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COVID-19 highlights need to change course – UNCTAD

The COVID-19 crisis has dealt a huge blow to development prospects and exposed the vulnerabilities of the world economic order. But in bringing home the imperative of real change, says the United Nations Conference on Trade and Development (UNCTAD), it also presents an opportunity to reshape global production and reset multilateral cooperation in order to "build a more inclusive, resilient and sustainable future."

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UNCTAD draws up roadmap for more inclusive trade and development

The COVID-19 crisis has underlined the need, and brought about the opportunity, to reorient the global economy towards a more inclusive, resilient and sustainable development path, says a UN economic body.

by Kanaga Raja

GENEVA: The health and economic crisis triggered by the COVID-19 pandemic calls for new responses and new directions to change course from the world's pre-existing vulnerabilities that have aggravated the pandemic's effects, and has provided a catalyst for more inclusive trade and economic development.

This is one of the main conclusions highlighted by the United Nations Conference on Trade and Development (UNCTAD) in a new report on the impact of the COVID-19 pandemic on trade and development.

UNCTAD said the pandemic's impact has been asymmetric and tilted towards the most vulnerable, both within and across countries, affecting disproportionately low-income households, migrants, informal workers and women.

It said there is a pressing need to reshape global production networks to be more green, inclusive and sustainable while simultaneously resetting the multilateral system to support the most vulnerable and deliver on climate action.

COVID-19 poses an enormous challenge to development aspirations, UNCTAD said, adding that it is a stark reminder of shared vulnerability and demonstrates the need for real change. "Nonetheless, it can also be an inflection point to alter course and build a more resilient new normal. Much will depend on the policies adopted and ability to coordinate, both at the international and national levels," UNCTAD emphasized.

"Thus, despite the grim outlook, it is still possible to turn COVID-19 into the finest hour of the United Nations and build a more inclusive, resilient and sustainable future."

UNCTAD also said a viable vaccine for COVID-19 will not halt the spread of economic damage, which will be felt long into the future, especially by the poorest and most vulnerable.

In a virtual media briefing on 19 November, UNCTAD Secretary-General Mukhisa Kituyi said the UNCTAD report highlights that this is exactly the right time to address the weaknesses of globalization that led to the rapid spread of the virus across the world and its very uneven economic impacts.

"This report is the culmination of the last nine months of UNCTAD's effort to monitor the development impact of the COVID-19 crisis, showing how globalization has helped spread the virus but also must now play a part in its recovery," he pointed out.

He said that while the health crisis has targeted all populations especially men, it is the youth and women who are bearing the brunt of the economic crisis.

Highlighting the national responses in the wake of the crisis, Kituyi said UNCTAD estimates that a typical developed country spends around 4.5% of its gross domestic product (GDP) on additional expenditures and forgone revenues plus 5.6% of GDP on liquidity support. In contrast, a typical least-developed country (LDC) can afford far less – just 1.9% of GDP on additional spending and 0.6% of GDP on liquidity support.

Given the differences in population size and the size of their economies, this means that a typical developed country spends around $1,400 per capita on direct fiscal stimulus, while a typical LDC can afford just $18 per capita, and other developing countries spend around $38 per capita.

Kituyi said that to avoid these uneven impacts and responses, the UNCTAD report argues that "we must transition to a 'new normal' that reshapes global production and resets multilateral cooperation."

"We are seeing new hopes that changes in behaviour that have taken place during the pandemic can sow the seeds of a fairer globalization and a more resilient multilateralism."

Economic impact of pandemic

In its report, UNCTAD said it expects global GDP to fall by around 4.3% in 2020, with an expected recovery of 4.1% in 2021. Developed economies are expected to be more affected in 2020 than developing countries, at growth of -5.8% and -2.1%, respectively, and to experience a weaker recovery in 2021, at 3.1% compared with 5.7%.

Unlike in the global financial crisis of 2008-09, developing countries are expected to experience negative growth in 2020, and developed economies are expected to register a much deeper fall in output, at -5.8% in 2020 compared with -3.4% in 2009.

Growth in trade in goods and services declined in the first quarter of 2020, as the early effects of the pandemic began to be felt, said UNCTAD. The value of merchandise trade is estimated to have declined by 18% year-on-year in the second quarter, and trade in services by 21% in the same period.

Based on preliminary data available at the time of writing, the outlook for the third quarter was improving, with a projected year-on-year growth of -5% for goods and -9% for services, signalling a potential recovery of much of the second-quarter losses.

While the value of total trade in services fell by 7.6% in the first quarter of 2020, travel services were particularly hard hit, falling by more than 24%.

The pandemic has also had an immediate and negative impact on foreign direct investment (FDI) in 2020. The outlook remains dire, with further deterioration projected in 2021, said UNCTAD.

"The exceptional global circumstances as a result of the pandemic led to delayed implementation of ongoing investment projects and the shelving of new projects, as well as the drying up of foreign affiliate earnings of which normally a significant share is reinvested in host countries."

As a result, global FDI flows are forecast to decrease by up to 40% in 2020, from their 2019 value of close to $1.6 trillion. This would bring FDI to below $1 trillion for the first time since 2005. FDI is projected to decrease further in 2021 and only begin to recover in 2022 at the earliest.

The World Bank projects that remittances to low- and middle-income countries will decline by almost 20%, to $445 billion in 2020, due to the economic crisis induced by the pandemic and shutdown measures.

The projected fall, which would be the sharpest decline in recent history, is largely due to a fall in the wages and employment of migrant workers, who tend to be more vulnerable to loss of employment and wages during an economic crisis in a host country. The decline will represent the loss of a crucial financing lifeline for many vulnerable households, said UNCTAD.

It also said the pandemic will have short-term and long-term impacts on vulnerable groups and sectors, which require policymakers to not only focus on the short-term challenges but also address the long-term consequences of the crisis, to ensure a sustained recovery. This requires strengthening efforts to transform production and export structures in developing countries, to build resilience to future shocks and create good conditions for sustained growth.

Increased poverty

The United Nations baseline projections in May suggested that, as a result of the pandemic, global output would decline by 3.2% and the number of people in extreme poverty at the global level would increase by 34.3 million in 2020, with Africa accounting for about 56% of the increase. The baseline projections by the International Food Policy Research Institute suggest that global output will decline by 5% and that global extreme poverty will increase by about 140 million people, with Africa accounting for about 80 million and South Asia for 42 million. An estimate by the World Bank indicates that the number of people in extreme poverty in the baseline scenario will increase by 71 million in 2020, with the poverty rate increasing from 8.2% in 2019 to 8.8% in 2020.

UNCTAD said these poverty estimates are of concern because they suggest that the pandemic will make it even more challenging to achieve Sustainable Development Goal 1 on ending poverty in all its forms everywhere.

Before the onset of the pandemic, significant progress had been made in reducing global extreme poverty, with the global poverty rate falling from 35.9% in 1990 to 10% in 2015 and 8.6% in 2018. As a result of the pandemic, the global poverty rate is expected to be 8.8% in 2020.

Among developing countries, the impact of the pandemic on poverty rates is expected to be severe, particularly in Africa and LDCs because of their high vulnerability and limited capacity to adjust and respond to shocks, said UNCTAD.

Africa accounts for about 13% of the global population but is expected to account for over 50% of global extreme poverty in 2020. LDCs, of which many are in Africa, account for about 14% of the global population and are expected to account for 53% of global extreme poverty in 2020.

UNCTAD said one factor that has contributed to the projected high poverty-related impact of the crisis, particularly in Africa and LDCs, is the lack of social protection and labour programmes in these economies, which makes it challenging to cushion the impact on vulnerable groups. Another factor is the lack of productive capacities and structural transformation in these economies.

The COVID-19 pandemic could also cause a food crisis in developing countries through both supply-side and demand-side channels, the report said. Restrictions on movement due to the pandemic have slowed down economic activity, potentially affecting food production and reducing food supply. Food export controls by major exporters, such as outright export bans and other measures including export taxes, could exacerbate the supply shock.

Countries that are both dependent on food imports and reliant on tourism revenues are expected to be among the most severely affected with regard to food security. As the second-most dependent country group on food imports, small island developing states (SIDS) may lose their capacity to import food due to the decline of foreign currency derived from the tourism sector.

Tourism makes important contributions to development in both developed and developing countries. The sector has been severely affected by the crisis, given the severity of the restrictions on movement, border closures and other restrictions imposed on travel in response to the pandemic. These measures have resulted in a significant decline in international tourism arrivals, with negative consequences for revenue and growth.

In the first half of 2020, international tourist arrivals fell by 65%, compared with the same period in 2019. The greatest drop was observed in East Asia and the Pacific (72%), followed by Europe (66%), Africa (57%), the Middle East (57%) and the Americas (55%). It is estimated that in 2020, there will be between 850 million and 1.1 billion fewer international tourist arrivals, $910 billion to $1.2 trillion lost in tourism export revenue, and 100 million to 200 million jobs at risk due to the pandemic.

"Developing countries in Africa, LDCs and SIDS are particularly susceptible to the decline in international tourism because of their high levels of openness to trade in goods and services and dependence on tourism for foreign exchange and revenue."

SIDS are the most vulnerable to downturns in international tourism because of the small sizes of their economies and their higher levels of exposure to and dependence on the tourism sector and trade, said UNCTAD. It said international tourist arrivals in SIDS are estimated to have declined by about 62% in the first six months of 2020, representing a significant loss in foreign exchange and tax revenue, and reducing the capacity of governments to provide an adequate and appropriate response to the negative impact of the crisis.

"Reducing the poverty-related impact of the crisis requires the adoption of universal social protection policies in developing countries, to help cushion the impact and enable societies to recover better. It also requires building productive capacities through, for example, enhanced support for micro-enterprises and SMEs [small and medium-sized enterprises], to help increase their capacity to create decent jobs," said UNCTAD.

"More generally, there is a need for a coordinated global response to the crisis, as a global crisis requires a global solution, and no country acting in isolation has either the resources or the capacity to effectively deal with the health-related and socioeconomic challenges arising from the emergency."

It is evident that some of the short-term national responses in developed and emerging economies have a negative impact in vulnerable developing countries, said UNCTAD. "In this context, there is a need for international coordination to ensure that short-term responses to the crisis do not create long-term economic problems in developing countries."

Unsustainable debt burdens

The pandemic has come at a time when developing countries are already struggling with mobilizing sufficient resources to achieve the Sustainable Development Goals, said the report. By 2019, a number of such countries had reached unsustainable debt burden levels, making further borrowing for health-related, social and economic spending to combat the impact of the pandemic an unviable option.

"There is a need for a coordinated global response to the crisis, as a global crisis requires a global solution."

The total external debt stocks of developing countries and transition economies as a group reached an estimated $10.1 trillion in 2019, the highest level to date. This is more than double the level recorded at the outbreak of the global financial crisis, when total external debt stocks amounted to $4.3 trillion.

In reaction to the deep recession caused by lockdown measures, donor countries have been able to mobilize significant amounts to support and stimulate their domestic economies. In contrast, developing countries have much more limited resources for financial support and stimulus packages.

Given the size of most developing economies and their limited fiscal space, the per capita amount of such packages is limited in comparison with both their needs and the magnitudes mobilized by developed countries. This means that without stepped-up international assistance, many developing countries cannot afford adequate response policies to the COVID-19 crisis, said UNCTAD.

"Stepping up international financial support is particularly important as the pandemic emerged at a time when developing countries were already dealing with growing debt difficulties," it said.

Many developing countries lack fiscal space and have shallow financial and banking systems that leave them ill equipped to respond to the potential scale and duration of the crisis. Central banks in developing countries do not have the capacity to act as lenders of last resort as such banks do in developed countries.

In assessing the redemption schedules for developing-country public external debt, UNCTAD said it estimates that developing countries will face substantial debt service payments in 2020 and 2021, amounting to $2-2.3 trillion for high-income countries and $700 billion-1.1 trillion for middle-income and low-income countries (based on the global debt monitor of the Institute of International Finance, the global debt database of the International Monetary Fund and the quarterly external debt statistics of the World Bank).

The Debt Service Suspension Initiative is welcome as it provides temporary budgetary relief to eligible debtor countries, said UNCTAD, but it needs to be emphasized that it is not a debt relief scheme. In fact, as the obligations maturing in 2020 are repackaged into new loans to be paid at a future date, the initiative simply rearranges the payment schedules of debtor countries, thereby providing liquidity support in 2020 without alleviating future debt service payment.

Given the broad-based shock to the global economy, efforts to support countries will need to adopt a multifaceted approach in their dealings with the range of creditor types, as access to each varies greatly across income groups.

"While debt relief can provide much needed breathing space, the international community should consider expanding its toolbox, to include additional instruments and initiatives to respond to the challenges posed by the crisis." According to UNCTAD, these could take the form of the following:

- Extended and broader temporary debt standstills, to provide additional breathing space, that comprehensively cover multilateral, bilateral and private creditors. These should be granted on a request basis and prioritize vulnerability rather than income criteria. Comprehensive coverage is key to ensuring that suspended repayments are not redirected to creditors not included in the temporary standstills.

- Long-term debt sustainability assessments to identify countries that require deeper debt restructuring. These must ensure that the resultant obligations are compatible with the restoration of inclusive, growth-related fiscal and trade balance trajectories, and the investment requirements necessary to implement the 2030 Agenda for Sustainable Development.
- Debt swaps, possibly modelled on existing programmes to address problems with debt structure and composition, particularly exposure to commercial debts; and debt buyback initiatives, in particular for countries with sovereign debt that already trades at substantive discounts.
- An ODA Marshall Plan to mobilize unfulfilled official development assistance (ODA) commitments, to provide funding for COVID-19 health expenditures and serve to mitigate the rise in debt burdens.

Intellectual property rights

By early September, there were at least 35 COVID-19 vaccine candidates in clinical evaluation and another 145 in preclinical evaluation. Accessibility to treatments and vaccines raises three key considerations for developing countries concerning intellectual property rights, UNCTAD said.

First, innovators are likely to seek intellectual property protection to recoup the research and development costs of new, effective and evidence-based treatments and vaccines. The challenge is to find a balance between providing intellectual property rights to innovators and ensuring that treatments are widely affordable and accessible, in particular in developing countries and LDCs.

Second, while the Doha Declaration on the Agreement on Trade-Related Aspects of Intellectual Property Rights and Public Health has allowed for some progress on the availability of affordable antiretroviral medicines, major health challenges in developing countries in recent years have raised new issues. For example, with regard to the limited ability of developing countries to make effective use of compulsory licences, an amendment to the Agreement allows for the production and importation of patented medicines where manufacturing capacity does not exist. The full utilization of flexibilities under the Agreement, to improve both the availability of medicines and local research and development and innovation in the pharmaceutical sector, will require an inclusive multilateral approach.

Third, the integration of scientists in developing countries into international scientific collaboration, particularly research and development for treatments and vaccines, as well as the integration of manufacturers in developing countries into health product supply chains, would support the building of local capacity. This may better facilitate voluntary licensing agreements in developing countries that would have the technical and productive capacity to produce proprietary health products under licence.

The UNCTAD report also said the pandemic is acting as a catalyst for deep transformations in global value chains related to new technologies, growing economic nationalism and the sustainability imperative. The pandemic is leading to redefinitions of the investment-development paradigm and sharpened focus on investment policies for sustainable development, on the science and policy interface, on the need to address widening digital divides, and on the need to ensure sustainable and resilient transport infrastructure and trade facilitation.

The crisis is exerting negative effects on international production, challenging the role that global value chains can play to support the achievement of the Sustainable Development Goals. However, it is also opening new production possibilities for responding to the health and resilience-related imperatives.

In this context, investment policy, science, technology and innovation policy, e-commerce strategies, sustainable transport infrastructure and trade facilitation must all play significant roles in the response to the pandemic and an eventual better recovery from its effects, said UNCTAD.

Designing policies for a fairer and greener recovery

According to the report, while trade was a major transmitter of economic disruptions across the globe, it also plays a key role in fostering economic recovery from the current COVID-19 crisis. Economic resilience will not be achieved by closing borders, but rather by diversifying the origin and destination of markets.

The question is how best countries can balance the speed and the magnitude of recovery with inclusiveness and sustainability in socioeconomic growth that is aspired to in seeking to achieve the 2030 Agenda for Sustainable Development. This suggests that a country needs to design a policy mix that would aim at stronger, more inclusive and more environmentally sustainable recovery, said UNCTAD.

As countries are lifting emergency trade measures and introducing recovery plans, they need to assess the multifaceted impact of trade policies, utilizing them to achieve stronger and more resilient recovery. Overall, trade policies that support a swift and resilient return of the private sector will help leverage governments' burden of "building back better".

UNCTAD pointed to three important elements when selecting trade as an integral element of a recovery package: (a) transparency, (b) cooperation, and (c) making the best of the existing multilateral trading system. In this context, the report called for enhancing transparency of trade measures; enhancing trade cooperation to address global health crises; and making the best use of the multilateral trading system.

Regardless of their level of development, countries will need to formulate an economic recovery strategy to support essential sectors and preserve jobs. In doing so, they need to consider the benefits of fairness in the market for enhancing productivity, innovation and the wellness of consumers.

In this context, competition authorities and consumer protection agencies can play an important role when designing a financial stimulus package, to strike the right balance between the urgent need to revitalize businesses and the long-term goal of preserving a fairer and equitable market, said UNCTAD.

UNCTAD called for empowering competition authorities to prevent market concentration; enhancing regional and international cooperation against anti-competitive practices; preventing market concentration in the digital economy; and protecting consumers in the rapidly expanding digital market.

As countries move from the rescue to the recovery phase, policymakers also have an opportunity to decouple growth from high carbon emissions and invest in green technologies and industries. Such investments can build on, if not embed, shifts in human habits and behaviour already under way, said UNCTAD.

"Now is the time to capitalize on the many technological solutions that have been developed, such as green housing, complete with district energy systems; green public transport systems, rail upgrades, electric buses and electric vehicle charging networks; energy storage; and hydrogen etc."

Fast-track green policies include residential and commercial energy efficiency retrofits, as well as natural capital spending through afforestation, expanding parkland and enhancing rural ecosystems, UNCTAD said, calling for increasing incentives to renewable energy and promoting nature-based solutions.

State interventions in response to COVID-19 are unprecedented, noted UNCTAD. Fiscal measures signed into law by Group of 20 nations in May totalled $9 trillion in government spending. They are focused on preserving liquidity, solvency and livelihoods, which is understandable from a short-term perspective. But this would be a missed opportunity if a given stimulus package is not designed to support medium- and long-term objectives of achieving fairness, resilience and sustainability.

While trade is an important instrument for achieving prosperity through economic recovery, trade policy alone would not be able to ensure that the recovery would contribute concurrently to people and planet. A comprehensive recovery package for building a stronger, fairer, more inclusive and greener (and bluer) economy would require cooperation-oriented trade policy and effective competition policy and consumer protection policy, with the aspiration of green growth at the centre of a long-term objective, said UNCTAD.

Without empowering agencies that prevent anti-competitive practices and market concentration, and those that protect consumers in the new and changing market environment, trade-led economic recovery cannot be fair and inclusive in a way that leaves no one behind.

It is most vital that the long-term aspiration of green growth should remain the foundation for any economic recovery plan, UNCTAD concluded. *(SUNS9238)*

Developed countries continue to block TRIPS waiver proposal

Developed countries in the WTO remain opposed to a proposal to forgo intellectual property rights on COVID-19 medical products in order to better combat the pandemic, even as global concerns mount over the availability of coronavirus vaccines for poorer nations.

by D. Ravi Kanth

GENEVA: As global pressure grows by the day for a waiver to suspend various provisions of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in combating the COVID-19 pandemic, the United States, the European Union, Japan and Switzerland among others have apparently adopted "stonewalling" tactics to block progress towards a WTO General Council decision on this issue.

Even as there is increasing recognition that there has been little progress in the world's poorest securing access to COVID-19 vaccines, the US, the EU, Japan and Switzerland continue to stubbornly oppose the waiver, which would result in large-scale manufacture of vaccines, therapeutics and diagnostic equipment, said a negotiator who asked not to be quoted.

At a virtual meeting of leaders of the G20 major economies on 22 November, German Chancellor Angela Merkel warned that "progress was slow", saying that "she would raise the matter with the global vaccines alliance (GAVI)," according to a BBC report.

"We will now speak with GAVI about when these negotiations will begin because I am somewhat worried that nothing has been done on that yet," Merkel was quoted as saying by the BBC.

Speaking at the same meeting, French President Emmanuel Macron urged his G20 counterparts to "go further and faster" in supporting poorer nations by donating doses, forging industrial partnerships and even sharing intellectual property, according to the BBC report.

These statements by the G20 leaders precisely reflect the concerns raised by the proponents of the TRIPS waiver – South Africa, India, Kenya and Eswatini – in their interventions at an informal TRIPS Council meeting on 20 November, said a negotiator who asked not to be quoted.

The problem with the TRIPS Agreement, the negotiator said, lies on two fronts. On the legal front, the Agreement is burdened with stringent provisions that would make it almost impossible for any developing country to adequately use its flexibilities, including the compulsory licensing provision. And on the second front, powerful WTO members such as the US and the EU exert enormous pressure, including "arm-twisting" behind the scenes, if any developing country wants to avail of the compulsory licensing and other flexibilities, the negotiator said.

Ironically, added the negotiator, Brazil, which has now allied itself with the US against the waiver, was the first country to stand up to the US' coercive tactics after Brasilia passed an industrial property law in 1996 that established a "local working" requirement for the enjoyment of exclusive patent rights. In the face of campaigning by international civil society and other pressure groups, the US quietly climbed down and withdrew its case against the law at the WTO in 2001.

It is against this backdrop that a waiver has been sought to suspend several TRIPS obligations as long as the ravaging COVID-19 pandemic lasts. The joint proposal by South Africa, India, Kenya and Eswatini (subsequently joined by Mozambique and Pakistan) calls for a WTO General Council decision to suspend the implementation of TRIPS provisions concerning copyrights, industrial designs, patents and protection of undisclosed information in relation to "prevention, containment and treatment of COVID-19". The waiver would be in effect until widespread vaccination is in place globally and the majority of the world's population has developed immunity.

At the informal TRIPS Council meeting on 20 November, the waiver proponents responded to criticisms levelled against their proposal by the likes of the US, the EU, Japan, Switzerland and Brazil, said a negotiator who asked not to be quoted.

However, due to the paucity of time following the sudden convening of another WTO meeting on the same day, the TRIPS Council could not discuss several issues, the negotiator said. The chair of the Council, Ambassador Xolelwa Mlumbi-Peter from South Africa, informed members that a formal Council meeting would be convened on 10 December with the aim of adopting a report on this matter that could be submitted to the next General Council meeting, scheduled for 16-17 December. The chair said that she would get in touch with delegations bilaterally, with group coordinators, and in small groups in the run-up to the 10 December meeting to get a sense of what the Council could likely agree on, said another participant.

Questions about the waiver

During the 20 November meeting, the US, the EU, Japan, Switzerland, Brazil, the United Kingdom and Canada among others raised many questions in an apparent attempt to divert attention from the core objectives of the proposal.

A US delegate said intellectual property rights (IPRs) encouraged innovation and research and development (R&D), as well as manufacturing and access to medicines around the world, emphasizing that these core features were necessary for the global community to develop new medicines.

The US delegate said that IPRs were not an obstacle to addressing the pandemic, and if anything, they motivated countries to find treatment and medicines. The delegate argued that the waiver would be broad and an unprecedented step.

The US delegate described the waiver as a departure from past WTO agreements, adding that the proposal "does not identify any specific measures for which it is requesting; instead, it says the waiver is meant for waiving TRIPS provisions for PCT (prevention, containment and treatment)".

The delegate further argued that the waiver appeared to be diametrically opposed to the G20 ministerial statement of 20 March, which stated that "we agree that the emergency measures designed to tackle COVID-19 must necessarily be targeted, proportionate, transparent and temporary and that they do not create barriers to trade and disruptions to global value chains."

The delegate posed several questions such as whether the proponents could explain how the waiver was a proportionate response to COVID-19, and how members could determine that their measure was related to prevention, containment and treatment of COVID-19.

The US delegate acknowledged government funding running into tens of billions of dollars for the development of therapeutics and vaccines but said that the governments did not manufacture the drugs or vaccines. Pharmaceutical companies took enormous risks in developing these medicines, the delegate said, contending that they needed to be supported through strong IPR protection.

According to the US, intellectual property had not been an obstacle in addressing the pandemic but rather had motivated global efforts to find treatments and cures. "Given the need to provide access to the entire global population, limits to manufacturing capacities and supply chain issues are currently the most significant concerns especially for vaccines," the US said.

Japan argued that if "IP [intellectual property] [is] not properly protected, it will reduce investment in the medical field, especially in the infectious disease area." "It will also introduce a risk factor for the development of medical technology [which] will be hindered and essential products may not be developed in future crises."

Japan said that the proponents did not explain the basis for their proposal and why the current IP framework was not working, noting that companies and researchers were working to ensure access to effective medical products.

The EU underscored the need for "a coordinated and multilateral public action to focus resources on the development of safe and effective therapeutics and vaccines to ensure rapid expansion of production of such vaccines and therapeutics as well as to ensure growth and equitable distribution including in low- and middle-income countries, safeguarding access for vulnerable populations across the world."

Given the success stories of Pfizer and Moderna, which had developed vaccines for COVID-19, the EU said, "these results show that the intellectual property system as a framework that provides incentives and the foundation for stakeholders to invest and innovate has delivered."

The EU said that "the proposed waiver would put in question the ongoing investments and efforts undertaken by researchers to develop the vaccine at an unprecedented speed." The waiver "could also undermine the ongoing public-private collaboration on the equitable access to affordable COVID-19 vaccines around the globe".

The EU said that "even though we do not foresee IP becoming a barrier to treatments or vaccines against COVID-19, we agree that members need to prepare for all eventualities in the times of crisis." Thus, "this is why domestic legal frameworks should properly reflect the flexibility provided by the TRIPS Agreement such as the possibility of issuing a compulsory licence including for production for export to vulnerable countries that lack production capacity or including fast-track procedures that can be used in health emergencies."

Brazil sought to know from the proponents the cases in which a waiver on copyright or industrial designs could be pertinent for preventing, containing or treating COVID-19. It also asked how members faced legal and institutional difficulties when using the TRIPS Agreement's flexibilities.

It sought "to hear from the proponents whether a waiver could reveal instead to be cumbersome and difficult to implement, considering that most members would have to submit it to their national parliaments and … delve into the specific rights in each of the IP domains that would fall into the scope of the measure."

Switzerland, Canada, Mexico, the UK and Israel among others strongly supported the TRIPS flexibilities and suggested that there was no need for a TRIPS waiver at this juncture.

Norway, which had opposed the waiver at the last TRIPS Council meeting in October, did not join the opponents this time around, said a participant who asked not to be quoted.

Proponents' response

The proponents of the waiver responded to the various issues raised by the US and other opponents.

Kenya said that "the narrow emphasis on maintaining intellectual property to increase resources for pharmaceutical companies, disregards the fact that rapid development of COVID-19 diagnostics, therapeutics and vaccines is the sum of public funding and global collaboration."

According to work done by several think-tanks, Kenya said, global committed funding for COVID-19 was $9.1 billion, while pharmaceutical companies received funding commitments for R&D totalling more than $3.9 billion (excluding funds identified as purely for manufacturing).

Kenya noted that the affected countries had shared digital sequence information and relevant public health information to enable researchers to track the evolution of the novel coronavirus and support R&D.

"The current monopoly-based model of R&D puts the fruits of a collective effort into a single company, allowing it to dominate the market, dictate supply and charge high prices, with governments and taxpayers once again footing the costs of the medical product," Kenya said. "The co-sponsors [of the waiver proposal] do not believe that such an outcome is in the interest of a solidarity-based collaborative approach to address COVID-19."

Kenya refuted claims that there was no evidence that intellectual property posed a barrier to accessing COVID-19 vaccines, treatments and technologies, pointing out that "cases involving potential intellectual property infringements emerged early on in the pandemic, revealing the complex legal implications of producing copies of life-saving medical products or parts thereof as well as impact on access." It cited the example of the Gilead patent for the COVID-19 drug remdesivir, saying that Gilead had blocked access to generic alternatives until 2031.

Arguing that "ad hoc, non-transparent and unaccountable bilateral deals that artificially limit supply and competition cannot reliably deliver access during a global pandemic," South Africa said "these bilateral deals do not demonstrate global collaboration but rather reinforce 'nationalism', enlarging chasms of inequality."

It noted that, for vaccines, "bilateral deals are being signed by pharmaceutical companies with specific governments but the details of these deals are mostly unknown." While these bilateral agreements were "for manufacturing of limited amounts and solely supplying a country's territory or a limited subset of countries," many companies had not signed any agreements to expand manufacturing and supply, meaning that during the time of vaccine development when such supply bottlenecks could have been addressed, companies were refusing to share intellectual property in a responsible fashion.

"This turns countries against each other to compete for supply in lieu of working together to defeat the pandemic," South Africa said. It pointed to the example of the Pfizer/BioNTech vaccine, which had been pre-booked by developed countries representing 14% of the global population and on which no public commitment had been made in support of sharing the vaccine knowledge, technology and related intellectual property to boost supply, reduce price and enhance equity.

Referring to pronouncements made by Moderna that it would not enforce its COVID-19-related patents against those making vaccines intended to combat the pandemic, South Africa said "the global pandemic response cannot be dependent on the possibility of such ineffectual, ad hoc announcements."

South Africa said "voluntary licences offered by patent-holding pharmaceutical corporations also tend to exclude millions of people from access to more affordable treatments." It cited the example of Medicines Patent Pool licences that normally excluded many developing countries and all high-income countries from being supplied under the licences.

South Africa said many of the monoclonal antibody candidate therapeutics such as tocilizumab, bevacizumab and even Regeneron's monoclonal antibody treatment, which had just been granted emergency use authorization, posed huge problems of disparity in access unless concrete steps were taken to address intellectual property barriers.

With regard to diagnostics for COVID-19, said South Africa, mass testing for the disease in the Netherlands could not be done because of heavy dependence on Roche equipment and supplies of the liquid buffer to run the tests.

South Africa said that "emerging intellectual property disputes already threaten the development and supply of COVID-19 medical products." In one dispute, Regeneron, Pfizer and BioNTech were facing a lawsuit from Allele Biotechnology and Pharmaceuticals alleging that their coronavirus products were developed using Allele's mNeonGreen fluorescent protein without the company's permission.

India said that while TRIPS flexibilities, including those confirmed in the Doha Declaration on the TRIPS Agreement and Public Health, played a crucial role in promoting access to medicines, the present COVID-19 global pandemic presented exceptional circumstances. While the TRIPS flexibilities "do allow limited policy space for public health, they were never designed to address a health crisis of this magnitude."

India said that "invoking such flexibilities for a range of health products and technologies required for treatment and prevention of COVID-19, is not a feasible option." It highlighted some of the challenges in using TRIPS flexibilities in the current crisis:

- Understanding of TRIPS flexibilities was usually in the context of patents. However, various types of intellectual property rights besides patents, such as copyrights, industrial designs and trade secrets, posed a barrier to an effective response to COVID-19 as the pandemic required access to various commodities involving multiple IP rights. Flexibilities in categories of IPRs other than patents were less understood and rarely implemented before. Therefore, options available to members through existing TRIPS flexibilities were limited.
- Many countries lacked the institutional capacities to utilize such flexibilities.
- Compulsory licences were issued on a country-by-country, case-by-case and product-by-product basis, where every jurisdiction with IP would have to issue a compulsory licence, practically making collaboration among countries for the development and manufacturing of medical products (where different components were sourced from different countries) extremely onerous.
- The TRIPS Article 31bis mechanism established to support countries with insufficient or no pharmaceutical manufacturing capacity had, even in normal times, been widely criticized for its cumbersome procedures. The mechanism included procedures such as specific labelling or marking of products and special packaging and/or special colouring/shaping of products, making it practically meaningless. The fact that the mechanism had been used only once since its inception in 2006, itself testified to the difficulties associated with its use.
- Very often the implementation and use of flexibilities was accompanied by pressures from trading partners as well as other stakeholders.

India said countries "who think that TRIPS flexibilities are enough for COVID-19 response and they do not need the waiver" could choose to not implement it in their domestic legislation, "but they should not come in the way of international collaboration with respect to development, production and supply of needed healthcare products for COVID-19 that we seek to achieve through the TRIPS waiver."

"The waiver is more than just a legal mechanism, it is a statement of intent by all countries that they accord highest value to protecting human lives rather than protecting private profits," India said.

India said initiatives such as the Access to COVID-19 Tools Accelerator (ACT-A) and COVAX Advance Market Commitment (AMC), including donations to these initiatives, would not be sufficient to ensure timely and equitable access to COVID-19 products and technologies. The aim of ACT-A including the Covax AMC is to provide 2 billion vaccine doses (for 1 billion people, in the case of a two-dose vaccine regimen) to the world by the end of 2021, India said, suggesting that "these initiatives are obviously inadequate to meet the medium- and long-term needs of the 7.8 billion people of this world."

Given the disparity in access between the developed countries and the rest of the world, India said "developed countries have been able to leverage their financial position" to enter into bilateral deals.

"The global needs are massive and can only be addressed with global sharing of technology, knowledge and related IP, which is what our waiver proposal seeks to achieve," India said, pointing out that "it would be naive for any country to think that it can win over a virus which knows no boundaries, by simply vaccinating their own population."

Members "need to rise up to the demands of this crisis and show to the world that WTO is still relevant and very much capable of responding to the global need of saving lives and livelihoods, at least during a health crisis like COVID," India said.

"Extraordinary efforts" required

On behalf of the African, Caribbean and Pacific (ACP) Group of countries, Jamaica said there was agreement that "COVID-19 presents severe challenges to our health systems, our development, our individual lives and to global quick response in that regard."

Jamaica said members "need equitable access to safe and effective vaccines" urgently, suggesting that "is why I can make or remain sympathetic with the proposal as it is seeking to respond to a pressing urgent international problem that confronts us all."

Jamaica said "we believe the impact of the COVID-19 pandemic is unprecedented and requires extraordinary efforts." The WTO "has a critical role to play in this process [and] saving human lives should always be our priority," Jamaica said, adding that "the general objective of the proposal is in line with the urgency adopted by all our governments bilaterally and in other international fora including in the WHO [World Health Organization] and in New York."

Therefore, said Jamaica, the ACP Group believed that there was hope for WTO members to engage constructively on this initiative, including suggesting any necessary amendments to the proposal to bring its provisions in line with what was mutually acceptable to the WTO membership.

Nigeria said that while they were a good reference point, the current TRIPS flexibilities, including compulsory licences, were at most times difficult to implement, and even more so in the emergency situation caused by the pandemic.

Nigeria said the proponents for the waiver had made it clear that the intention was for the waiver to apply temporarily and in relation to COVID-19-related materials and also based on the unique needs of different countries.

"We hope to join the co-sponsors of this proposal soon in view of its common goal to fight this pandemic globally," Nigeria said.

Tunisia urged members to "focus on the solidarity required to address this exceptional situation", and said it supported "any initiative that can provide a rapid and effective and equitable response in order to contain this pandemic."

Cuba, supporting the proposal, urged WTO members "to work together and to guarantee that intellectual property rights and patents, industrial designs, copyrights, and protection of undisclosed information do not create obstacles to access to affordable medical products, including vaccines and medicines to treat COVID-19."

Ecuador adopted a somewhat ambiguous position by supporting the TRIPS flexibilities and the initiative taken by South Africa, India, Kenya, Eswatini, Mozambique and Pakistan in addressing the COVID-19 pandemic.

Chile said it was important for the proponents to clarify not just the technical aspects of their proposal but also "if it is the most adequate and relevant to address the concerns of the proponents given the comments that we have heard today."

Singapore favoured voluntary public-private partnerships and collaborations such as the COVAX facility to promote access to diagnostics, vaccines and therapeutics.

Bangladesh requested "a favourable consideration of the waiver proposal," saying public health should not be seen from a narrow perspective. "Trade will fail to bring prosperity if we fail to save human beings from this global disaster," it warned.

Turkey said further consultations were needed on the waiver because of its "comprehensive nature", emphasizing that "it is beneficial to have constructive discussions on this issue and we remain committed to work with all members to avoid further damage to human life."

Ukraine thanked the proponents for their initiative and the information provided "for joint actions for global solidarity and putting in place collective response to COVID-19."

In crux, the proponents took the battle for the waiver to a global stage where it is increasingly becoming clear that the developing and least-developed countries are unlikely to get easy and affordable access to the new therapeutics and vaccines for COVID-19, as the US, the EU, Japan, Switzerland and Brazil want to ensure that the profits of the big pharmaceutical companies take precedence over human lives, said several negotiators. *(SUNS9239)*

North reminded on unfinished Doha Round at WTO anniversary do

An event marking the 25th anniversary of the WTO saw representatives of member states take stock of the organization's past record and propose reforms for the future, but it was left to developing-country participants to highlight the presently stalled Doha Round talks.

by D. Ravi Kanth

GENEVA: Jamaica, which coordinates the African, Caribbean and Pacific (ACP) Group of countries, and Rwanda reminded the developed countries about the unfinished Doha Round of negotiations at a ceremony to commemorate the World Trade Organization's 25th anniversary, which took place on 19 November amid the worsening COVID-19 pandemic and an enveloping systemic crisis at the multilateral trade body.

At the virtual anniversary celebration, held under the banner of "WTO at 25: Past, Present, and Future", the economy, education and trade minister of Switzerland Guy Parmelin, the WTO General Council

(GC) chair Ambassador David Walker from New Zealand, a senior trade official from the European Union Sabine Weyand, and the United States Ambassador to the WTO Dennis Shea among others voiced their respective priorities for reforming the global trade body.

The establishment of the WTO was agreed after the conclusion of the Uruguay Round of trade negotiations at the official level in Geneva in December 1993. It replaced the General Agreement on Tariffs and Trade (GATT) on 1 January 1995, after trade ministers signed the Marrakesh Agreement Establishing the WTO in 1994.

At the anniversary event, GC chair Walker presented an upbeat assessment of the WTO's achievements during the past 25 years, highlighting the Trade Facilitation Agreement that was concluded in 2013, the 2015 agreement on elimination of export subsidies for farm products, and the current negotiations on eliminating harmful fisheries subsidies.

"The WTO members need to grasp their inner 25 years old," Walker said, remarking that they were "old enough to realize it is time to change and young enough to do something about it."

Significantly, the GC chair, who is now in his third stint in Geneva, did not even remotely mention the unfinished Doha Round nor the Doha Development Agenda's future.

However, Jamaica, on behalf of the ACP Group, suggested that issues such as the ongoing fisheries subsidies negotiations owed their legacy to the Doha Round.

The seemingly disingenuous account of the WTO's past 25 years by the developed countries, including the GC chair, surprised trade envoys from several developing countries, according to a person who asked not to be quoted.

China spoke about the "existential" crisis at the WTO and about special and differential treatment being an integral part of the WTO architecture, but did not mention the Doha Round.

The EU, China and Jamaica among others called for an urgent restoration of the Appellate Body to ensure the smooth functioning of the WTO's two-stage dispute settlement system. The US, however, stuck to its demand for complete reform of the dispute settlement system.

The EU called for initiating discussions on trade and health, and trade and environmental sustainability for combating the COVID-19 pandemic. The EU and China spoke about the ongoing plurilateral negotiations on investment facilitation, and the US, the EU and China underscored the need to conclude the Joint Statement Initiative (JSI) plurilateral agreement on digital trade.

Strengthening multilateralism

As the representative of the host country to the WTO, the Swiss minister Parmelin said that "multilateral organizations such as the WTO are particularly important in uncertain times." He said that "the WTO guarantees open markets, which are a prerequisite in tackling the COVID-19 pandemic and overcoming the resulting economic crisis."

In his call to "strengthen multilateralism" to arrive at solutions for addressing global problems, Parmelin said the WTO should devote more attention to the question of how trade rules could contribute to achieving environmental and climate policy goals. He suggested that "it is also important to gauge how new rules can strengthen the supply of medicines and medical products".

Switzerland, which is the coordinator of the "Friends of the System" grouping in the WTO, is pursuing two initiatives to address the supply of medicines and medical products.

In his statement, GC chair Walker provided an account of things that were done at the WTO during his three separate stints as a representative of New Zealand in Geneva. Looking back at the past 25 years, he said that members could be proud of the achievements at the WTO that brought about strength and stability to the multilateral trading system.

Walker said the membership was now different, and so were the challenges being faced at the WTO. He highlighted the importance of the Sustainable Development Goals (SDGs) and the role of SDG 14.6 in driving the fisheries subsidies negotiations, and added that public health had become important in the context of COVID-19. He further noted that in its early days, the WTO made a contribution to digital trade through the 1998 moratorium on customs duties on electronic transmissions.

Walker said the objectives codified in the Marrakesh Agreement remained relevant today, while suggesting that the "WTO members need to grasp their inner 25 years old – old enough to realize it is time to change and young enough to do something about it."

In his remarks at the virtual meeting, WTO Deputy Director-General Alan Wolff said the signatories to the establishment of the WTO had agreed that their collective purpose was to build a better multilateral trading system. It was the perfect union of sovereign states to improve the conditions of humanity through trade, he said.

The WTO's membership, said Wolff, already accounted for 98% of global trade and must contribute to peace. He raised rhetorical questions as to what the future of the WTO should be, suggesting that the WTO should contribute, among other things, to making agriculture agile, trade in environmental goods, saving fish stocks, addressing fossil fuel subsidies and eliminating plastic goods.

Wolff said the WTO of the future must also address inequality among the nations through trade, and bring about fairness by addressing issues relating to gender, disciplines on micro, small and medium enterprises (MSMEs), and disciplines on industrial subsidies.

The WTO, he said, must subsume the preferential trading system by taking the best of what it had and discarding the rest. He said the WTO of the future must have a proactive secretariat to oversee the monitoring function.

Historic contributions

China's vice-minister of commerce Wang Shouwen said the decision to create the WTO 25 years ago had "definitely proven to be on the right side of history". He said the WTO had made unique and historic contributions to the world by welcoming 88 new members, tripling world trade, cutting tariffs by half, reaching new agreements on trade facilitation and expansion of the information technology agreement, resolving over 500 trade disputes and, above all, by helping to lift hundreds of millions of people out of poverty.

Wang noted that China joined the WTO 19 years ago, calling it a great milestone in China's reform process. He said China "has fulfilled its pledge: reducing its average tariff on goods from 15.3% to 7.6%, opening up more than 100 sub-sectors in services, and even over-delivering its commitments on IPR [intellectual property right] protection."

He added that China was a major trading partner for more than 120 countries and regions around the world, and that it had been the largest export destination for the least-developed countries (LDCs) in the past decade.

"Despite all its achievements, some people are worried that the WTO could collapse, the Appellate Body would remain paralyzed, and the DG [Director-General] selection would get stalled," the Chinese vice-minister said.

He said developing countries remained disappointed because their longstanding issues of public stockholding for food security purposes and Aggregate Measurement of Support were still unresolved.

Wang also expressed fears about spreading unilateralism and protectionism, saying they were eroding the foundation of the WTO. But some members still had hopes that the WTO could continue to deliver, he said, as new issues including investment facilitation for development and e-commerce were making steady progress while getting growing attention.

He said that today, the world needed a well-functioning WTO more than ever, even as the WTO was facing an unprecedented existential crisis. "A rules-based multilateral trading system would help get over the challenges posed by the pandemic," he emphasized, saying that the top priority was to restore faith and confidence in the WTO. For that matter, it was urgent to appoint a new DG based on agreed rules and results announced by the GC chair.

Wang called for the immediate restoration of the Appellate Body and said that negotiations on agriculture, fisheries subsidies, investment facilitation and e-commerce should be accelerated towards a meaningful and balanced outcome.

He stressed that "special and differential treatment is an integral part of the WTO agreements, and it is our common responsibility to make those provisions more precise, effective and operational." As a developing member, China was more than willing to undertake obligations commensurate with its capacity and level of development, he said.

Jamaica, the coordinator of the ACP Group, praised the WTO for its success in resolving trade disputes and providing incentives to developing countries and LDCs to reform their trade policies.

Unfortunately, however, experience had shown that the WTO's contribution to development and helping poorer members better integrate into global value chains had been disappointing, said Jamaica's Ambassador to the WTO Cheryl Spencer. She provided figures showing the small share of countries from Africa and the Caribbean region in world trade.

Spencer drew attention to the unfinished Doha Development Agenda negotiations, suggesting that issues such as the negotiations on fisheries subsidies owed their legacy to the Doha Round. The ACP Group, she said, was also concerned about the plurilateral negotiations and the pressure they were exerting on the multilateral trading system.

She said the reform agenda must address issues such as scope and include climate change, food security and better control of non-tariff measures. She said members must listen to each other and show empathy. For the WTO to remain relevant, the Appellate Body impasse must be urgently resolved, she said.

Rwanda's Minister for Trade and Industry Soraya Hakuziyaremye underscored the importance of the new African Continental Free Trade Area and said her country looked forward to the WTO's support in ensuring the agreement would bring more prosperity and a brighter future to Africa through more open trade.

Hakuziyaremye said the WTO's next Ministerial Conference would be important in providing meaningful guidance in efforts to preserve the multilateral trading system, and she encouraged WTO members to show "political commitment" towards completing current outstanding negotiations.

Lack of fit

Former Singaporean Foreign Affairs and Trade Minister George Yeo said the structure and processes of the WTO "no longer fit the realities of the world today", which included the emergence of China as a leading trading nation and decreased political support for the organization in the US.

Under current institutional arrangements, "it is difficult to begin a process of reform," he said. Before anything could be done, members must first reach a consensus on the appointment of a new WTO DG. "Then we must collectively agree to empower her for the specific purpose of WTO reform, and to put up a first draft proposal for initial discussion."

In her intervention from Brussels, the EU Director-General for Trade Sabine Weyand emphasized that the principles upon which the WTO was founded – non-discrimination, sustainability, predictability, fairness and progressive liberalization – were more necessary than ever in order to pull the global economy out of the current crisis.

"Unfortunately, the rules-based multilateral trading system has been in crisis for a few years," she said. "The WTO lacks a common sense of purpose and has not adapted to the changes that have shaped the global economy over the last decade."

"This is why we are putting WTO reform at centrestage," she declared. Such reform "needs to build upon the basic principles of the system that remain as valid as they were in 1995". She spoke about trade and health, including medicines and vaccines initiative, and trade and environmental goods and services, saying they remained the EU's priorities. The EU official also mentioned that Brussels was actively pursuing the plurilateral initiatives on digital trade and investment facilitation.

Weyand said preserving the two-stage dispute settlement system and the restoration of the Appellate Body remained priorities for Brussels, arguing that the sequence of action must revolve around confidence-building measures and sustainable development.

US Ambassador to the WTO Dennis Shea said while the US welcomed the commemoration event, "we can't be but mindful of the substantial work that must be undertaken if the WTO is to convene a similar event in 25 years' time".

"We need a core understanding of shared values if we are to navigate the future," he said, citing fairness and open markets as examples of those values. "But not all members share this view today."

Shea said the US' priority issues for future work included greater compliance by WTO members with their notification obligations, reform of special and differential treatment provisions to take account of diverse levels of development among beneficiary members, new disciplines on industrial subsidies and state enterprises, more market-oriented policies, and a "tariff reset" to reflect current economic realities. *(SUNS9238)*

 Third World ECONOMICS No. 710, 1-15 November 2020

COVID-19 compounding inequalities

The coronavirus pandemic is laying bare – and exacerbating – the manifold dimensions and drivers of inequality.

by Jomo Kwame Sundaram and Anis Chowdhury

The United Nations' renamed *World Social Report 2020* (*WSR 2020*) argued that income inequality is rising in most developed countries and some middle-income countries, including China, the world's fastest-growing economy in recent decades.

While overall inter-country inequalities may have declined owing to the rapid growth of economies like China, India and East Asia, national inequalities have been growing for much of the world's population, generating resentment.

In 2005, when the focus was on halving poverty, thus ignoring inequality, the UN drew attention to "the inequality predicament". Secretary-General Kofi Annan warned that growing inequality within and between countries was jeopardizing achievement of the internationally agreed development goals.

Since then, "Leave no one behind" has become the rallying cry of the 2030 Agenda for Sustainable Development. Reducing inequality within and among countries is now the tenth of the Sustainable Development Goals (SDGs) adopted in 2015.

Uneven and unequal economic growth over several decades has deepened the divides within and across countries. Thus, growing inequality and exclusion were highlighted in earlier *WSR*s on "Inequality Matters", "The Imperative of Inclusive Development" and "Promoting Inclusion Through Social Protection".

The UN Development Programme (UNDP)'s *Human Development Report 2019* (*HDR 2019*) drew attention to profound education and health inequalities. While disparities in "basic capabilities" (e.g., primary education and life expectancy) are declining, inequalities in "enhanced capabilities" (e.g., higher education) are growing.

Meanwhile, inequalities associated with social characteristics, e.g., ethnicity and gender, have been widening.

The January 2020 Oxfam report *Time to Care* highlighted wealth inequalities as the number of billionaires doubled over the last decade to 2,153 billionaires, who own more than the poorest 60% of 4.6 billion.

Drivers of inequalities

WSR 2020 shows that the wealthiest generally increased their income shares during 1990-2015. With large and growing disparities in public social provisioning, prospects for upward social mobility across generations have been declining.

HDR 2019 found that growing inequalities in human development "have little to do with rewarding effort, talent or entrepreneurial risk-taking", but instead are "driven by factors deeply embedded in societies, economies and political structures". "Far too often, gender, ethnicity or parents' wealth still determines a person's place in society."

Capture of the state by rich elites and commensurate declines in the bargaining power of working people have increased inequality. Real wage rises lag behind productivity growth as executive remuneration skyrockets and regressive tax trends favour the rich and reduce public provisioning, e.g., healthcare.

HDR 2019 identifies climate change and rapid technological innovation as two megatrends worsening inequalities, with the *WSR* adding urbanization and international migration.

Technical change not only supports progress, creating more meaningful new jobs, but also displaces workers and increases income inequalities. Meanwhile, global warming is negatively impacting the lives of many, especially in the world's poorest countries, worsening inequality. While climate action will cause job losses in carbon-intensive activities, energy saving and renewable energy are likely to increase net employment.

International migration benefits migrants, their countries of origin (due to remittances) and their host countries. But immigrant labour may increase host countries' inequalities by taking "dangerous, dirty, depressed" and low-skilled work, pushing down wages, especially for all unskilled, while professional migrations are "brain drains", creating new inequalities and worsening existing ones.

COVID-19 and divergence

COVID-19 may worsen divergence among countries owing to its uneven economic impacts due to the different costs and efficacy of containment, relief and recovery measures, influenced by prior health and healthcare inequalities as well as state capabilities.

Low-income countries have poorer health conditions, weaker healthcare and social protection systems, as well as less administrative and institutional capacities, including pandemic preparedness and response capabilities. Hence, they are more vulnerable to contagion, while lacking the means to respond effectively.

Rising protectionism and escalating US-China trade tensions have aggravated challenges faced by developing countries which also face declining trade, aid, remittances, export prices and investments. "Vaccine nationalism" will worsen their predicament.

The COVID-19 pandemic has highlighted many existing inequalities and may push 71 million more people into extreme poverty in 2020, the first global rise since 1998, according to the 2020 UN *SDGs Report*.

As 55% of the world's population do not have any social protection, lost incomes mean poverty and hunger for many more. Before COVID-19, 690 million were chronically food insecure, or hungry, while 113 million suffered severe acute food insecurity, or near starvation, mainly due to earlier shocks.

While those in the informal sector typically lack decent working conditions and social protection, most of the workforce do not have the means or ability to work from home during "stay in shelter lockdowns" as most work is not readily done remotely, even by those with digital infrastructure.

Most have struggled to survive. Relief measures have not helped many vulnerable households, while recovery policies have not done much for liquidity-constrained small and micro-enterprises facing problems accessing capital, credit and liquidity, even in normal times.

Widespread school closures are disrupting not only the education of the young, but also school feeding and child nutrition. Poor access to health services is making matters worse, as already weak health systems are further overstretched.

Meanwhile, many of the world's billionaires have done "extremely well" during the coronavirus pandemic, growing their already huge fortunes to a record $10.2 trillion, according to a UBS-PwC report.

Unexpected crossroads

UN and Oxfam reports show that growing inequality is not inevitable. The world saw sustained growth with declining inequality in the Golden Age of the 1950s and 1960s. With the neoliberal counter-revolution against development and Keynesian economics, however, government commitments to development and tackling inequalities have waned.

A 2020 Oxfam report notes that "only one in six countries ... were spending enough on health, only a third of the global workforce had adequate social protection, and in more than 100 countries, at least one in three workers had no labour protection ... As a result, many have faced death and destitution, and inequality is increasing dramatically".

Governments must adopt bold policies to radically reduce the gap between rich and poor and to avoid a K-shaped recovery. Internationally, improved multilateralism can help check vaccine nationalism, rising jingoist protectionism, and debilitating neoliberal trade and investment deals. *(IPS)*

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Third World ECONOMICS No. 710, 1-15 November 2020

The ills of healthcare financialization

The deficiencies of turning to private finance in health funding, such as through the issuance of pandemic bonds and dependence on private insurance, have been starkly exposed by the COVID-19 outbreak.

The abnormity of the COVID-19 pandemic is still unfolding. The true toll of COVID-19 will not be known for some considerable time to come, but in the meantime, the contagion continues to move through the Global South, where much weaker health systems are in place. The global health disaster fuelled by the pandemic reflects a converging climate and economic crisis that has affected almost every country in the world, with varying degrees of risk.

What we see across the world today, at every step, is that aggressively profit-driven healthcare arrangements, often in debt-ravaged nations, are likely to make this virus harder to manage and to defeat. What we have learnt since the work of German physician Rudolf Virchow, who did research on typhus in Upper Silesia in the mid-19th century, and of German philosopher and historian Friedrich Engels, who studied the conditions of the English working class, is crystal-clear. It is human policies that create the conditions that make people sick, and those who lack economic, social and political power typically bear the greatest burden of disease.

These are "the most vulnerable", a designation loaded with meanings that mirror the nature of the power relations. They are "the poorest", often perceived as passive masses with no agency. These are the people and the countries that we need to support and for which, indeed, a powerful community led by the World Bank and the International Monetary Fund (IMF), in alliance with public and non-state actors [national governments, the Bill & Melinda Gates Foundation, the International Finance Corporation (IFC, the World Bank's private investment arm), private investment corporations], continues to champion the transformation of health needs into investor-friendly asset classes. How? By de-risking opportunities for private capital, to expand corporate initiatives as the primary channel for driving economic growth forward in the developing world. Foreign aid is being increasingly used to escort capital to "frontier markets" and perform the mundane activity of converting social sectors into assets available to speculative capital flows.

In the midst of the COVID-19 storm, countries are taking phenomenal measures to contain the spread of economic losses, after the gigantic human toll produced by the pandemic, and they do so by acting as insurers of last resort and securing liquidity to individuals and corporations in distress. The insurance industry is now also forced to pay out claims, be it to people in dire straits because they have experienced perils to their life, or damaged enterprises and even sovereign countries. Insurance companies are made for reshaping stability in difficult financial situations, and they are indeed endowed with the means to comply with their mission. But this is not the end of the story…

Pandemic insurance schemes: reasons for healthy scepticism

As we write, the steering body of the World Bank's Pandemic Emergency Financing Facility (PEF) has announced the allocation of $195.84 million to 64 of the world's poorest countries with reported cases of COVID-19 and that are members of the World Bank's International Development Association (IDA). The PEF funds are expected to support the poorest nations in their response to the pandemic, including life-saving medical and protective equipment, therapeutics and medicine for health workers on the frontlines of the crisis, and with special attention given to areas with the most vulnerable populations. Individual allocation of funds will be diversified based on population size and reported cases, with a minimum of $1 million and a maximum of $15 million going to each country, with a declared bias towards unstable and war-affected zones.

Catastrophe bonds and pandemic bonds

Health-related bonds have become an attractive tool of innovative financing and indeed an increasing trend since the Global Alliance for Vaccine Immunisation launched its vaccines bonds through the International Finance Facility for Immunisation in 2006. This type of bond normalizes the distinctive acceleration and deepening of the "financialization-development nexus", as financial sector engagement in the "poorest countries" is increasingly considered by mainstream development thinkers as a desirable state of affairs.

Like good old-fashioned insurance, *catastrophe bonds* are a way to transfer risk, often for natural disasters. Investors buy a high-yield bond issued by an insurance company. In the case of a specific qualifying catastrophic event taking place, for example, claims from a natural disaster that exceed a certain amount (an "indemnity trigger"), the bondholders forfeit the capital of the bond, which goes to the insurer to help defray expenses. Catastrophe bonds are high-risk investments, which explains the high interest rates they pay to investors for covering that risk.

Pandemic bonds are similar. One entity (like the World Bank) sells a bond which pays interest to the investors over time. If certain conditions occur to trigger the bond transfer, then the moneyed capital from the bond sale is quickly funnelled to medical efforts to contain and quell the disease outbreak. The time factor is considered key, at least in principle: affected regions need not wait for aid money to be raised and coordinated. Pandemic bonds are not triggered by losses, as in the case of the indemnity triggers of catastrophe bonds, but rather by the actual, real-time spread of the disease. This implies, at least in theory, that capital can flow much faster than if it had to wait until insurance losses began rolling in. Indeed, the speed of capital flow to emergency response efforts (health clinics, aid workers, health personnel, contagion containment) is crucial in the case of pandemics. The high level of dysfunction of these arrangements has led, however, to increasing criticism within and beyond the health sector.

The PEF is a specialized financing umbrella intended to assist governments and aid agencies by supplementing the critical emergency funding required for the management of a pandemic outbreak. It was established in 2016, after the 2013-16 Ebola outbreak that ravaged Sierra Leone, Guinea and Liberia and killed at least 11,300 people, to introduce an innovative mechanism that would speedily deploy funds where needed.

The PEF was designed on the notion of creating an innovative market for pandemic risk insurance drawing on funds from the private sector in return for high interest rates. The idea behind the bonds (see box) was to place some of the risks of a pandemic for low-income countries onto the financial markets, rather than their own governments' budgets. Investors who bought the bonds would lose money only if certain trigger conditions relating to a pandemic were met.

Under the PEF gap-bridging insurance scheme, investors that buy pandemic bonds receive coupons which pay annual interest at rates ranging from 6.5% to 11.1%, according to risk class. The bonds are issued in two classes: Class A only applies to pandemic flu and coronavirus, and is subject to a higher threshold of deaths before the money will be paid out, making it a lower-risk investment. Class B has a higher risk. A stringent set of parameters determines whether or not the bond may be triggered: the number of countries affected; the number of cases in each of those countries; the number of deaths; the percentage of confirmed cases to total cases, including suspected; and the growth rate of cases. The conditions necessary to trigger the bond must be in place for at least 12 weeks after the designated start of the event for payouts to happen. After that, they must be in place on a rolling 12-week basis. The bonds are not repaid in full and the money is used instead to help tackle the crisis in developing countries if this scenario materializes.

In 2017, the creation of the PEF was hailed by the World Bank Group President Jim Yong Kim as follows: "We are moving away from the cycle of panic and neglect that has characterized so much of our approach to pandemics. We are leveraging our capital market expertise, our deep understanding of the health sector, our experience overcoming development challenges, and our strong relationships with donors and the insurance industry to serve the world's poorest people. This creates an entirely new market for pandemic risk insurance."

The "entirely new market" was, indeed, generated. Less so, the benefit to the people affected by the disease, if we take a retrospective look. Despite the institutional semantic propaganda promising rapid intervention and the capacity to "boost response" in a spirit of "solidarity in the face of a common threat", the PEF came under scrutiny with the second-worst Ebola outbreak on record in the Democratic Republic of Congo (DRC) in 2018. There, where the virus has raged for two years now with 3,361 confirmed cases and the death of 2,277 people, the outbreak is not over, and flare-ups remain likely. The PEF had stipulated a payout of $45 million if the officially confirmed death toll reached 250, but only in the case of a cross-border spread of the disease, with at least 20 deaths occurring in a second country – a condition that has not materialized in such a vast and populous country as the DRC. The result is that no funds have been released through this insurance scheme to the African country and other funds (like the WHO Contingency Fund for Emergencies) had to pay out.

By contrast, the PEF had paid $114.5 million in coupons to private investors, mainly financed through public funders (Australia, Germany, Japan and IDA), by mid-2019. The paradox was "an embarrassing mistake", according to former World Bank chief economist Lawrence Summers. And it led the London School of Economics and Political Science (LSE) to issue a timely and pointedly critical report which states that the PEF seems to be serving private investors' interests more than contributing to global health security.

Catastrophe models are indeed controversial when designed by the private insurance industry through the tacit knowledge shared within closed and opaque circles. They don't seem to function any better than guesswork, and they have become à la mode mainly due to lack of high-return options in more traditional stocks and corporate bonds. With the new exception of COVID-19, there are only two cases since 2006 when the insurance would have been triggered: the outbreak of Rift Valley fever in 2006 and Ebola in 2014-16. The World Health Organization (WHO) lists only one multi-country outbreak as against 30 one-country-only epidemic events. Difficult access to funding is also related to the wrong timing of the intervention. As the LSE report concluded: "Rather than waiting for an outbreak to reach pandemic proportions, the PEF should consider reform of its insurance criteria to make it more aligned with the early prevention, rapid-response mantra of global health security."

As we have dramatically seen with COVID-19, reacting immediately to viral outbreaks is key to reducing the impact of the disease. This means that public money spent on the PEF scheme should be more efficiently used for enhancing surveillance, diagnostics and national public preparedness capabilities. The World Bank's reports demonstrate that low-income countries' investments in core veterinary and human public health systems could save millions of lives and bring returns of 25-88% yearly. The Bank can provide financial and technical support for such investments; in fact, it should be its priority. Instead, the COVID-19 shockwave has come at a time of IMF-imposed fiscal consolidation and the Bank's relentless use of public-private partnerships to expand healthcare privatization (linked to cuts in social spending and private sector involvement), thereby weakening public health systems.

Waiting for people to die is what finally has triggered the insurance scheme in the case of the COVID-19 pandemic. Under the PEF criteria on outbreak size and death tolls applicable in the context of "a global outbreak" like COVID-19 (defined as over 2,500 deaths across more than eight countries with a determined number of fatalities in each country), the bonds could not pay out until 31 March (12 weeks after WHO published its first "situation report"), when IDA countries accounted for 4,653 reported COVID-19 cases. But the PEF bond started to lose half its value as the coronavirus outbreak in China fanned fears that investors could face hefty losses already in February (price offers quoted by one broker slipped as low as 45 cents in the dollar). Moreover, growing coronavirus outbreaks around the world have prompted many of the investors who bought up the bonds to sell them off, as the conditions for the bonds not to be paid back were likely to be met.

The $195.84 million paid out under the PEF is a grossly insufficient amount for 64 countries, in the face of such a menacing virus. A bond that comes too late and grants too little money – at times, no money at all – has hardly anything to do with global health. Instead, it has got everything to do with financialization run wild.

Extracting surplus from the sick: the dodgy business of "financial inclusion"

Under neoliberal globalization, healthcare has become an area where capital has successfully tried to extort from the state new opportunities for wealth accumulation, since in economic terms it represents something between 6% and 10% of GDP. This pathway has traditionally been paved by a solid medical-industrial complex (pharmaceutical industry, enterprises related to medical technologies, a variety of service providers), later combined with a thriving medical insurance industry, the new and most sophisticated form of capital formation of previously non-commodified assets. Paradoxically, international agencies have pressured countries from the Global South, starting in Latin America, to adopt the US healthcare system model. Financialization in health, like in other domains, represents not only a power shift from industrial corporations to the financial sector, but also a shift from social institutions to markets as the dominant organizing principle.

The creation of new instruments of financializing risk in low- and middle-income countries (LMICs) entails considerable complexity and significant added risk (speculation can also lead to losses, not only profits!). It also means partnering with a range of non-classical development actors which have not been noted for their commitment to poverty reduction: insurance and accountancy giants, management consulting firms, hedge funds, speculators and other players in derivatives markets. Moreover, development agencies end up mitigating risks, but they generally prioritize the financial risks of the investors and not those of the countries and communities that are exposed to life-or-death situations and subject to weak healthcare systems. Hybrid state-capital alliances, increasingly expanding in the Global South, are creating new vehicles for speculative financial investors. Even after the 2008 global financial crisis, governments seem to be serenely complacent and wilfully blind to the inherently greater exposure to the volatility of the financial markets that these trends entail.

More recently, the concept of universal health coverage (UHC) has been a recurring theme in the promotional apparatus that facilitates the brave new world of private finance in the healthcare sector through the implementation of the Sustainable Development Goals, where aspirational objectives are translated into policies with time-bound targets and estimated financing gaps. Through these activities, health needs in the Global South have been reimagined as a diversified marketplace for investors to engage in. In healthcare, the drive behind investments arises from the mounting burden of chronic non-communicable diseases (NCDs) and the increased capacity of the middle classes to pay for health services. The so-called "rise of the South", the changing geographies of poverty and wealth and the legacies of the 2008 global financial crisis hitting mostly the Global North, have all played a part in modifying the classical representation of the North-South divide that historically framed mainstream development imaginaries and interventions.

Likewise, the mantra of "financial inclusion" has generated the opening up of a relationship between macro and micro circuits of financial interests, and an increase in dealings with low-income groups and marginalized populations, particularly through microfinance schemes. Microfinance has almost become synonymous with development over the last 20 years, and the sector has experienced tremendous growth. In the financialization of development, microfinance programmes have been restructured and progressively integrated into global flows of financial technology and capital. In fact, the acceleration of efforts to connect poorer people and countries to regional and global structures of financialization is seen as a way to democratize financial capital and to pursue financial inclusion. Both goals provide ample space for the proactive and increased engagement of the private sector, including in the latest turn towards the controversial "digital finance for the poor" in its different lending applications.

Most of the world's marginalized populations face enormous health and financial risks, even before the COVID-19 crisis. In this permanent scenario of uncertainty, insurance products for the poor are marketed as opportunities for both making profits and improving social welfare. However, this generally has a twofold complication: demand for insurance products is often scarce and insurers are worried about adverse selection and moral hazard, with the latter concern leading insurers to offer essential health packages, that is, very basic health services. That is why bundling insurance policies with products like microfinance loans has been seen as an efficient solution to tackle both the low demand and the adverse selection problem. Microfinance institutions either serve as agents to a larger private insurance company, or provide the insurance policy themselves. Indeed, many microfinance institutions have experimented with packaging classical health insurance mechanisms with their loans, promoting the paradigm with evangelical fervour especially in countries where out-of-pocket healthcare expenditures remain high. The widespread belief is that integration of health insurance and microfinance may supplement governments' efforts and help pave the way to universal health coverage.

This belief may be misplaced. No country in the world has ever achieved anything close to universal health coverage using voluntary insurance, and even Western-style, employment-based social health insurance schemes may not be the alternative solution in LMICs. Empirical evidence demonstrates that they are characterized by large-scale exclusion. As an Oxfam briefing paper reports: "Even rich countries struggled to achieve rapid scale-up via social health insurance – it took Germany 127 years to achieve UHC. People in poor countries cannot and should not have to wait that long." Equity and universality should be the guiding principles, rejecting approaches that collect insurance premiums from people who are too impoverished to pay. Worldwide, the life shock that the pandemic lockdown has dealt to people in the informal sector and their vulnerability due to their exposure to contagion and hunger, can hardly be tackled through similar approaches.

COVID-19 and the defeat of health market ideologies

For quite some time, international evidence has demonstrated that universal access to healthcare has not been achieved anywhere through voluntary or contributory-based health insurance. And that such schemes, often promoted by the World Bank and other donors in LMICs, don't serve the needs of the most disadvantaged and sick people. Instead, they serve the interests of private finance, which is allowed to extract profits from the health and social care sector.

The belief that market competition in health would enhance efficiency, productivity and innovation has been bitterly defeated in the collision with the COVID-19 pandemic. All over the world, health and social care workers, local municipalities' staff and people involved in the fight against COVID-19, who risk their lives every day on the frontlines of this pandemic, are not inspired by competition and market forces, but by the values of serving the public interest, professional responsibility, solidarity and compassion. Almost overnight, COVID-19 has subverted the free-market orthodoxy that has so badly wounded effective preparedness and care. The pandemic is the time to resurrect the paradigm of universal public health systems based on equitable fiscal approaches, if we are to overcome inequalities in health. This is no longer a mere aspiration, but the most effective vaccine the world needs to prepare for the next health-climate emergency.

The above is extracted from the report "Gambling with our lives: Confronting global health and climate emergencies in the age of financialisation", published in November 2020 by Citizens for Financial Justice, a diverse group of European partners – from local grassroots groups to large international organizations – with a shared vision of informing and connecting citizens to act together to make the global finance system work better for everybody. The full report, including references, is available at https://citizensforfinancialjustice.org/resource/gambling-with-our-lives/