Third World ECONOMICS
Trends and Analysis

No. 705 16-31 August 2020 e-ISSN : 2716-5388

# UNCTAD stresses need for global economic recovery plan

A global recovery plan is required to kickstart a world economy that has been laid low by the coronavirus outbreak. In making this call, the United Nations Conference on Trade and Development (UNCTAD) underlines the leading role governments must assume, not only to raise effective demand but also to address the fragilities that had been besetting the global economy even before the pandemic struck.



.......... ALSO IN THIS ISSUE ..........

**THIRD WORLD**
ECONOMICS
Trends & Analysis

131 Jalan Macalister
10400 Penang, Malaysia
Tel: (60-4) 2266728/2266159
Fax: (60-4) 2264505
Email: twn@twnetwork.org
Website: https://twn.my

## CONTENTS



THIRD WORLD ECONOMICS
is published fortnightly by the Third World Network (TWN), an independent non-profit international research and advocacy organization involved in bringing about a greater articulation of the needs, aspirations and rights of the peoples in the South and in promoting just, equitable and ecological development.

**Editor**: Chakravarthi Raghavan

**Editorial Assistants**: Lean Ka-Min, T. Rajamoorthy, Chee Yoke Heong

**Visit our website** at https://twn.my/



# Global recovery plan needed to avert a "lost decade"

**Reviving a world economy battered by the COVID-19 pandemic will require that governments spend to boost global demand as well as redress pre-existing vulnerabilities, asserts a UN development body.**

*by Kanaga Raja*

GENEVA: In the face of a deep recession in the world economy amid a still-unchecked COVID-19 pandemic, the time has come to hammer out a plan for global recovery that can credibly return even the most vulnerable countries to a stronger position than they were in before the onset of the coronavirus crisis.

This is one of the main conclusions highlighted by the United Nations Conference on Trade and Development (UNCTAD) in its flagship *Trade and Development Report 2020* (TDR), which was released on 22 September.

According to UNCTAD, "an aborted economic recovery, or worse, another lost decade, is not preordained. It is a matter of policy choice." An inclusive recovery will require a willingness on the part of government not only to keep spending for as long as it takes the private sector to regain its confidence to spend, but also to tackle the underlying stresses and fractures that were already exposed by the global financial crisis, papered over, and left to fester for a decade, it said.

"It means addressing a series of pre-existing conditions that were threatening the health of the global economy before the pandemic hit, including high and entrenched inequality, sluggish growth, weak investment, endemic wage repression in the developed world and precarious working conditions in the developing world."

The first thing to get right, said UNCTAD, is avoiding the mistakes of the last crisis. That means maintaining an expansionary macroeconomic policy stance, appropriately balanced between its monetary and fiscal components, for as long as it takes the private sector to regain its confidence to spend, including, in particular, a strong investment drive.

"Avoiding a lost decade will require governments, particularly in the advanced countries, to stick to deficits for several years ahead," it added.

"Hope of a rapid economic bounce-back from a scientific breakthrough – in the form of an effective and widely available vaccine – cannot blind us to other man-made dangers ahead. If governments opt for premature fiscal tightening in an attempt to bring down public debt and businesses adopt an aggressive cost-cutting strategy in an attempt to boost exports, the recovery will likely fizzle out, with a double-dip recession a real possibility in many countries in 2022," UNCTAD cautioned.

At a hybrid media briefing (both in-person and online), Richard Kozul-Wright, Director of the UNCTAD Division on Globalization and Development Strategies and the main author of the TDR, said, "Clearly, we are not at the end of this crisis. I don't think we are at the end of the beginning of this crisis. And that generates a lot of uncertainty and unfamiliarity." He said the numbers that UNCTAD has projected have to take that degree of uncertainty and unfamiliarity in mind.

"That said, we continue to worry a lot about the disconnect between some of the language particularly of national policymakers about doing whatever it takes to address this crisis and a lot of global confusion and weaknesses in the response of the international community from which the developing countries are sure to be the biggest victims," said Kozul-Wright.

"I think it is worth asking the question – will this crisis take us closer to the brink or will it open up a new era of cooperation, stability and prosperity?" he said. "I think it is important to recognize that it will be policy choices and political leadership, not epidemiological destiny, that determines the course of the global economy over the coming years."

## Impact of COVID-19 on global economy

According to the TDR, before the pandemic, most analysts had expected world output to accelerate in 2020, pulled by faster growth in some of the larger developing economies, even as advanced economies continued their sluggish growth performance. The pandemic has forced a reappraisal. As of mid-2020, the expectation of most private-sector, government and multilateral institutions is a sharp contraction of the world economy this year, concentrated in the first half of 2020, followed by an incomplete recovery, starting in the second half of 2020. As measured by annual growth rates, the recession in 2020 will be much deeper than after the global financial crisis (GFC). Assuming that a second lockdown is avoided, the recovery is expected to continue through 2021, although world income is still unlikely to reach its pre-COVID-19 level by the year's end.

UNCTAD said that it sees a similar pattern of a deep global recession followed by a technical bounce (as lockdown eases) and an initial recovery for this year, but a full V-shaped recovery depends on policymakers doing everything right, a far-from-certain prospect. And there are reasons to be worried about the pace of recovery next year, not only because of the non-negligible risk of new waves of the disease, but also because of the high uncertainty about the direction of economic policy and the absence of timely multilateral support on a scale commensurate with the challenging circumstances, particularly in developing countries, leading to deeper and more lasting damage from the COVID-19 shock.

UNCTAD's baseline scenario, simulated through the United Nations Global Policy Model (GPM), and assuming the policy response this year is properly targeted and continues into 2021, indicates a 4.3% reduction in world output in 2020 and a 4.1% expansion next year. "Compared to the average expectations of public and private institutions as of mid-2020, our scenario suggests a less severe downturn this year, but a weaker recovery next year," it said.

In quantitative terms, considering that the average growth rate of the world economy – the pre-COVID-19 trend – was 3.0% in 2017-19, UNCTAD's baseline scenario means that world income will still be 6.4% below its pre-COVID-19 trend in 2021. Measured in terms of world gross product (WGP), the COVID-19 recession will likely amount by end of 2021 to a $12 trillion loss in global income, relative to a simple projection of the 2017-2019 trend, far larger than the TDR update expected in early March 2020. Moreover, the growth recovery in 2021 will coincide with rising unemployment, which is likely to reach double digits in some advanced economies.

According to UNCTAD, this baseline scenario anticipates a wide fluctuation of the growth rate of global output in 2020-21, but a full recovery to the pre-COVID-19 trend by 2021 is unlikely for four reasons: (1) the world economy had a positive trend growth rate before COVID-19, so even with an expansion of 4.1% in 2021, global income will not recover, in that single year, to the level expected before the pandemic; (2) the massive income losses of firms and families from COVID-19 have, and will continue to have, a negative impact on savings and income, raising private debt levels; (3) evidence from the GFC shows that monetary policy alone cannot bring the economy quickly back to its pre-shock situation. Fiscal stimulus is needed; the scale and composition of that stimulus will have a significant bearing on the trajectory of recovery; (4) based on what happened after the GFC, the necessary increase in government deficits and debt to fight the crisis may be prematurely aborted by fiscal consolidation; this could happen as soon as mid-2021 in many countries, which in turn would slow down the return to full economic recovery or even reverse it.

According to the TDR, the fragile state of the world economy going into 2021 should be a wake-up call for policymakers everywhere. If it is not, there is a high likelihood that world output will not follow the V-shaped pattern that many are hoping for or even the stunted V that is seen as the more likely outcome. A prolonged recession or U-shaped recovery, a double-dip recession (W-shaped) or a permanent loss of potential output (L-shaped) are all possible trajectories.

## Policy responses to COVID-19

According to the TDR, the first economic response of many countries to COVID-19 was to liquify financial markets to stop a credit crunch and deflationary debt spiral. Government emergency funds to support the health response to the pandemic also increased albeit, in many cases, not sufficiently to deal with the magnitude of the problem. "This shortcoming created bottlenecks and rationing in health systems, in both developed and developing countries," said UNCTAD.

What has made this crisis an unprecedented event, however, was the decision by governments to shut down economic activity in an effort to contain the pandemic, protect overstretched healthcare systems and save lives. This sudden stop triggered automatic spending stabilizers, particularly in the more advanced economies with robust social security systems, but many governments adopted additional discretionary monetary, financial and fiscal initiatives to soften the blow to income, employment and private balance sheets. The scale of these discretionary actions amounts to massive disaster-relief packages to support firms and families through the lockdown, as well as to aid local administrations in large federations whose revenues fell precipitously.

It is clear, said UNCTAD, that monetary responses, in the forms of loans and guarantees and/or quantitative easing, have been the preferred response to the COVID-19 shock in advanced economies but that fiscal packages have been significant in a number of cases. Both responses are significantly smaller in developing economies, where fiscal space is constrained and many central banks try to maintain a minimum precautionary level of international reserves to manage a stringent balance-of-payments constraint; however, fiscal packages have been significant in some cases.

It is still too soon to gauge the effective economic response of each country or region to COVID-19, or to separate what is a result of discretionary government decisions and what comes from exogenous support and endogenous mechanisms built into macroeconomic policy rules, said UNCTAD.

However, as of mid-2020, two things seem certain for coming economic policy discussions: this year there will be a deep global recession and a massive global increase in public debt.

Most policy responses to COVID-19 have been concentrated on relief or compensatory aid to firms and families, as well as preparation to deal with new waves of the disease. These measures have surely been necessary to save human lives and avoid an economic recession turning into a more prolonged depression, but the post-pandemic world will require more than disaster relief and prophylactic measures to recover from the current shock.

The state of the world economy was far from satisfactory before COVID-19 appeared, and the current health shock has exposed many of the stresses and fragilities that need to be addressed for the global economy to become more resilient and move on to a sustainable economic, social and environmental growth trajectory.

Indeed, there seems little doubt that once the bottom of this crisis is reached, the world will not only be trillions of dollars worse off, it will be more unequal, more insecure and more indebted than it was before. Governments will be more beholden to the vagaries of financial markets, large corporations will be more dominant, and the digital divide will have widened further.

Calls for a rethinking of the basic social contract (a "new deal," or other monikers) have, not surprisingly, grown louder, said UNCTAD.

Economic reconstruction after COVID-19 will, above all, require active government policies to reduce income inequality while lowering carbon emissions, large public investment projects to generate jobs and accelerate the transition to a low-carbon energy-efficient economy, and structural reforms to transition to new patterns of production and consumption, said the TDR.

"Developing nations will require access to sufficient and affordable financing and technology, along with more policy space, to make their contribution to a sustainable planet, as they also seek to close the economic and social gaps with advanced nations."

Market forces alone are neither able nor suited to guide economic and social transformations on the scale required, including meeting the Sustainable Development Goals (SDGs) by 2030. Indeed, the hyper-globalization era, despite establishing a business-friendly environment, has, in many countries, failed to deliver a fast pace of capital formation, in large part because of the spread to corporate boardrooms of an investment calculus drawn from financial markets.

That the recovery to the COVID-19 shock will require increased public investment, along with novel ways to manage fiscal constraints and imbalances, is indisputable. The experience since the GFC has shown that reducing the real interest rate to zero or negative values helps but it is not sufficient to spur market forces to stimulate investment and bring the economy back to full employment, let alone to transform current carbon-heavy patterns of consumption and production. Significant government incentives for targeted investments and innovation combined with strategic planning will be required to accelerate green inclusive growth, including penalties or outright prohibitions on activities with clear negative externalities for social stability and environment preservation.

*The current health shock has exposed many of the stresses and fragilities that need to be addressed for the global economy to become more resilient.*

"All of this implies a mixture of more active fiscal, labour and industrial policies in the post-COVID-19 world. Policy must aim to recover employment and boost national income, and to shift its distribution, while also changing the underlying production structures," said UNCTAD.

It noted that last year's TDR (2019) showed that a large-scale coordinated investment push – upwards of 2% of WGP and spearheaded by the public sector – to reinvent energy and other carbon-emitting sectors of the economy and radically alter production and consumption patterns was not only necessary but feasible. An investment push on this scale will also need to tackle high levels of income inequality and, at the same time, adopt more progressive fiscal arrangements, and directly target social outcomes through employment creation, decent work programmes and expanded social insurance.

Recent discussions dub such a strategy a "Green New Deal", recalling the efforts of the Roosevelt administration in the United States to tackle unemployment and low wages, the predatory nature of finance, infrastructure gaps and regional inequalities, in the context of recovering from the Great Depression.

"Given the nature of the climate crisis, and now the health crisis, such a programme would, at this moment in history, require a global effort," said UNCTAD.

Enhanced international cooperation and coordination will be essential if genuinely taboo-breaking measures are to deliver on scale and on time and without themselves generating daunting challenges for future generations. The leading countries and regions of the world, which have more material resources and policy autonomy to implement change in their own economies, will also have to support change in the rest of the world. "Coordinating these packages and extending financial support beyond the core will require effective and active multilateral institutions," said the TDR.

The existing multilateral architecture has, however, struggled to keep up with the challenges of a hyper-globalized world, according to the TDR. Recovery strategies in some advanced and developing countries have included measures to help build resilience on both the health and environmental fronts, but international cooperation and coordination has been woefully short of what is needed or absent altogether.

The policy space for autonomous recovery and reconstruction policies is much more limited outside the United States, China, Europe and Japan, which only heightens the responsibility these countries and regions should assume in coordinating their economic initiatives and encouraging more progressive change in the rest of the world.

The COVID-19 shock has demonstrated the need for active economic policy in the face of an emergency. To save lives and preserve income and employment, governments of different political orientations have followed a mixture of Keynesian and monetarist measures, as they did in 2009, as well as more targeted policies on the supply side.

Whether this was the best response to a self-induced economic coma will tax policymakers and commentators for some time to come. However, the post-COVID-

19 economic recovery will demand that, unlike after the GFC, policymakers do not abandon a pragmatic approach prematurely under the political pressure of vested economic interests and the intellectual influence of some defunct economists, said UNCTAD.

**Averting another "lost decade"**

According to the TDR, despite its tragic human cost, the global capacity of production did not fall substantially because of COVID-19 since the virus did not destroy productive capacity to the extent that cyclical downturns usually do. Nor is it the case that skills have suddenly been made redundant by a profound and permanent technological shift. This may change if the pace of bankruptcies picks up dramatically over the second half of 2020 and if working practices undergo a longer-term transformation, but to date there is idle capacity in many sectors and tens of millions of unemployed and underemployed workers across the world. The risk of excessive inflation, were governments to supply the demand so dearly lacking in today's global economy, is as low as it has ever been in a lifetime.

In short, there is a window of opportunity to recover better. But the window will not remain open for long and there is massive uncertainty as to whether governments can muster the political will to make the required choices, ones that should be clear after the failed response to the GFC, said the TDR.

Either way, policy choices taken today matter for the direction of the economy over the longer term. As soon as the choices are made, one way or another, the dynamics of world economic and financial interactions will drive the outcomes that determine the quality of life for workers and their families, the investment opportunities available for businesses and the environmental health of the entire planet. These dynamics are well understood and show absolutely no sign of changing absent decisive action. The onus is on the world's leaders to avoid a lost decade (or worse) and make the choice to revive equitable, sustainable growth.

The COVID-19 shock caused a sudden stop in global supply and demand, with a negative impact on, and feedback from, financial markets, as debt ratios and financial leverage shot up. Given the huge decline in WGP in the first half of this year, the restarting of the global economy will result in a pick-up in many countries, but the path ahead is uncertain.

Part of the uncertainty comes from the fact that the global pandemic may have altered aggregate supply in significant ways, including the reorganization of supply chains and lasting effects on the labour force and technology. But it mostly comes from the demand side, since households, businesses and governments must take stock of their balance sheets in the face of lost income and accumulated debts before they start spending again.

Critical to determining the shape of any possible recovery over the medium term is the underlying structure of global demand. The world economy was unprepared for any serious shock, let alone one of the nature and scale of COVID-19. This structural uncertainty is an outcome of the GFC – albeit with longer roots in the rules of a hyper-globalized economy – that is not as widely appreciated as it should be. During the last decade, the imbalances exposed by the GFC were not repaired. The debt overhang – private more than public – that brought the world economy to its knees in 2008 is more severe now than it was then. The low employment rates and precarious nature of much work are affecting ever-larger segments of the world's labour force. Income and wealth inequalities that have hampered economic growth and distorted distributional outcomes everywhere have worsened further, with governments vying with each other to extend tax breaks for corporations and high-wealth individuals and loosen regulations that favour those at the top.

The shrinking of the public sector as well as the tendency to fiscal austerity have continued. The weakness of investment in fixed capital and infrastructure – which further constrains capacity, productivity growth and income generation – has persisted. All these trends tend to encourage short-termism and speculative activities that lead to financial fragility.

"Mainstream economic analysis has contributed to the lack of preparedness of policymakers by promoting the wrong notion of resilience – one focused on doing business and foreign investors, rather than good jobs and income security – with an attendant narrowing of the aims and objectives of economic policy."

The world largely abandoned the imperative of demand management with the turn to neoliberal policies in the 1980s and an exclusive focus on measures to boost growth from the supply side. But especially since the GFC, there has been a greater awareness that inadequate growth of demand can cause a constant downward pressure on productive capacity and supply. Conversely, productivity growth – the main variable supporting capacity and incomes over the longer run – can be triggered by a robust growth of demand and economies of scale that drive specialization.

However, there are constraints on a demand-driven growth path. One, and of growing importance, is the natural environment, and the present pandemic is a painful reminder that interdependency has many, sometimes tragic, dimensions. Other pressing constraints of particular relevance to developing countries include lack of access to foreign currency and limited industrial capacity in a world economy that has become more and more dominated by big players. Another possible restraint on the growth of aggregate demand that weighs heavily on the minds of policymakers, in both developed and developing countries, is debt accumulation.

The TDR summarized that contractionary fiscal stances represent a dead-end for both developed and developing economies. For the former, for as long as fiscal spending multipliers are greater than one – which is the case except in the extraordinary circumstances of binding supply constraints – there are no macro-financial constraints to an expansionary stance, especially with low or negative interest rates. For the latter, contractionary stances are not a valid option but resolving the financial bottlenecks requires support from global macroeconomic conditions and some degree of financial insurance, either regional or global. The binding constraint is thus the level of global support to growth and stability, a question of political economy.

The TDR also said that export-driven growth is not a feasible growth strategy for the world as a whole, and seldom even for individual countries in a world economy with deepening financial integration. It is a recipe for financial fragility, crises and rising inequalities. It also depresses global demand in the mid-term and displaces development strategies as relatively less successful economies must earmark increasing portions of their income to service external liabilities while keeping up demand for exporting countries.

Once the immediate COVID-19 supply shock is over, the main threats to a full recovery of the world economy stem from two sources. One is the extent of business bankruptcies. While a number of high-profile bankruptcies have already been reported in the second half of 2020, these have not yet amounted to a cascade of cases that would adversely affect the financial sector through defaults and collapsing balance sheets. It is however nearly impossible to make a precise prediction of what might follow, especially where the corporate debt overhang in developed and developing economies is unprecedentedly high, said UNCTAD.

The second cause for concern lies with the structure of global demand and income generation. If the forces required to launch a global recovery, one that would drive up incomes and restore stability, are not strong enough, or worse still if they run counter to a global demand reflation, the principal victims may not necessarily be large corporations operating worldwide. Instead, small and medium-scale firms, those operating in the informal sectors across developing and, increasingly, developed economies, the self-employed, and ultimately ordinary workers will suffer. Ultimately, the prospects for inclusive economic development will be severely undermined.

The review of the structure of global demand offers a framework to make an informed projection of what lies ahead based on current conditions and similar past events. The starting hypothesis is a potential reluctance by policymakers to reinstate a vigorous role for the public sector in sustaining a strong pace of demand growth, said UNCTAD. Especially in the developed world, the existing economic structure remains geared to promoting either a debt-dependent, private borrowing-led or an export-led path to growth. Public sector demand injections are seen as a problem, not a solution. Moreover, calls for fiscal austerity have already resurfaced. This is reminiscent of the fiscal response to the GFC, which was initially strongly expansionary but was quickly followed by attempts to withdraw and effectively reverse the direction of fiscal policy.

"But the policy of austerity left scars as measured by a permanent loss of good jobs, decaying infrastructure, and weaker social safety nets. Ten years after, the growth of global demand remained inadequate," said the TDR.

Similar results have followed other crises, particularly in the developing world. The most paradigmatic examples are the debt crises that hit Latin American and African economies in the 1980s. Similar cases include the crises in the 1990s, in East Asia, the Russian Federation and again in Latin America. In all cases, the period after was marked by severe adjustment to the public sector, leading to "lost decades" in terms of growth and development.

"The main difference this time around is of a perverse kind. The size of the acquired public sector debts is unprecedented and across all countries. If austerity emerges as the winning policy option, the consequences are most surely going to be of comparatively gigantic proportions."

A lost decade for the global economy – or rather another lost decade – is a plausible outcome. But a lost decade is not inevitable. Any sustainable global macroeconomic strategy must achieve a combination of mid-term objectives: robust economic growth, industrialization and development, inclusiveness, employment, financial stability and, importantly, climate change mitigation. Together these can determine the macroeconomics of a well-functioning global economy.

"The priority for economic policy must be ensuring a real recovery of economic expansion that puts people back to work and restores income growth, while also ensuring that the financial imbalances left by the COVID-19 shock are repaired," said the TDR.

It is not too late yet for an effective stimulus to global demand. As long as productive capacity remains in place, workers have not lost skills or left the labour force and creditworthiness remains robust, a globally coordinated effort to spur demand has a real chance of restoring growth. With the private sector everywhere in "wait and see" mode, the initiative simply must come from the public sector.

Injections of public-sector demand into the economic system can boost incomes across the economy thanks to high multipliers. Only a strong fiscal expansion can bring unemployment down quickly enough to avoid permanently damaging workers, and it can only wind down carefully once the private sector is able to pick up demand.

The vision underlying the growth revival scenario, consistent with the SDGs, requires simultaneous attention to three global public goods: environmental protection, economic development of all nations, and financial stability. Like environmental protection, economic development in a globally integrated economy brings common benefits.

According to the TDR, strong domestic demand support in countries with a current-account surplus is necessary to put the world economy on a sustainable and robust growth path, while also promoting industrialization in the South. Combinations of financial support, technology transfers and especially by increasing market access and injections of aggregate demand can achieve this goal. This will help to raise the share of exports of manufacturing products produced in the South.

In the growth revival scenario, advanced surplus economies will reduce their imbalances by relying more heavily on faster growth of domestic demand. The complementary effort to back industrialization of emerging economies will work in the same direction. Meanwhile, advanced economies running current-account deficits improve their external positions without completely eliminating the deficits. Finally, the growth revival scenario assumes an international financial architecture that functions for global stability and development.

More generally, moving in the direction of the proposed growth revival scenario calls for policy focus and bold measures. Domestically, economic planning and industrial policies will be essential; internationally, policy coordination will be needed. Though both approaches have been part of the policy discourse in the past, implemented by both advanced and emerging economies to some degree, they imply a change of course with respect to the current policy mindset.

There should be no denying the fact that changing course is becoming harder over time. Self-restraint by policymakers, sometimes to even discuss the possibility of stimulus, has become habitual, effectively reducing the institutional space to operate. Governments have downsized in the name of austerity, outsourcing and privatization, but the size of their financial obligations has expanded disproportionally by absorbing debts contracted elsewhere. In honouring debts, promoting the creation of liquidity to rescue bank balance sheets, and relaxing the rules, they have contributed to the creation of financial giants that are "too big to fail". Thus, states have become not only smaller but also weaker in comparison. Meanwhile, the enlargement of rights, protections and favourable tax treatment to corporations, and other forms of abidance to corporate power and international investors have pari passu reduced the ability of workers to raise their wages.

Nevertheless, under the present conditions where states and wage earners are relatively weak, they still represent the sole possibilities of raising effective demand to avert a continuing global economic decline that will leave all parties worse off. To realize such possibilities, the role of fiscal policy has to be reinstated; corporate power has to be regulated in exchange for a continuing and stable source of prosperity; credit instruments to sustain production while averting speculation have to be reinvented; and employment and fair remuneration ensured.

The argument, after a crippling financial meltdown that led to a decade of insipid growth and increasing financial fragility, should be obvious in light of the COVID-19 crisis. What remains to be seen is whether there is the political willingness to coordinate a global recovery plan, the TDR concluded. *(SUNS9196)*

# UNCTAD's blueprint on "structurally transforming" economies

**In seeking to structurally transform their economies, developing countries can draw on China's experience in crafting policies to shift from "being a manufacturing hub of the world to an economic powerhouse", says UNCTAD.**

*by D. Ravi Kanth*

GENEVA: A senior economist at UNCTAD has offered a blueprint on how to "structurally transform" economies in the developing and least developed countries, amid the raging COVID-19 pandemic.

Against the backdrop of the worsening economic crisis and enveloping global recession, Rashmi Banga has outlined the crucial elements of structural transformation policies that the developing and least developed countries need to pursue in the wake of the pandemic.

Banga says that China is one of the few countries in the world to have moved away from "being a manufacturing hub of the world to an economic powerhouse", using its huge market to embark on a range of transformative policies.

In her briefing note, titled "How nations can structurally transform their economies" and circulated by UNCTAD on its website on 27 August, Banga says that "there are significant lessons from the China experience which other countries can draw on."

"There are benefits to emulating advanced economies, but most developing countries are better placed to learn from bottom-up growth experiences," she adds.

Significantly, China has withstood the worst shocks arising from COVID-19 due to its calibrated industrial policies that resulted in remarkable advances in the digital sector, particularly in the arena of advanced telecommunications and artificial intelligence (AI).

Further, China's multi-billion-dollar infrastructure and investment venture called the Belt and Road Initiative (BRI) has provided vital infrastructure linkages between the partner countries.

Banga says that UNCTAD's BRI Platform has published six papers "outlining the policy experiences that facilitated the structural transformation of the Chinese economy." These papers cover China's experience in the areas of macroeconomic management and finance; the digital economy; trade, industry and investment; and debt sustainability and debt management.

## How did China do it?

According to Banga, who is an expert on global digital trade, targeted actions propelled the digital revolution in China. UNCTAD's two papers on China's digital policy and e-commerce policies have laid bare Beijing's well-designed "targeted policies and strategies" that brought about "structural transformation."

China, says Banga, "built its digital economy from scratch with a comprehensive policy that targeted both the supply and demand sides." The big push by China in the digital arena "included network, broadband and cloud computing infrastructure and data centres", and this was accompanied by "a strategy to build an industrial internet ecosystem that was compatible with national economic and social development".

China took specific actions as part of its policy to bring about "targeted deep integration of the internet with the real economy along with building consumers' digital skills."

Among the developing countries, China is first to recognize the importance of data and the need to have an appropriate policy framework to ensure that data is stored within China. Based on this recognition, it formulated its "cybersecurity law" which is a crucial scaffolding for storing the personal information and important data collected and generated within Chinese territory. The Chinese law clarifies that where such data is transferred across borders for business needs, security assessments shall be conducted. Cross-border e-commerce is closely regulated by the government, which has successfully implemented an array of associated tax policies, says Banga.

Unsurprisingly, the United States, which is the leader in global digital trade – where its giant tech corporations such as Google, Amazon, Facebook, Apple and Microsoft have monetized the data from other countries to generate hundreds of billions of dollars of profits annually – has opposed China's cybersecurity law. In fact, this is the major area of contention between China and the US in the ongoing plurilateral Joint Statement Initiative (JSI) talks on e-commerce.

**Macroeconomic policy framework**

In addition to a comprehensive digital policy, Banga says, China's macroeconomic policy framework played a central role in bringing about structural transformation.

Through a combination of "proactive macroeconomic management, financial reforms, and carefully managed capital account liberalization," China made significant progress. The financial sector reforms launched by China have catalyzed "capital accumulation and economic diversification," according to Banga.

During the past 40 years of economic reforms and opening up the market for foreign investors, China ensured that the resulting investments contributed to its overall economic development. Its strategic approach to participation in global and regional value chains has been particularly successful, Banga says, while its investment policy has played a pivotal role in attracting and regulating foreign investment and guiding it to positively contribute.

In his book *Kicking Away the Ladder*, the Cambridge economist Ha-Joon Chang succinctly argued that all major industrialized countries deployed "interventionist economic policies" in their early phases of industrialization, including protective tariffs, for transforming their economies. In many ways, China has chosen to adopt such interventionist policies.

According to Banga, China also adopted a "strategic approach to debt management and debt sustainability" during the past 40 years of rapid structural transformation with double-digit economic growth.

"Well-targeted project selection – aimed at market expansion and foreign exchange revenue generation – and the assignment of responsibility for raising debt and investment decision-making to local government authorities contributed to debt sustainability," Banga says. "This move also encouraged innovation and flexibility, as central authorities remained in control of aggregate debt risks and economic stability."

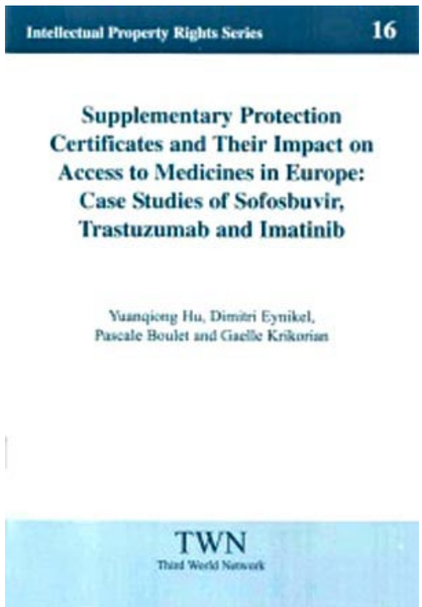
In the coming months, UNCTAD is planning to publish policy papers on the experiences of other developing countries, such as Ethiopia, Indonesia and Sri Lanka, in implementing policies to structurally transform their economies. *(SUNS9181)*

---

***TWN Intellectual Property Rights Series No. 16***

## Supplementary Protection Certificates and Their Impact on Access to Medicines in Europe: Case Studies of Sofosbuvir, Trastuzumab and Imatinib

*by Yuanqiong Hu, Dimitri Eynikel, Pascale Boulet and Gaelle Krikorian*




In recent years, there has been increasing pressure on public health systems in high-income countries due to high medicines prices, one of the underlying causes of which are the market monopolies granted to pharmaceutical undertakings. These monopolies have been facilitated by expanded forms of intellectual property protections, including the extension of the exclusivity period after the expiration of the patent term concerning medicinal products.

In the European Union, such an approach lies in the Supplementary Protection Certificate, a mechanism formally introduced under Regulation 1768/92/EEC (now: Regulation 469/2009/EC, amended). After more than 20 years of implementation, the common justifications for SPCs are being challenged by recent findings as to their functioning and impact. Similarly, legitimate questions have been voiced as to the negative impact of SPCs on timely access to affordable medicines.

On the basis of an analysis of three medicines for hepatitis C and cancer treatment, this paper critically engages with the policy justifications underlying SPCs. It then analyses access challenges to a hepatitis C medicine and an HIV treatment in Europe, highlighting the social cost of the introduction of SPCs. Both the normative and empirical analyses have demonstrated that the common justifications supporting the SPC regime are deeply questionable. The addition of SPC exclusivity has also heavily delayed competition and maintained high medicines prices in European countries. Ultimately, the granting of such extended exclusive private rights on medicines may result in unnecessary suffering and be a factor in the erosion of access to medicines for all.

***Yuanqiong Hu** is Senior Legal and Policy Adviser, MSF Access Campaign, Médecins Sans Frontières; and Postdoctoral Research Associate at the School of Law, School of Oriental and African Studies (SOAS), University of London. **Dimitri Eynikel** is Advocacy Adviser at MSF Access Campaign, Médecins Sans Frontières. **Pascale Boulet** is a Consultant with Medicines Law & Policy. **Gaelle Krikorian** is Head of Policy, MSF Access Campaign, Médecins Sans Frontières.*

*Email twn@twnetwork.org for further information, or visit https://twn.my/title2/IPR/ipr16.htm*

Third World ECONOMICS No. 705, 16-31 August 2020

# South calls for "developmental and inclusive" WTO reform agenda

Developing-country trade diplomats speaking at a recent forum advocated development-friendly reforms in the WTO in place of developed-country proposals they say would deepen existing imbalances in the trading system.

*by D. Ravi Kanth*

GENEVA: Trade envoys from developing countries delivered their nuanced perspectives for pursuing "developmental and inclusive" reforms at the World Trade Organization (WTO) during a recent virtual discussion, as a counter to what they called imbalanced, skewed and anti-developmental reforms proposed by the US, the European Union and Canada among others.

The virtual brainstorming session on 3 September was hosted by Prof. Abhijit Das, the head of the Centre for WTO Studies in New Delhi, the Geneva-based South Centre and the Penang-based Third World Network

## US-proposed "pathways"

In his key address to the trade envoys at the meeting on "Strengthening the Multilateral Trading System to Foster Development: Prospects and Challenges," former South African Ambassador to the WTO Faizel Ismail said the US reform proposals are not something new but started during the Barack Obama presidency between 2008 and 2016.

This began with the then US Trade Representative (USTR) Susan Schwab declaring that "Doha is dead" while demanding that the "emerging countries" must take on additional responsibilities. Subsequently, another former USTR Ron Kirk and former US Ambassador to the WTO Michael Punke argued that "fundamental differences exist on the nature of emerging markets and their responsibilities", noted Ismail.

At the WTO's eighth Ministerial Conference in Geneva in 2011, the US proposed "new pathways" in WTO talks by suggesting plurilateral and issue-by-issue negotiations and bringing up the issue of global value chains.

At the eleventh Ministerial Conference in Buenos Aires in 2017, it launched a campaign for comprehensive reforms. The proposed reforms were spelt out at the WTO in 2018-19 and were in such areas as: special and differential treatment (S&DT)/categorization of developing countries; rule making – substantive and procedural; regular work and transparency; and dispute settlement.

In total, Ismail identified seven "pathways" proposed by the US to reform the WTO:

(1) S&DT – recategorization of developing countries;
(2) global value chain (GVC) narrative on trade;
(3) abandonment of the consensus approach in favour of variable geometry and plurilaterals;
(4) abandonment of the single undertaking in favour of issue-by-issue negotiations;
(5) targeting China in the WTO;
(6) notifications and counter-notifications;
(7) reforming the dispute settlement system.

According to Ismail, the underlying objectives of the US-mooted reforms are to deepen asymmetry of the rule-based system, erode the gains of developing countries on S&DT, and change the strategic course of the WTO in favour of developed countries.

The developing countries, he said, must respond to these "negative" reforms proposed by the US and other developed countries by:

(a) building developing-country coalitions in the proud tradition of the G20, G33, NAMA 11, LDCs, SVEs, African Group, Cotton 4 and G110;
(b) building an alternative vision of multilateralism based on principles of development and inclusivity; and
(c) uniting behind the UNCTAD Geneva Principles for a Global Green New Deal, broadening the context for a WTO deal.

## Disregarding negotiating history

During his intervention at the meeting, China's Ambassador to the WTO Zhang Xiangchen inveighed against the reform proposals advanced by the current USTR Robert Lighthizer, saying they would erode the results of the painstaking negotiations over the past many years.

In an op-ed in the *Wall Street Journal* on 20 August, the USTR had proposed five major reforms at the WTO: (1) baseline tariff rates that apply to all, with minimal exceptions; (2) end the free trade agreement land grab; (3) large or advanced economies (such as China, India, Indonesia, South Africa and Argentina) should not have access to S&DT; (4) new rules to stop economic distortions that flow from China's state capitalism; and (5) replacing the WTO's two-stage dispute settlement process with commercial arbitration, "in which ad hoc tribunals are impanelled and resolve particular disputes in an expeditious manner."

Zhang said the proposal to have baseline tariffs for all countries "not only disregards the negotiating history of the previous negotiations but also is a contradiction with the principle of less than full reciprocity as embodied in the WTO agreements."

He said Lighthizer's proposal to force countries to bring their tariffs down to the level being levied by developed countries is fundamentally flawed as it fails to take into consideration the levels of development among countries, particularly the developing and least developed countries.

He said not every country is liberalized and that WTO members open their markets through give-and-take negotiations. He added that tariffs are an important policy instrument for developing and least developed countries in their pursuit of industrialization.

As regards the USTR's proposal for differentiation among developing countries for availing of S&DT, Zhang said there are no internationally accepted criteria of classifying developing countries, and that it will be difficult to have such criteria in the foreseeable future.

He said the US proposal on differentiation is not only an issue for the likes of China, India and South Africa but also a "systemic" issue which developing countries have to address in a united manner. Developing countries must ensure that S&DT is made "precise" and "effective" so as to operationalize it, he added.

Commenting on the proposal for commercial arbitration, Zhang said it would take WTO members back to the GATT panels and would lead to the fragmentation of the state-to-state dispute settlement process. Moreover, it would lead to the controversial investor-state dispute settlement system, he suggested.

On proposals for disciplining industrial subsidies as tabled by the US, the European Union and Japan among others, the Chinese envoy said the proposals are targeted against developing countries to deny them "policy space". The developed countries, which had themselves used industrial subsidies during their industrialization, are now trying to re-shore the supply chains, he said, calling on the developing countries to defend their "legitimate policy space."

Zhang said the developing countries must press ahead with their own reform proposals, suggesting that the one-sided and imbalanced reforms proposed by the US and other developed countries must be opposed.

He said S&DT must be safeguarded in the WTO fisheries subsidies negotiations and that there should be a "green box" for fisheries subsidies. He also emphasized the need to address the continued "asymmetries" in agriculture, particularly the need to eliminate the so-called Amber Box subsidies. China, India and several other countries have been calling for the elimination of these trade-distorting subsidies for almost two years.

Zhang further said that there should be an outcome on cotton. He also supported the Joint Statement Initiative on plurilateral outcomes in investment facilitation.

## "Proactive" and "curative" agenda

In his intervention, Indian Ambassador to the WTO Brajendra Navnit spoke about how the preamble of the WTO's foundational Marrakesh Agreement set out the need for S&DT.

Navnit also said the Southeast Asian countries which made significant strides in their industrialization must assist other developing countries.

The Indian envoy suggested that developing countries must pursue a "proactive" and "curative" agenda of trade reforms and not merely "react" to the reforms advanced by developed countries in a preventive manner.

Navnit said that issues concerning non-tariff barriers as well as the balance of payments that may arise in the post-COVID-19 scenario must be included by developing countries in the list of reforms.

Jamaica called for pursuing an inclusive and developmental agenda, including the need to safeguard S&DT.

Its Ambassador to the WTO Cheryl K. Spencer cautioned against growing plurilateralism, saying that it would lead to further fragmentation of multilateralism.

Spencer also called for the restoration of the two-stage dispute settlement mechanism and raised several concerns about the proposed reforms to strengthen the WTO secretariat. She highlighted the developmental component in the Doha agenda, suggesting that its linkage with development-oriented proposals must be at the centrestage of reforms.

## Close scrutiny

In a detailed critique of the reform package advanced by the US, the EU and Canada, South Africa's Ambassador to the WTO Xolelwa Mlumbi-Peter scrutinized each proposal by the developed countries with regard to the WTO's three functions: the negotiating function, monitoring and dispute settlement.

On the negotiating function, concerning the proposed differentiation among developing countries in availing of S&DT and "levelling the playing field," Mlumbi-Peter said the arbitrary criteria adopted by the US entail serious implications for developing countries as well as least developed countries. She said developing countries must insist on the continuation of S&DT in current and future trade negotiations as it is their "legitimate" right as well as the core element of trade relations. Moreover, S&DT is clearly laid out in the Marrakesh Agreement and is the "scaffolding" for the successive WTO agreements. At a time when the development divide is being further widened, developing countries need S&DT for addressing "structural challenges", including inequality, poverty and other disparities shown by the COVID-19 pandemic.

Mlumbi-Peter also cautioned that the developing countries must remain concerned over the "market-oriented" reforms proposed by the US and other industrialized countries as they would further tilt the playing field in their favour. She said the eight elements of the "market-oriented policies" advanced by the US will have serious repercussions for developing countries. These eight elements are:

- Decisions of enterprises on prices, costs, inputs, purchases and sales are freely determined and made in response to market signals;
- Decisions of enterprises on investments are freely determined and made in response to market signals;
- Prices of capital, labour and technology are market-determined – minimum wage laws to address exploitation of workers;
- Capital allocation decisions are determined and made in response to market signals;
- Enterprises are subject to internationally recognized accounting standards, including independent accounting;
- Enterprises are subject to market-oriented and effective corporation law, bankruptcy law, competition law and private property law, and may enforce their rights through impartial legal processes, such as an independent judicial system;
- Enterprises freely access relevant information on which to base their business decisions; and
- There is no significant government interference in enterprise business decisions described above.

Mlumbi-Peter argued that markets are not perfect, noting that there are adverse outcomes arising from over-pricing, market concentration, rising unemployment and inequality, among others. With the growing need for governmental intervention as demonstrated by the current COVID-19 pandemic, as well as the presence of mixed economies in WTO member countries, she said "we need a multilateral trading system that supports inclusive growth, and enables national authorities to pursue steps to achieve national developmental objectives and outcomes based on their peculiar circumstances."

The South African trade envoy criticized the recent disciplines proposed by the US, the EU and Japan on industrial subsidies and state-owned enterprises, saying they will "limit policy tools to advance industrial development." She added that while the US, the EU and Japan clamour for industrial-subsidy disciplines, there is total silence on how to reform farm subsidies.

Commenting on the US proposal for resetting bound tariff rates and agreeing on baseline tariff rates that apply to all with minimal exceptions, Mlumbi-Peter said this is harmful as it implies that WTO members would have the same commitments regardless of their level of development, even as developed countries are refusing to facilitate intellectual property and technology transfer. Resetting bound tariff rates would be "the biggest trade injustice of treating unequal members the same," she emphasized.

Mlumbi-Peter also criticized the plurilateral Joint Statement Initiatives, saying they will result in the "fragmentation" of the multilateral trading system as the JSI discussions are about multilateralizing the plurilateral initiatives. She said the JSIs are all about bringing "new rules" into the WTO to the complete disregard of the provisions of the Marrakesh Agreement, and are a brazen attempt to "undermine the fundamental principles of the WTO such as consensus-decision making" and establish parallel structures in negotiations.

Regarding proposals by the US and other industrialized countries for punitive measures for non-compliance with WTO notification requirements, Mlumbi-Peter said these "disregard the genuine capacity constraints facing many developing countries." "We therefore propose a 'developmental and cooperative approach' to notifications and that transparency is not limited to notification requirements but permeates all the processes of the WTO to ensure inclusive participation in all WTO processes and decision-making," she added.

Referring to the WTO's enforcement function and the dispute settlement system, Mlumbi-Peter said that while developing countries recognize the importance of the dispute settlement system, "preserving the system does not mean accepting either inherited inequities or proposals that would worsen imbalances."

"Any reform [of the WTO] must address the longstanding concerns, especially those that constrain policy space to nurture our industries, including rules [that] have contributed to an unbalanced globalization where benefits increasingly accrue to a few and generate growing concentrations of wealth, inequality, job losses and insecurity," Mlumbi-Peter emphasized.

She called for reforms based on "inclusivity and development", including:

- Preserving S&DT and advancing the 10 agreement-specific proposals on S&DT put forward by the G90 developing-country grouping – promote public health, accelerate industrialization, balance of payments, upgrade and modernize manufacturing, promote technology transfer and close the digital divide to promote an inclusive digital economy;
- Advancing a development-oriented and cooperative approach to transparency rather than a punitive approach;
- Rebalancing global rules and national economic development imperatives to provide for policy flexibility in order for countries to address their peculiar challenges – promote economic resilience and recovery;
- Resisting rules on e-commerce that would confine developing countries to being consumers of digital products rather than foster digital industrialization; and reviewing the WTO moratorium on customs duties on electronic transmissions, given its implications for digital industrialization, revenue and broader socio-economic effects. *(SUNS9186)*

# South calls for addressing scope and sequencing issues in fisheries text

**WTO member states remain far apart on how to regulate fisheries subsidies after the latest round of talks at the trade body made scant headway towards a final agreement.**

*by D. Ravi Kanth*

WASHINGTON DC: Many developing countries have called for addressing the scope and sequencing issues, including the special and differential treatment (S&DT) provisions, in the draft fisheries subsidies text issued by the chair of the Doha rules negotiations in the WTO, Ambassador Santiago Wills from Colombia.

The developing countries pushed back against suggestions for overseeing fisheries management at the WTO and for negotiating transparency and notification provisions before addressing the faultlines in the draft text, trade envoys told the *South-North Development Monitor* (*SUNS*).

At a meeting of heads of delegation (HoD) on 18 September, sharp differences came into the open on various provisions of the draft consolidated text due to the chair's selective prioritization of issues such as overcapacity and overfishing and transparency and notification provisions.

In his comments, Wills expressed his unhappiness at the way members approached the negotiations. The chair emphasized the need for good-faith implementation of the outcomes, suggesting that "some delegations are approaching the negotiations on how to defend themselves in litigation and how to challenge some others' commitments even before allowing them to comply."

Wills said he was alarmed that members stuck to their original positions and were concerned with "how to exempt themselves from a particular discipline and at the same time to include others in the application of that discipline."

"This won't work," he said, arguing that "instead of challenging current measures, we need to ensure that members will comply with what is being negotiated, as we are dealing with the underlining problem of sustainability."

"Litigation should be [the] last resort, and not a mindset to negotiate; if this is not addressed, we will have a substantial problem very soon," he added, expressing sharp concern over the failure to make progress during the meetings over the week.

## US support

Responding to the chair's apparent exasperation, the US Ambassador to the WTO Dennis Shea supported the draft consolidated text and the overall conduct of the week's negotiations.

Shea said the US was not convinced that the continued discussions on Article 5.1 on the prohibition of subsidies contributing to overfishing and overcapacity could make much progress.

"Briefly put, several members from different continents have put a proposal for capping," he said. He lamented that "time and again we have seen proposals for prohibiting other members' subsidies and exempting their own through innumerable exemptions and exclusion." He also said that "despite the mandate's ban on some harmful subsidies, some delegations have categorical objections to any environmental and other criteria."

He said the US was concerned by "objections to strong transparency provisions in distant water fishing."

In the face of growing pressure for a credible process and "sequencing" of issues, the US envoy said the key was to avoid any stalled discussion on process and sequencing issues – for the good of fish and for the good of the organization. The US strongly supported the chair in the conduct of the negotiations.

On capping subsidies as proposed by the US, the European Union said that certain harmful subsidies needed to be eliminated, and capping of subsidies was outside the mandate.

The EU said several members remained opposed to fisheries management but such management played an important role in constraining fisheries subsidies.

The CARICOM (Caribbean Community) countries and Vanuatu said their populations depended on fishing for their food security, suggesting that there must be balanced disciplines.

Indonesia's Ambassador to the WTO Syamsul Bahri Siregar called for making the draft consolidated text simpler and clearer, arguing that there were "significant gaps."

He suggested reformulating the draft text on overcapacity and overfishing, and also emphasized that special and differential treatment was very important for Indonesia and other developing countries.

Indonesia called for negotiations in an "inclusive, transparent and objective manner" in line with the United Nations Sustainable Development Goal (SDG) 14.6.

Under SDG 14.6, world leaders had agreed to "prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part" of the WTO fisheries subsidies negotiations.

Without naming the countries that have depleted global fish stocks through their industrial-scale fishing, India suggested the "polluter pays" principle, saying that those who created the problem should bear the responsibility.

India also spoke about moving the deadline for the negotiations to next year, while emphasizing that S&DT must remain at the centre of all the provisions.

Several developing-country coalitions such as the African, Caribbean and Pacific (ACP) Group, the African Group and the least developed countries, and South Africa among others raised sharp concerns about the draft text, cautioning that it needed to be amended to include their proposals.

## Linkages among provisions

In her intervention, South African Ambassador to the WTO Xolelwa Mlumbi-Peter said while it was the chair's prerogative to "identify issues that are critical to be discussed in each cluster, it is important to understand the linkages between various provisions of the agreement and the difficulty of selective prioritization of certain issues without a broader understanding of how they interact."

"It seems clear to us that there is a need to reflect on the sequencing of the negotiations," said Mlumbi-Peter. She added that "a discussion on the scope is of paramount importance if we are to make any progress in these negotiations. This will result in clarity on the type of disciplines relating to fisheries subsidies. In addition, we cannot start with negotiation of transparency obligations when we have not finalized the core disciplines themselves." While transparency and notification issues were important to members, they "cannot prejudge outcomes of core disciplines at this time."

Mlumbi-Peter argued that "transparency and notification obligations should not be more burdensome than necessary, and must take into account the peculiar practicalities of the fisheries sector and the capacities of especially developing countries."

She also said members "must deliver on the mandate" based on SDG 14.6 and not SDG 14.4, which emphasizes on regulating harvesting, ending overfishing, and implementing science-based management plans. She said that "the WTO does not have expertise nor the mandate to deal with fisheries management."

*"S&DT is a fundamental pillar and principle that underpins all WTO negotiations."*

Moreover, the "parameters of the negotiations have been clearly defined and agreed by our leaders," the South African envoy said. "Any expansion of the mandate is not going to assist our cause."

Mlumbi-Peter stressed that S&DT had to be "an integral part of the agreement as per the mandate." "We reject any notion that limits S&DT to transition periods and capacity building," she added, arguing that "S&DT is a fundamental pillar and principle that underpins all WTO negotiations and it must at its core include flexibilities for developing countries."

She drew attention to the Marrakesh Agreement Establishing the WTO, which "states clearly that we conduct our trade relations in a manner consistent with our respective needs and concerns at different levels of economic development."

Members "also need to bear in mind that in negotiations on sustainability there is an important principle of common but differentiated responsibilities (CBDR), a principle of international environmental law establishing that all states are responsible for addressing global ills, yet not equally responsible," Mlumbi-Peter emphasized.

Further, "those who are the major subsidizers and are responsible for the state of fisheries must shoulder the greatest responsibility," she maintained.

Responding to the chair's call for negotiating in good faith, Mlumbi-Peter said "it is important to ensure that the agreement is fair and does not limit our ability to develop our fisheries resources for the benefit of our people."

She also said that "the pace of the negotiations must take into account the COVID-19 challenges and importantly allow for political oversight in these negotiations and for time for us to consult our capitals."

"These negotiations are extremely important to us as we have an offensive interest," the South African envoy said, arguing that members "must work towards a balance that leads to effective disciplines on fisheries subsidies, that respect the mandate under SDG 14.6 and the mandate of the WTO."

Speaking on behalf of the African Group, Botswana called on members to "demonstrate flexibility and pragmatism in the approach of a prohibition of the most harmful subsidies in line with the spirit and letter of the mandate and the ambit of the WTO competences."

Members "should be focusing on subsidies and not fisheries management," Botswana argued.

On the process, Botswana said "the questions about how the text will be amended or changed have been a subject of discussions [and] it is important to clarify the rules of engagement so that members can prepare themselves appropriately."

On behalf of the ACP Group, Jamaica said the Group "does not support linkages to tests or expose fish management decisions to scrutiny in the WTO." It said "the WTO is not a fish management organization and that what you have will not invoke panel scrutiny." It cautioned that the proposed tests "appear to provide an opportunity to exempt the major subsidizers that can find creative ways around the tests." *(SUNS9194)*

# Egypt calls for "special reform" after first round of DG race

**Egypt has urged reform of the process to select the WTO Director-General after its candidate in the current contest fell out of contention.**

*by D. Ravi Kanth*

WASHINGTON DC: Egypt has called for "special reform" of the procedures for appointing the WTO Director-General, after its candidate was eliminated from the first round of the DG race along with two others.

At a heads of delegation (HoD) meeting on 18 September, the WTO General Council (GC) chair, Ambassador David Walker from New Zealand, announced the results of the first round of the DG selection process, in which three of the eight candidates have been asked to withdraw from the field as they were "least likely to attract consensus."

The three candidates who lost out in the first round are Egypt's Abdulhameed Mamdouh, Tudor Ulianovschi from Moldova and Jesus Seade Kuri from Mexico.

The five remaining candidates – Ngozi Okonjo-Iweala from Nigeria, Yoo Myung-hee from South Korea, Amina Mohamed from Kenya, Mohammad Maziad Al-Tuwaijri from Saudi Arabia, and Liam Fox from the United Kingdom – will proceed to the second round of the selection process.

The GC chair is assisted in conducting the selection process by the chair of the Dispute Settlement Body, Ambassador Dacio Castillo from Honduras, and the chair of the Trade Policy Review Body, Ambassador Harald Aspelund from Iceland.

Walker said that the second round would commence on 24 September and conclude on 6 October, with another three candidates to be eliminated after that round. In the second round, members will each be asked to provide two preferences; negative preferences will not be accepted. The GC chair said preferences expressed in the first round will not count in the second round, and members will have to give their preferences all over again.

He said that "the objective is to identify, among the different preferences expressed by delegations, those least likely to attract consensus, so that the General Council can narrow the field of candidates, as foreseen in the Procedures."

Citing the GC decision of December 2002 on the procedures for the appointment of Directors-General, Walker said that "as regards the breadth of support, we considered the distribution of preferences across geographic regions and among the categories of Members generally recognized in WTO provisions: that is, LDCs [least developed countries], developing countries and developed countries".

During the interventions by the trade envoys of the countries sponsoring the three losing first-round candidates, Egypt's Ambassador Youssef Alaa said while its candidate Mamdouh possessed the best qualifications to serve the organization in these critical times, he could not cross the first round, according to a trade envoy who asked not to be quoted.

Alaa said that a "special reform" was needed in the procedures for the DG selection process to ensure that the candidate selected for the job was the best candidate. He hinted that things were not good with the way the selection process was being conducted, the above trade envoy said.

Mexico's Ambassador Angel Villalobos Rodriguez expressed regret that its candidate Seade Kuri could not cross the first round, suggesting that the organization was facing an existential crisis.

Moldovan Ambassador Tatiana Molcean congratulated the five candidates who made it to the second round. *(SUNS9193)*

Third World ECONOMICS No. 705, 16-31 August 2020

# *Reinventing multilateral solidarity – rhetoric, or realignment of power?*

Genuine multilateral solidarity demands that public institutions take the leading role in tackling the global challenges of our times, writes *Barbara Adams.*

Multilateral solidarity is gaining traction as the slogan for mobilizing support for international cooperation and for the United Nations.

Is it replacing or merely renaming cross-border obligations, many of which have been enshrined over decades in UN treaties, conventions and agreements, and the principle of common but differentiated responsibilities in their implementation?

Why do we seek another name at this time?

It seems that reaffirmation is less attractive than invention in this time of innovation, short-term thinking and results measurement and messaging via social media and 280 characters. How should it be reinvented?

**Stakeholder trend**

In the 1980s, Chase Manhattan CEO David Rockefeller said that the economics of international relations drives the politics. Certainly, the politics of international relations has failed to keep pace with globalized economics and has resulted in unfettered hyper-globalization and multidimensional inequality and violence.

Decades of structural adjustment, market liberalization and austerity policies, together with financialization and digitalization, have propelled the rush to neoliberal governance. This is characterized by the unwillingness and/or loss of capacity of UN member states to govern at the national level and, by implication and logic, also at the global level. The vacuum has been nurtured and "filled" by power centres, public and private.

One prominent forum is the World Economic Forum (WEF), which defines itself as "the International Organization for Public-Private Cooperation" and asserts: "The Forum engages the foremost political, business, cultural and other leaders of society to shape global, regional and industry agendas."

In June 2019, the UN Secretary-General signed a framework agreement with the WEF, promising multiple areas of cooperation on activities the WEF describes as "shaped by a unique institutional culture founded on the stakeholder theory, which asserts that an organization is accountable to all parts of society. The institution carefully blends and balances the best of many kinds of organizations, from both the public and private sectors, international organizations and academic institutions."

Is this agreement a recognition that stakeholders are replacing public sector representatives and rights holders as the primary "subjects" of multilateralism and the UN?

One of the victims of this (stakeholder) trend is the UN. The pragmatism of Secretaries-General Annan and Ban Ki-moon launched a succession of public-private partnerships and multi-stakeholder initiatives to keep the UN in the multilateral game.

Are these what is meant by multilateral solidarity?

If so, how can it be expected to tackle the most serious global challenges that include climate degradation, ballooning inequalities and systemic discrimination, the COVID-19 pandemic and an unsustainable debt burden for many developing countries?

The record of the international financial institutions (IFIs) is not encouraging. The looming debt crisis, exacerbated by COVID-19 and economic lockdowns, is not a unique phenomenon. The failure of IFIs to assess debt sustainability and related fiscal policy according to rights and social, economic and environmental justice obligations is a longstanding practice, one that treats symptoms at best.

**Stepping up to govern**

The 2030 Agenda for Sustainable Development made a valiant effort to connect the dots and the COVID-19 tragedy has forced governments back into the driver's seat, a role many had relinquished willingly or under pressure.

Climate change and COVID-19 are not the only crises that have exposed the abdication of achieving substantive democratic multilateralism but have been of such dimensions that member states have to step up and govern.

Has the preference of many to partner rather than govern met a dead end?

Reinventing multilateral solidarity must start with bending the arc of governance back again – from viewing people as shareholders, to stakeholders, to rights holders. There are many global standards and benchmarks that could be developed to measure this progression. These should be at the forefront of pursuing substantive, rights-based multilateralism and distinguishing it from multilateralism for rhetoric's sake. Just a few to get started:

- Vaccines recognized as global public goods.
- Moratorium on intellectual property rights for health, climate change and indigenous peoples' rights while going through a review and possible recall process.
- Ratification and adherence to human rights treaties and conventions.
- Ratification and adherence to environmental and sustainability treaties.
- Abdication of nuclear weapons and export of small arms as a commitment to peaceful and just societies.
- Global priority positioning of the 2030 Agenda for Sustainable Development to support sustainable livelihoods and strategies for conflict prevention, as well as to evaluate debt sustainability and the quality of financial flows.
- National oversight and implementation of agreements on business and human rights.
- New and meaningful commitments to reducing inequalities within and between countries, including policies addressing and measuring the concentration of wealth.
- Cross-border solidarity that is not an excuse for interference or market access.
- Demotion of gross domestic product

(GDP) as the primary measure of economic progress and prosperity.

Multilateral solidarity relies on trust and requires addressing the trust deficit in the public and private spheres. Solidarity is demonstrated by a commitment to all rights for all and this cannot be achieved or aspired to without an effective duty bearer – government and the public sector.

The UN should be the standard bearer at the global level, not a neutral convenor of public and private engagements. Credible public institutions with commitment and capacity for long-term programming and non-market solutions and responses are essential at all levels.

And this requires predictable and sustainable public resources, currently undermined by tax evasion and illicit financial flows and detoured to servicing undeserved debt burdens.

The necessary but not sufficient condition for multilateral solidarity, the fuel to change direction, is a new funding compact at national level and to finance an impartial, value-based and effective UN system. *(IPS)*

***Barbara Adams****, chair of the board of the Global Policy Forum, was trained as an economist in the UK and served as Executive Director of the Manitoba Council for International Affairs from 1977-79 in Canada. She also served as Associate Director of the Quaker United Nations Office in New York (1981-88), and as Deputy Coordinator of the UN Non-Governmental Liaison Service (NGLS) through the period of the UN global conferences and until 2003. From 2003-08, she worked as Chief of Strategic Partnerships and Communications for the United Nations Development Fund for Women (UNIFEM).*

*The above op-ed is a short chapter in the 2030 Spotlight Report launched on 18 September 2020.*

# *Regressive taxation must be reversed*

A recent book by two noted economists presses the case for a progressive tax system to curb economic inequality.

*by Jomo Kwame Sundaram*

With many in the world experiencing declining living standards, there has been growing frustration. Many hope that progressive taxation will improve things. While some economies once had progressive tax systems, recent decades have seen regression.

*Triumph of Injustice*, the recent book by Emmanuel Saez and Gabriel Zucman, both associates of "rock-star" economist Thomas Piketty, calls for a US return to progressive taxation. The duo show that the US had one of the world's most progressive tax systems, but now, the richest pay a lower tax rate than the poorest.

The two French economists at Berkeley consider the two major competing US ideologies on taxation based on rival claims with contemporary echoes.

The socially regressive, ostensibly libertarian tradition has its roots in property, including slaves, who once accounted for 40% of the population of the US South. Plantation owners and slaveholders opposed property taxes in the name of freedom and liberty. Meanwhile, the myth of the wealthy that low taxes have long been part of US history and tradition has become far more influential.

Another, more progressive tax ideology can be traced to more egalitarian traditions, including some involving wealth taxation. The US has actually had some of the highest tax rates on the rich in world history, as taxation became more progressive from the 1930s, especially after the Second World War.

Those most responsible for the U-turn from the 1980s have been US Presidents Ronald Reagan and Donald Trump.

The authors attribute the great recent increase in US economic inequality to the "negative spiral" involving regressive tax reforms over the last four decades. However, empirical support for their claim is suspect as the "primary" distribution of income before taxation is hardly egalitarian. Besides the traditional division between capital and labour, rentier incomes and much higher executive remuneration have become far more significant in recent decades.

While regressive tax incidence has undoubtedly made things worse, exaggerating the fiscal system's redistributive impact detracts from a more comprehensive understanding of contemporary inequality.

### Evasion and avoidance

Successive US governments have also enabled tax evasion and avoidance by not investing enough to effectively enforce what remains of the US tax code.

These have been portrayed by beneficiaries and their propagandists as "unavoidable". They then claim that the best option to ensure greater compliance is to lower "headline" tax rates. Thus, instead of greater efforts to reduce tax evasion and avoidance, they urge further reduction of tax rates.

Saez and Zucman insist that governments, especially the world's most powerful one in Washington DC, must come down hard on tax dodgers, pointing out that not doing so is due to political choices made. They propose a Federal Protection Bureau to enhance capacity against tax evasion and avoidance.

### Corporate taxation

The duo show that corporate taxes were crucial in narrowing the gap between rich and poor during the Keynesian Golden Age for a quarter-century or so in the mid-20th century after World War II.

While very high top personal income tax rates and much more inheritance and property taxes can help, they show that corporate taxation was crucial. The corporate income tax rate then was 50%, taking half of firm profits.

The high tax rate also encouraged reinvesting profits, rather than paying dividends and bonuses, encouraging firm growth with higher capital accumulation in the long term.

Meanwhile, progressive government expenditure complemented progressive taxation, including more direct taxes, for a comprehensively progressive fiscal system, reducing overall economic inequality.

**Proposals to reduce inequalities**

Saez and Zucman persuasively offer a comprehensive set of proposals to reverse the downward spiral to rebuild a much more progressive US tax system, with many lessons very relevant elsewhere as well.

They acknowledge that the US has already shown the way with its Foreign Account Tax Compliance Act (FATCA). FATCA compels all US citizens, both at home and abroad, to file annual reports on all their foreign holdings, ensuring greater financial transparency in the age of globalization.

Nevertheless, they insist it is not enough, arguing that "when it comes to regulating the tax industry, the Internal Revenue Service (IRS) brings a knife to a gunfight", instead of enhancing US tax capacities and capabilities.

The first principle of taxation for them is that all income should be taxed equally, whether from work or assets. Today, capital income is taxed much less than labour income, increasing inequality contrary to the popular presumption that taxation is progressively redistributive.

Saez and Zucman also show that the rich can afford to pay 4% of national income, or US$750 billion more in tax. Four sets of taxes would double their current average tax rate from 30% to 60%. They propose a steeply progressive income tax, arguing that a top rate of 75% is most viable. The duo also recommend strongly enforced corporate tax, doubling inheritance tax revenues, and introducing a wealth tax.

They insist that it will be impossible to reduce inequality in the contemporary world only by raising corporate, inheritance and income taxes, as important as these are to the overall effort. At the rates recommended, a wealth tax would raise significant sums, but still would not radically reduce inequality or extreme wealth concentration.

Hence, the authors argue for higher rates, not only to raise more government revenue, but also to reduce extreme wealth inequality and concentration.

Saez and Zucman argue that extreme wealth concentration has led to growth benefits being captured by a few. For them, "a radical wealth tax would lead to a reduction in the number of multi-billionaires. More than collecting revenue, it would de-concentrate wealth". They suggest a 10% rate on fortunes over $1 billion. This would not only make it harder to be a billionaire, but also much harder to become and remain a multi-billionaire.

If their proposed wealth tax was in place from 1982, most of the 400 richest Americans would still be billionaires, but worth much less. Their wealth shares would be closer to what they were in 1982, before the rapid rise of wealth inequality. Mark Zuckerberg would have $21 billion instead of $61 billion, while Bill Gates would be worth $4 billion instead of $97 billion.

Under President Franklin Delano Roosevelt in the 1930s, an income tax top rate of 94% was introduced, apparently not to raise revenue but rather to limit high incomes and wealth concentration. This effectively limited income differentials between the highest and lowest paid to far more reasonable levels.

As top tax rates have drastically fallen since, executives now get several hundred times more than their lowest-paid employees.

In a recent interview, Gates commented, "I'm all for super-progressive tax systems ... I've paid over $10 billion in taxes. I've paid more than anyone in taxes. If I had to pay $20 billion, it's fine. But when you say I should pay $100 billion, then I'm starting to do a little math about what I have left over." *(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.*