privileged and their apologists invoke variants of "meritocracy" to legitimize economic inequality. Corporations and other social institutions which used to be run by hereditary elites increasingly recruit and promote on the bases of qualifications, ability, competence and performance. Meritocracy is thus supposed to democratize and level society.

Ironically, British sociologist Michael Young coined the term "meritocracy" pejoratively in his 1958 dystopian satire *The Rise of the Meritocracy*. With his intended criticism rejected as no longer relevant, the term is now used in the English language without the negative connotations Young intended. It has been uncritically embraced by supporters of a social philosophy of meritocracy in which influence is supposedly distributed according to the intellectual ability and achievement of individuals.

Many appreciate meritocracy's two core virtues. First, the meritocratic elite are presumed to be more capable and effective as their status, income and wealth are due to their ability rather than their family connections. Second, "opening up" the elite supposedly on the bases of individual capacities and capabilities is believed to be consistent with and complementary to "fair competition". They may claim the moral high ground by invoking "equality of opportunity", but are usually careful to stress that "equality of outcome" is to be eschewed at all cost.

As Yale Law School professor Daniel Markovits argues in *The Meritocracy Trap*, unlike the hereditary elites preceding them, meritocratic elites must often work long and hard, e.g., in medicine, finance or consulting, to enhance their own privileges and to pass them on to their children, siblings and other close relatives, friends and allies.

Gaming meritocracy

Meritocracy is supposed to function best when an insecure "middle class" constantly strive to secure, preserve and augment their income, status and other privileges by maximizing returns to their exclusive education.

But access to elite education – which enables a few of modest circumstances to climb the social ladder – waxes and wanes. Most middle-class families cannot afford the privileged education that wealth can buy, while most ordinary, government-financed and -run schools have fallen further behind exclusive elite schools, including some funded with public money. In recent decades, the resource gap between better and poorer public schools has also been growing.

Elite universities and private schools still provide training and socialization, mainly to children of the wealthy, privileged and connected. Huge endowments, obscure admissions policies and tax exemption allow elite US private universities to spend much more than publicly funded institutions.

Meanwhile, technological and social changes have transformed the labour force and economies, greatly increasing economic returns to the cognitive, ascriptive and other attributes as well as credentials of "the best" institutions, especially universities and professional guilds, which effectively remain exclusive and elitist.

As "meritocrats" captured growing shares of the education pie, the purported value of "schooling" increased, legitimized by the bogus notion of "human capital".

A different elite

While meritocracy transformed elites over time, it has also increasingly inhibited, not promoted social mobility.

Thus, although meritocrats like to see themselves as the antithesis of the old aristocratic elite, rather than democratize society through greater inclusion, meritocracy may even increase inequality and further polarize society, albeit differently.

While the old aristocratic elite were often unable to ensure their own children were well educated, competent and excellent, meritocrats – who often achieve their status and privileges with education and related credentials – have often increased their significance.

Hence, a meritocratic system – seemingly open to inclusion, ostensibly based on ability – has become the new means for exclusion, which University of Chicago professor Raghuram Rajan attributes to the digital revolution.

Meritocrats have increased the significance of schooling, with credential attainment legitimizing growing pay inequality, as they secure even better education for their own children, thus recreating and perpetuating inequalities.

Recent public doubts about and opposition to rising executive remuneration, MBA education, professional guild cartels and labour remuneration disparities reflect the growing delegitimization of ostensibly meritocratic hierarchies and inequalities. To add insult to injury, meritocratic ideology suggests that those excluded are undeserving, if not contemptible.

With progressive options lacking middle-class and elite support, those marginalized have increasingly turned to "ethno-populism" and other "communal" appeals in this age of identity politics. Unsurprisingly, their opposition to educational and economic inequalities and marginalization is typically pitted against the ethnic "Other" – real, imagined or "constructed" – typically seen as "foreign", even if domestic, as the "alien within".

Markovits argues that meritocracy undermines not only itself, but also democratic and egalitarian ideals. He insists that meritocracy also hurts the new meritocratic and technocratic elite, hoping to recruit them to the antimeritocracy cause, perhaps reflecting his appreciation of the need to build broad inclusive coalitions to bring about social transformation.

"Progressives inflame middle-class resentment, and trigger elite resistance while demagogues and charlatans monopolize and exploit meritocracy's discontents. Meritocratic inequality therefore induces not only deep discontent but also widespread pessimism, verging on despair."

Reducing inequality possible

In the US and elsewhere, tax policy, other incentives and even COVID-19 will encourage replacing mid-skilled workers with automation and highly skilled professionals, e.g., facilitated by the growing use of artificial intelligence applications.

One alternative is to reform labour market as well as tax policies and regulations to promote more skilled, "middle-class" employment. Those introducing new technologies would then be motivated to enable more productive, higher income, middle-class employment. A more open, inclusive and broader educational system would also provide the workforce needed for such technologies. Thus, the transitions from school to work, which have tended to increase inequality, can be transformed to reduce inequality.

Rather than de-skill workers to be paid less in order to become more profitable, "up-skilling" workers to be more productive can also be profitable. For example, an Indian cardiothoracic hospital has trained nurses for many routine medical procedures, allowing specialist doctors to focus on tasks really requiring their expertise. Using workers who are not fully trained doctors, but are paid and treated better, can deliver important healthcare services at lower cost at scale.

Such innovations would strengthen the middle class, rather than undermine and erode it. (*IPS*)

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The world economy needs a stimulus: IMF Special Drawing Rights are critical to containing the pandemic and boosting the world economy

As developing countries grapple with the devastating health and economic impacts of the coronavirus crisis, an issuance of Special Drawing Rights by the International Monetary Fund would hand them a crucial financial lifeline.

by Alexander Main, Didier Jacobs and Mark Weisbrot

International Monetary Fund (IMF) Managing Director Kristalina Georgieva has asked governments from the Group of 20 (G20) major economies for their backing to "boost global liquidity through a sizable SDR allocation, as we successfully did during the 2009 global crisis" (Georgieva, 2020a). African and European heads of state have called on the IMF to "decide immediately on the allocation of special drawing rights" (Ahmed et al., 2020). Former UK Prime Minister Gordon Brown and former US Treasury Secretary Larry Summers recently wrote that "if ever there was a moment for an expansion of the international money known as Special Drawing Rights, it is now" (Brown and Summers, 2020).

Special Drawing Rights, or SDRs, are not well known to the general public, but economists and development experts believe they could provide crucial support to countries facing economic and public health crises caused by COVID-19. In this article, we explain how SDRs work and how they should play a vital role in containing the COVID-19 pandemic and stabilizing the world economy.

What are SDRs?

Special Drawing Rights are international reserve assets – a sort of international currency[1] – which the IMF creates for its 189 member countries, much as central banks increase the supply of bank reserves at the national level. In times of economic and financial distress, countries can use these SDRs to meet external financing needs, thereby helping avert financial and/or balance-of-payments crises and helping maintain the confidence of financial markets. Countries can exchange SDRs for one of five foreign currencies (the US dollar, the euro, the Chinese renminbi, the Japanese yen and the British pound) which can be used to pay for imports or to cover debt service payments.

The value of SDRs is based on a basket of these five currencies; one SDR is currently worth about $1.35. SDRs are used exclusively by governments (and usually held by central banks) and some international institutions. They are traded among these actors but not on open markets. Countries receive interest from the IMF on SDRs that they hold, and pay interest to the IMF on SDRs that they were allocated (i.e., if they bought SDRs from other countries, then they are net recipients of interest, and if they sold SDRs to other countries in exchange for hard currencies, they would become net payers of interest). The interest rate is based on the short-term rates of the five currencies in the SDR basket – typically much lower than interest rates paid by developing countries' governments to foreign creditors. The SDR rate of interest is currently extremely low (about 0.1%). SDRs are not debt – countries don't ever pay back SDRs to the IMF, nor do they have to buy back any SDRs that they have sold to another country.

Given these characteristics, SDRs are particularly useful in helping stabilize national economies during a global economic downturn. This is why the most recent and largest issuance of SDRs decided by IMF members to date took place during the 2008-09 global financial crisis. In 2009, the IMF allocated SDR 161.2 billion or $250 billion (IMF, 2009; Ocampo, 2019). There are currently SDR 204 billion in circulation, worth about $280 billion (IMF, 2020a).

In accordance with the IMF's Articles of Agreement, SDRs are distributed to national governments in proportion to each country's quota share at the IMF (which is also the basis for contributions to and voting power at the IMF). As a result, high-income countries like the US and most European countries receive approximately 60% of an SDR allocation, while developing countries, such as most nations of Asia, Latin America and Africa, receive around 40% of SDRs.

While a consensus was almost reached at the IMF in April (IMF, 2020b), an issuance of SDRs requires a supermajority of 85% of votes of IMF members, and the US – which holds a 16.5% share of votes and thus holds veto power over any issuance – has so far prevented this decision from taking place. As a matter of US law, any allocation of more than about $650 billion worth of SDRs in any five-year period requires Congressional approval (allocations below that amount can be approved by the administration after a 90-day notice given to Congress).

Why are SDRs important for developing countries?

IMF projections indicate that the economic disruptions caused by the pandemic will lead to the worst global economic downturn since the Great Depression and will be far worse than the 2008-09 global financial crisis and world recession (Gopinath, 2020). Developing countries – which are disproportionately affected by disruptions to global supply chains and by the sharp fall in commodity prices triggered by the pandemic – will be hit particularly hard. Sub-Saharan Africa, already suffering from high rates of extreme poverty, could see as much as a 5.1 percentage point decrease in economic growth; the nations of

Latin America and the Caribbean are expected to experience their worst economic contraction since 1930 (World Bank, 2020a; UN News, 2020).

In addition, poorer developing countries that urgently need greater quantities of foreign exchange to cover financing gaps and essential imports – such as food, medical supplies and personal protective equipment – have been experiencing unprecedented capital outflows since early 2020, at over three times the rate seen during the 2008-09 world recession (Georgieva, 2020c). In other words, many developing economies are losing foreign exchange at the time they need it most.

The potential human consequences of this dire economic situation are staggering. According to the World Food Programme, the number of people facing acute hunger worldwide could roughly double, from 135 million to 265 million (World Food Programme, 2020). A recent study by the United Nations University World Institute for Development Economics Research has projected that as many as half a billion more people could be forced into poverty (Sumner, 2020). A May 2020 report by researchers at the Johns Hopkins Bloomberg School of Public Health predicts that as many as 1.1 million additional child deaths could take place in the developing world as a result of potential disruptions in health systems and reduced access to food (Roberton et al., 2020).

To avoid a wide-scale international humanitarian disaster, developing countries need external support, and they need it quickly. In late March, IMF Managing Director Georgieva said that the IMF's "current estimate for the overall financial needs of emerging market [countries] is 2.5 trillion dollars," noting that this was a "lower-end" estimate (Georgieva, 2020b). Since then, Georgieva has warned that the economic picture may be even more dire than earlier IMF forecasts predicting a 3% contraction in output at the global level (Shalal, 2020).

More than 100 countries have already asked the IMF for help (Pham, 2020). The IMF currently has a $1 trillion lending capacity, of which $200 billion was already committed before the crisis; nowhere near enough to meet the – at least – $2.5 trillion in financing needs cited by Georgieva. In addition, normal IMF loan agreements involving negotiations over economic policy conditions often take months to implement and many countries need immediate help.

To address developing countries' urgent funding needs, the IMF managing director and numerous experts, including many current and former heads of state and finance ministers, have called for a major issuance of SDRs (Georgieva, 2020a; Berglöf, Brown and Farrar, 2020). This would allow countries to boost their international reserves and avert potential financial collapse. It would also give them access to otherwise scarce foreign exchange, thereby allowing them to fund imports and cover debt payments.

Most wealthy countries have monetary tools and resources – such as strong, stable currencies, significant dollar or foreign exchange reserves, and access to central bank swap lines – that allow them to take salient measures to contain the pandemic and protect their economies (Board of Governors of the Federal Reserve System, 2020a). Poorer nations do not have these tools and resources at their disposal. This is why 21 developing countries chose to use most of the SDRs that were allocated to them in 2009 within a year of that allocation to relieve the pressure of the global economic crisis on their balance of payments, thereby averting austerity measures that would have had painful human impacts (IMF, 2020a).

Although middle- and low-income countries would receive proportionately less SDRs than high-income countries, a major issuance of these assets would still provide them with significant financial support. If the IMF issued one trillion SDRs globally, a country like Mozambique would receive the equivalent of around $691 million in SDRs. This is equivalent to 17.8% of its 2019 international reserves and 4.6% of its gross domestic product (GDP) for that same year (World Bank, 2020b; 2020c). With a 3 trillion SDR issuance, Mozambique would receive over $2 billion in SDRs, or 53.3% of its 2019 reserves, and 13.7% of its 2019 GDP.

With a one trillion SDR issuance by the IMF, Bangladesh would receive over $3 billion in SDRs, equivalent to around 9.3% of its 2019 reserves (World Bank, 2020d). If Bangladesh exchanged these SDRs for hard currency, it would be able to purchase around 12 million COVID-19 test kits, or 600 million PPE, or 50% of its annual imports from the US.[2]

How do SDRs benefit the United States and other high-income countries?

Unlike other forms of multilateral financial support, such as IMF or World Bank loans and grants, SDRs do not cost US taxpayers anything. They are assets the IMF creates – just as central banks like the US Federal Reserve create bank reserves – and that countries receive without charge.

But an SDR issuance would benefit the US and other high-income countries in other, far more significant ways. A new issuance of SDRs would provide developing countries with access to large quantities of foreign exchange, thereby allowing them to purchase more imports of agricultural goods, personal protective equipment, medical equipment and other goods. US businesses, many of which are global leaders in the production of these goods, can expect to see higher production levels and greater profits. Without a major SDR issuance, global demand for US exports is likely to fall.

In 2018, the US exported more than $635 billion in American goods to developing countries, supporting an estimated 6.3 million jobs across the US.[3] Exports of services from the US to the developing world supported an estimated additional 4.4 million jobs.[4] As global demand plummets, we can expect to see this income plunge and many of these jobs disappear. During the 2009 global recession, the US saw quarterly exports of goods and services fall by 21% from peak to nadir, in just two quarters (BEA, 2020a; 2020b). An estimated 2 million export-supported jobs were lost during the same period (Tschetter, 2010). The economic damage from the pandemic is expected to be far worse, with, for instance, the amount of global trade falling by at least 11%, according to IMF estimates (IMF, 2020e). Exports from the United States to all countries fell by 20% from March 2020 to April 2020, the steepest decline ever recorded (United States Census Bureau and BEA, 2020). The economic damage being caused by this sharp drop in global demand can be significantly mitigated by a large issuance of SDRs.

Another way in which the US benefits from an issuance of SDRs is by the reduction of threats posed by the global pandemic. As mentioned earlier, SDRs give countries the ability to access greater quantities of foreign exchange to increase imports of personal protective equipment and other medical goods that are essential for fighting and containing the pandemic. Once

COVID-19 treatments and vaccines are developed and mass-produced, SDRs will provide these countries with access to foreign exchange that can be used to import these vital goods as well. As public health experts frequently note, no country is truly safe from COVID-19 until the spread of the virus is effectively controlled throughout the world.

Counter-arguments to a major SDR issuance lack credibility

A major allocation of SDRs can theoretically either cause inflation or affect currencies' values or both. Whether that happens in practice depends on how much SDRs are allocated relative to the normal growth of the money supply, how recipient countries use them, and on monetary policy responses in the five hard-currency countries.

In an analogous case, concern over inflation was raised in the United States during the 2008-09 financial crisis and Great Recession when the US Federal Reserve, for the first time, began a programme of quantitative easing (QE), in which it created more than $3.6 trillion and the IMF created $250 billion in SDR (Board of Governors of the Federal Reserve System, 2020b). Yet inflation remained subdued; it was below the Fed's target of 2% for virtually the entire following decade.

In response to the current, sharper downturn caused by the COVID-19 crisis, the Fed has already created approximately $3 trillion (relative to a US GDP of $21.5 trillion in 2019) (Board of Governors of the Federal Reserve System, 2020b; BEA, 2020b). The world economy, which is also facing a more severe crisis than that of 2008-09, is around $87 trillion (2019) (IMF, 2020d). This calls for a much larger allocation of SDRs than in 2009. Proposals for general allocations range from $500 billion (based on political expediency) to $3 trillion (based on estimated financing needs) (UNCTAD, 2020).

Only a small fraction of any SDRs created will actually be converted into hard currency and spent very soon after issuance. That is because three-quarters of SDRs would be allocated to countries that already have access to significant quantities of foreign exchange including through swap lines with the US Federal Reserve, and many other countries typically hold on to a large portion of their SDR allocation. This is an important fact to consider because SDRs cannot cause inflation if they are not used. But it is worth noting that SDRs not converted into hard currency and spent can still play a very significant role in stabilizing economies during the current crisis given that they function as international reserves and can prevent balance-of-payments crises, capital flight and other negative shocks.

An IMF-commissioned report by Richard Cooper examines in some detail the potential avenues by which the creation of SDRs could contribute to inflation (Cooper, 2011). He explains that an increase in inflation is "extremely improbable." The bottom line is that the creation of SDRs does not, on its own, contribute to any inflation in the US. It can do this only if the Federal Reserve changes its own monetary policy and its own inflation target. But there is no reason to expect that the Federal Reserve would change its inflation targets simply because of the creation of SDRs.

The situation could be different in other countries, especially those that decide to use their SDRs. A major allocation of SDRs represents a one-time inflow of resources, which could not support recurrent spending indefinitely. It is, however, unfair and condescending to reject a general allocation that would benefit responsible countries in dire need on the grounds that some countries might adopt unsustainable policies. It's worth noting that an IMF evaluation of the 2009 allocation did not find widespread evidence that countries adopted unsustainable macroeconomic policies in response to the SDR issuance (IMF, 2018a).

For the sake of political expediency, in the current context there has also been some discussion about reallocating existing SDRs from countries with considerable financial resources to some developing countries, rather than allocating new SDRs to every country. A reallocation would have to take the form of either donations or loans, either directly to developing countries or through the IMF. Donations of SDRs could be beneficial provided that they do not divert money from other sources of aid. In the current climate, loans should be ruled out given that potential recipients are already typically in difficult debt situations. Unlike a general allocation of new SDRs, donating SDRs would carry a cost to donors, and lending SDRs would incur a cost to borrowers. Both donations and loans would require contracts that could take time to negotiate and are likely to come with red tape and strings attached. Some highly indebted middle-income countries would likely be left out of the reallocation scheme given the desire to focus resources on low-income countries. For all these reasons, a general allocation of new SDRs is far more preferable. Indeed, the very idea of reallocating existing SDRs could prove to be an unproductive distraction, as SDRs are not needed to make new grants or loans to countries. The reality is that developing countries' financing gaps are so big that it is necessary to pull out all the stops: a large general allocation of SDRs is required in addition to more aid and more debt relief.

Conclusion

While COVID-19 has been contained to some degree in a number of countries, primarily in Southeast Asia and Europe, it is now spreading at an alarming rate within the developing world (Zakaria, 2020). Of the 12 countries with the highest number of new confirmed infections, 10 are developing nations. Yet, in general, these countries lack the necessary infrastructure and resources needed to deal with a full-scale pandemic.

Similarly, many developing nations don't have access to the financial resources needed to weather the economic shock caused by the pandemic. While high-income countries generally have the possibility of engaging in major public spending programmes and can borrow money at low interest rates, middle- and low-income countries often face major financial constraints, exorbitant lending rates and unprecedented capital flight. As a result of this dire situation, the UN Development Programme has warned that global human development is likely to decline for the first time on record (UNDP, 2020). This decline would translate to millions of unnecessary deaths and to a major increase in poverty levels in developing countries.

But this tragic scenario can still be averted if the US and the rest of the international community take decisive international action. As we have shown, a large issuance of SDRs is an easy and effective way to provide a major infusion of financial support to the countries that most need it. This is why humanitarian groups like Save the Children and Bread for the World, US allies like France and Germany, leaders of Africa and Latin America, Nobel economics laureates like Amartya Sen and Joseph Stiglitz, and many other experts and global leaders are calling for a major SDR issuance as soon as possible.

Millions of lives can be saved and the global economy can recover far more quickly if the US and other IMF members urgently approve a general SDR allocation. This allocation should be significantly higher than that issued during the last global recession; in the current context, an issuance of as much as 3 trillion SDRs is warranted in order to meet financing gaps throughout the developing world.

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Notes

1. A currency fulfills three roles: it is a unit of account, a means of exchange, and a means to store value (i.e., an asset). SDRs fulfill these three roles, but they are used only by governments and some international institutions.
2. Based on a unit price of $250 for COVID-19 test kits and $5 for PPE (USTR, 2020).
3. United States Census Bureau (2020) with IMF list of developing countries (IMF, 2020d). (Does not include re-exports.) Hall (2017), using 2016 data.
4. Hall (2017) and authors' calculations, using 2016 data.

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