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Need for action to prevent debt debacle

With many developing countries weighed down by unsustainable debt burdens, systemic action by the world's leading economies and international financial bodies is urgently required to avert a sovereign debt crisis.

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No new actions to combat debt crises offered by G20 ministers

The world's major economies are yet to come up with concrete measures to address the plight of developing countries in debt distress, even as the prospect of a sovereign debt crisis looms.

by Bhumika Muchhala

NEW YORK: Finance ministers and central bank governors from the Group of 20 (G20) leading economies met in Jakarta on 17-18 February to discuss global economic recovery, the debt crises in many developing countries, international financial instabilities, the voluntary channelling of Special Drawing Rights (SDRs), global tax reform, inclusive and green finance, climate finance and infrastructure investment, among other issues.

The critical crisis in the world economy today is undeniably that of unsustainable sovereign debt, with several developing countries defaulting on their debts in 2021 and several more close to a default in 2022.

On the urgent need for debt relief, restructuring and coordination, the communique of G20 finance officials welcomed "efforts to make progress on the Common Framework for Debt Treatments beyond the DSSI [Debt Service Suspension Initiative]," and reiterated their "commitment to step up our efforts to implement it in a timely, orderly and coordinated manner."

They noted that creditor committees may discuss and find appropriate solutions on a case-by-case basis for those countries that have requested debt treatment, including Chad, Ethiopia and Zambia.

The communique stressed the importance for private creditors and other official bilateral creditors to commit to providing debt treatments on terms at least as favourable, to ensure fair burden sharing in line with the comparability-of-treatment principle, and affirmed the joint efforts by all actors, including private creditors, to continue working towards enhancing debt transparency.

The launch of the joint Institute of International Finance (IIF)/Organization for Economic Cooperation and Development (OECD) Data Repository Portal was welcomed, and all private sector lenders were encouraged to contribute data to this initiative.

Debt distress in developing countries

According to the International Monetary Fund (IMF)'s calculations in June 2021, more than half of low-income countries are in debt distress or at risk of debt distress, double the numbers of 2015. A report by the *Financial Times* disclosed that the world's poorest countries face a $10.9 billion surge in debt repayments in 2022. In 2020, 62 developing countries spent more repaying debt than they did on healthcare during a pandemic.

Over the next three years, the debt repayments as well as the interest charges on the debt, which are increasing as a result of a stronger dollar and tightening monetary policy, will hamstring governments that should be spending public finances to battle the pandemic as well as to address long-term problems such as the effects of climate change.

Already heavily indebted before the pandemic, many developing countries had no choice but to spend public finances in tackling the pandemic while tax revenues collapsed. Meanwhile, with record low interest rates, public borrowing was easy to access. As a result, sovereign debt quickly piled up.

The World Bank's 2022 *Global Economic Prospects* report acknowledges that, rather than a liquidity issue, many countries actually face a solvency crisis which requires "debt stock reductions" instead of debt re-profiling which only addresses the terms of repayment. This is a significant shift from the G20's understanding of the debt problem when it formulated the Common Framework to address unsustainable debt, in that debt treatments would not involve debt writeoffs or outright cancellation.

In 2021, Argentina, Belize, Ecuador, Suriname and Zambia defaulted on their debts. In 2022, Sri Lanka, El Salvador, Tunisia and Ghana are assessed by financial journalists and analysts as being close to a debt default. Lebanon, Turkey and Ukraine are also mentioned.

According to the UN's Department of Economic and Social Affairs, "Elevated external debt burdens, additional borrowing during the pandemic and increasing debt-servicing costs have pushed a rising number of countries to the brink of a debt crisis."

Recent Jubilee Debt Campaign findings report that average Global South external debt payments have increased 120% between 2010 and 2021 and are higher than at any point since 2001. Average government external debt payments were 14.3% of government revenue in 2021, up from 6.8% in 2010.

Globally, 54 countries are in debt crisis, meaning that debt payments are undermining the ability of governments to protect the basic economic and social rights of their citizens. The analysis finds that a further 14 countries are at risk of both a public and private debt crisis, 22 at risk of solely a private sector debt crisis, and 21 at risk of a public sector debt crisis.

Limitations of G20's Common Framework and DSSI

Despite the G20's exclusivity as a club of the world's 20 biggest economies, it is still the preeminent body of global economic decision-making. The G20 finance ministers' meeting is therefore perceived as the prime venue to begin addressing the debt crises rippling across many countries. While there was some hope that the G20 finance officials would reinstate the DSSI, which took effect on 1 May 2020 and was terminated at the end of 2021, it was not revived at the recent meeting.

The DSSI was critiqued by analysts and international organizations as being inadequate, as it merely suspended debt on a temporary basis and "kicked the can down the road" rather than sustainably restructuring debt in a fair manner that divided burden sharing between creditors and debtors. It did deliver approximately $10.3 billion in relief to more than 40 eligible countries. However, IMF and World Bank debt data reveal that the 46 lower-income countries that applied for the scheme still paid out more than three times in debt payments, or about $36.4 billion. Meanwhile, only $600 million of debt was cancelled, primarily through the IMF's Catastrophe Containment and Relief Trust (CCRT).

The lack of political enforcement by the G20 resulted in private creditors, especially big commercial banks, asset management companies, investment banks, hedge funds and oil traders, providing no relief and receiving $14.9 billion in debt repayment from the poorest countries (April 2020-June 2021).

The G20's Common Framework for Debt Treatments was established in 2020 to reduce debt burdens by a Paris Club approach, meaning a case-by-case approach that individualizes debt restructuring by debtor country, rather than addressing the systemic nature of debt. The shortcomings of the Common Framework have been acknowledged by a range of actors, from the IMF and World Bank to the financial press and international civil society.

These limitations include, for example, the voluntary engagement of private creditors in the creditor committees of the Common Framework to deliver on comparability of treatment, which is a principle developed in the Paris Club to ensure that all creditors contribute with their fair share in debt restructuring and cancellation. The voluntary nature has resulted in private creditors continuing to refuse engagement in the Common Framework to date.

Importantly, none of the countries that have applied to the Common Framework thus far have had any debt cancelled. This has led to the assessment that the Common Framework is not fit to address the challenges of creditor coordination and engagement in order to deliver debt relief on a scale sufficient to tackle the debt distress many developing countries are facing and will continue to face in the coming years.

The case-by-case approach of the Common Framework does not meaningfully address the scale, volume and systemic nature of debt restructuring and write-off of the principal debt stock required to prevent debt insolvency and crises in many developing countries.

In order to incentivize private creditor participation, the World Bank and IMF allude to credit enhancements employed in the past and the need to make debt restructuring agreements binding on all creditors by majority vote, primarily through activating aggregated collective action clauses. In theory, these clauses allow private bondholders to coordinate restructuring terms among themselves. While the communique stressed that private creditors should ensure fair burden sharing in alignment with the comparability-of-treatment principle, a specific and detailed map of how this will be achieved across all types of private creditors has not to date been provided by G20 finance officials.

Overall, the Common Framework has been viewed by financial analysts as well as many in civil society as a messy, long and costly default and restructuring process, where the problem of uncooperative private creditors, the non-participation of multilateral institutions and the risks of insufficient debt cancellation lead to years of serial debt restructuring that remain unsolved. Furthermore, the Common Framework's requirement that debt treatment has to come attached with an IMF programme exacerbates the dilemma of fiscal austerity measures that the IMF recommends in its lending frameworks.

Both the IMF and World Bank focus their recommendations on greater effectiveness of the Common Framework through steps such as clearer timelines and rules, a debt payments standstill during negotiations, inclusion of middle-income countries, and debt cancellation in cases of unsustainable debt, which goes beyond re-profiling of terms of payment.

The World Bank, in its 2022 *Global Economic Prospects* report, stresses that in its current form the Common Framework is not suitable for ensuring sufficient debt relief and a fair distribution of costs between the various creditors. The Bank also says it is problematic that public creditors have, since the early 1980s, relied on debt suspensions, payment extensions and insufficient relief to address recurring debt crises in developing countries.

As a first step, the Bank recommends that the Common Framework commit to granting comprehensive debt relief. The Bank also suggests that the participation of private creditors should be made binding through, among other steps, the route of national legislation. While restructuring negotiations are ongoing, debtor countries should be granted a debt moratorium.

Meanwhile, the IMF's "G20

Surveillance Note" published on 16 February 2022 stresses that immediate action by the G20 is needed to arrest the rising human and economic toll of the COVID-19 pandemic. It also encourages the G20 to help ensure weaker economies have access to financial liquidity, including through the operationalization of the Common Framework and support for the channelling of the $650 billion issuance in Special Drawing Rights.

A key aspect of the Common Framework is addressing how comparability of treatment will be effectively enforced. The IMF's 2015 "Policy on Arrears to Official Creditors" can potentially be a key advocacy strategy on this enforcement. The Fund's policy suggests that if private and bilateral creditors refuse to engage in a debt restructuring, the IMF and G20 should give the debtor country political and financial support to default on non-engaging creditors. Meanwhile, debt reduction and/or cancellation from creditors willing to engage should proceed. This IMF policy could potentially guide the G20's support to borrowing countries that choose to default on creditors refusing to participate on comparable debt restructuring terms.

As the third year of the pandemic begins, the lack of concrete action on debt in the G20 finance ministers' communique does not bode well for the timely resolution of debt distress of both low- and middle-income countries, undermining their national policy space to recover from the economic and public health toll of COVID-19. Countries on the verge of default can only hope that the G20 will not wait until full-blown debt crises take place before taking real action.

UN Conference on Trade and Development (UNCTAD) Secretary-General Rebeca Grynspan has warned that many developing countries are truly at risk of another lost decade. To prevent this outcome, governments and international financial institutions, particularly the G20's finance ministers' body, need to take immediate and urgent action to provide unconditional debt cancellation for all countries in need.

For a systemic debt solution, a meaningful, inclusive and democratic process to reform the international debt architecture is necessary. This can be effectively and efficiently achieved through the long advocated multilateral framework for sovereign debt resolution under the auspices of the United Nations. Such a framework would comprehensively address unsustainable and illegitimate debts and provide systematic, timely and fair restructuring of sovereign debt in a process convening all creditors, from bilateral and multilateral to private creditors. *(SUNS9521)*

MC12 set for June, substantive gaps remain

Divisions persist among the WTO membership over a host of key negotiating issues ahead of a newly rescheduled ministerial meeting.

by D. Ravi Kanth

GENEVA: The members of the World Trade Organization on 23 February agreed to schedule the WTO's 12th Ministerial Conference (MC12) in the week of 13 June, paving the way for what is likely to be a "make-or-break" meeting on several consequential issues, including the trade body's much-delayed response to the pandemic, said people familiar with the development.

Several other issues where significant gaps continue to persist among the members include a proposed agreement on fisheries subsidies, a permanent solution for public stockholding programmes for food security, the continuation of the current moratorium on levying customs duties on electronic transmissions, proposed WTO reforms, and the legal status of the Joint Statement Initiatives (JSIs).

At a formal WTO General Council (GC) meeting on 23 February, the outgoing GC chair, Ambassador Dacio Castillo from Honduras, proposed that the much-delayed MC12 be held in the week of 13 June. Members endorsed the chair's proposal, though the actual date is yet to be decided.

However, Russia's military conflict with Ukraine has since raised doubts as to whether MC12 could be held if developments continue to worsen, said people who asked not to be quoted. Even though there are three months to go before the scheduled MC12 date, the continued conflict and tensions, including the magnitude of economic and other sanctions being imposed on Russia, could throw "a spanner in the works" in the run-up to the conference, said several members who asked not to be quoted.

On the second day of the GC meeting on 24 February, the chairmanship of the Council was passed on to Ambassador Didier Chambovey from Switzerland. More than 20 members took the floor to praise the outgoing chair Castillo for his distinguished role in making the negotiating processes transparent and inclusive.

India said Castillo set a new benchmark for conducting negotiations, suggesting that it should serve the chairs of the negotiating bodies well in the coming days. Countries from both sides of the aisle said he had played an exceptional role, which was rarely the case in the recent past, said one member who asked not to be quoted.

Sri Lanka and several other countries again proposed that Castillo continue to facilitate work on the two most important issues, namely the preparation of the outcome document for MC12 and formulation of the WTO's response to the pandemic, said people who asked not to be quoted.

However, it remains to be seen what the new chair Chambovey would do in the coming days, said people who preferred not to be quoted.

Continued differences

At the GC on 24 February, key members continued to spar over several issues including the proposed temporary TRIPS waiver; a proposal by the least-developed countries (LDCs) for an interim arrangement on LDC graduation, and on trade-related challenges of the LDCs and the way forward; a proposed sanitary and phytosanitary declaration for MC12; the continuation of the moratorium on imposing customs duties on electronic transmissions; the legal status of the JSIs; a statement issued by a group of countries on immediate action to support the multilateral trading system in the preparation for a successful MC12; and a proposal on strengthening the WTO to promote development and inclusivity.

On the TRIPS waiver, the positions of the 65 co-sponsors of the waiver proposal and a handful of opponents to the waiver remained unchanged, said people who asked not to be quoted.

The waiver proposal, which has been supported by parliamentarians, former leaders, Nobel laureates and more than 100 civil society organizations worldwide, seeks to suspend certain provisions in the WTO's TRIPS Agreement relating to copyrights, industrial designs, patents, and protection of undisclosed information in order to ramp up the production of diagnostics, therapeutics and vaccines to combat the COVID-19 pandemic.

The US appears to have said that it would support the waiver for vaccines, said people familiar with the development. Separately, it reiterated its opposition to termination of the current moratorium on imposing customs duties on electronic transmissions.

China said that "significant issues, such as IP [intellectual property] and food security that people have been suffering from should be an integral part of our response to the pandemic."

Lamenting the delay in not reaching an outcome in the IP area, China said "in our view, the most important thing now is to show genuine political will and put the moral obligation over the commercial interests."

Commenting on the TRIPS waiver and a separate EU proposal on compulsory licensing, China said they "constitute an integral part of the TRIPS contribution to the pandemic response." It said "these two proposals, with the common aim of promoting the equity of production and distribution of vaccines, are complementary rather than contradictory to each other and should be explored in parallel."

A large majority of developing countries supported the TRIPS waiver, while the EU touted its compulsory licensing proposal. A handful of countries continued to oppose the waiver.

Meanwhile, several countries including Switzerland, Japan, the United Kingdom and Russia again expressed their concerns over the lack of transparency in the small-group discussions among the US, the European Union, India and South Africa on the TRIPS waiver, said people who asked not to be quoted.

Also at the GC meeting, India, South Africa and Namibia sharply challenged the legal status of the JSIs on digital trade, investment facilitation, disciplines for micro, small and medium enterprises (MSMEs), trade and gender, and climate-

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change-related trade initiatives.

The three countries raised concerns that the JSIs violate the core provisions of the WTO's foundational Marrakesh Agreement, including: (a) Article II.1, which states, "The WTO shall provide the common institutional framework for the conduct of trade relations among its members..."; (b) Article II.3, which states, "The agreements and associated legal instruments included in Annex 4 (hereinafter referred to as 'Plurilateral Trade Agreements') are also part of this Agreement for those Members that have accepted them, and are binding on those Members. The Plurilateral Trade Agreements do not create either obligations or rights for Members that have not accepted them"; (c) Article III.2, which states that the WTO shall provide the forum for negotiations among its members concerning the multilateral trade negotiations; (d) Article IX concerning decision-making; and (e) Article X concerning amendments.

On their part, the proponents maintained at the GC meeting that the JSIs are strongly backed by around 80 countries, regardless of the provisions in the Marrakesh Agreement, advancing what seems to be a "brute majority" argument that doesn't appear to be unduly concerned about the rules, said a person who asked not to be quoted.

WTO officials under the spotlight

Separately during the GC meeting, India drew attention to its revised joint proposal with Cuba and the African Group on "strengthening the WTO to promote development and inclusivity", suggesting that it requires the chairpersons of the various negotiating bodies as well as the WTO secretariat, particularly the senior staff, to act impartially in accordance with the rules of procedure.

Without mentioning any names, India apparently said that, in the recent past, it had observed that some staff members were conducting themselves in a manner which appeared to be totally inconsistent with the principles of neutrality and impartiality.

The Indian Ambassador Brajendra Navnit apparently said that staff members are required to scrupulously observe impartiality in the exercise of their duties, adding that they cannot act like a private person by taking sides or expressing their personal views and convictions.

As reported in *TWE* No. 738, WTO Deputy Director-General Anabel Gonzalez from Costa Rica had put out a blog post on the WTO website expressing her five wishes for 2022, which seemed to align with the demands of the major industrialized countries.

Navnit quoted the WTO's Standards of Conduct as stating that "staff members are required scrupulously to observe impartiality in the exercise of their duties. They retain their personal views and convictions, but they do not enjoy the freedom of a private person to take sides or to express their opinion on controversial matters where this may reflect adversely on the WTO or on their status as international civil servants."

The Indian trade envoy said that when a staff member is called upon to communicate with the press, the staff member needs to understand that the information is being provided in the name of the WTO and to avoid personal references and views. *(SUNS9522/9523)*

Dangers of "take-it-or-leave-it" compromise outcome on TRIPS waiver

As talks to bridge differences over a proposed intellectual property waiver for COVID-19 medical products continue at the WTO, concerns have arisen as to the final shape of any deal reached.

by D. Ravi Kanth

GENEVA: In the face of growing vaccine inequity amidst the ongoing COVID-19 pandemic across countries, the chances of finalizing a credible outcome on a temporary TRIPS waiver at the WTO seem to be getting slimmer, with the likelihood of a "take-it-or-leave-it" compromise solution being foisted on the members apparently gaining ground, said people familiar with the development.

A senior WTO official who is overseeing the discussions on the TRIPS waiver between the trade ministers/senior officials of the United States, the European Union, India and South Africa has cautioned that no side will be fully satisfied with the final outcome.

In a brief statement at a WTO TRIPS Council meeting on 22 February, WTO Deputy Director-General Anabel Gonzalez said that the progress had been difficult during the ongoing quadrilateral consultations between the four members on the proposed TRIPS waiver and the separate EU proposal on compulsory licensing, said people who asked not to be quoted.

Gonzalez said the talks had intensified during the past several weeks, insisting that with some additional dedicated work, a compromise could be reached soon. She emphasized that the aim was to arrive at a workable compromise, adding that no one side would be completely happy with the final outcome.

Gonzalez also indicated that work was being done on what pertains to vaccines, suggesting that a second track would address the issues of diagnostics and therapeutics.

Gonzalez's comments on the compromise that is being worked out ostensibly by the Director-General and herself have raised some fears because of what had happened with such compromises in the past, including the "paragraph six mechanism" of the Doha Declaration on the TRIPS Agreement and Public Health, said people familiar with the development.

Also, with the quadrilateral talks being dragged out till the eleventh hour before the upcoming 12th WTO Ministerial Conference (MC12) to be held in June, the increasing chances of a "take-it-or-leave-it" compromise solution being foisted on the members could pose a serious problem for the developing countries, said people who asked not to be quoted.

The TRIPS waiver proposal seeks to temporarily suspend certain provisions in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) with a view to scaling up the production of COVID-19 vaccines, therapeutics and diagnostics across countries.

In contrast, the proposal on compulsory licensing put forward by the EU, which has fiercely opposed a TRIPS waiver, mostly merely restates Article 31 of the TRIPS Agreement. The EU proposal has so far failed to garner much support among the WTO membership, said people who asked not to be quoted.

Developing countries demand TRIPS waiver

In her intervention at the TRIPS Council meeting, South Africa's Ambassador Xolelwa Mlumbi-Peter is reported to have acknowledged the usefulness of small-group consultations for finding a landing zone that can take members forward in the discussions on the TRIPS waiver.

She expressed serious concern that the delay in approving a TRIPS waiver is hampering efforts to diversify proper production of vaccines and address vaccine inequity. In Africa, countries are still faced with vaccine inequity as 80% of Africans are yet to receive vaccines, she said.

The South African trade envoy argued that the TRIPS waiver would ensure freedom to operate, adding that production beyond fill-and-finish is essential.

She said that while South Africa welcomes the support from the global community in establishing an mRNA hub in the country, as well as manufacturing facilities in Kenya, Tunisia, Nigeria, Senegal and Egypt, the full operationalization of the mRNA hub faces hurdles due to intellectual property barriers.

Tanzania, which is one of the co-sponsors of the TRIPS waiver proposal, said it is looking forward to completion of the quadrilateral process soon so that members could finalize the waiver.

Bangladesh said the least-developed countries (LDCs) would like to know how the mRNA hub will work. It sought to know how members are going to deal with issues concerning diagnostics and therapeutics.

India said that it has engaged constructively on this crucial issue all these months, adding that it remains committed to working towards a practical and effective multilateral solution.

Indonesia, which is also a co-sponsor of the waiver proposal, sought to know more about the negotiations between the four members on the waiver.

Tunisia suggested that a credible outcome on the waiver is essential for the results on other "deliverables" for MC12, noting that it is among the beneficiary countries in Africa from the mRNA hub.

The EU reiterated its commitment to finding a solution on intellectual property that can contribute to the diversification of production of COVID-19 vaccines. It expressed confidence that WTO members can find a bridge between those members who advocate for a waiver and those who believe that the TRIPS Agreement provides enough flexibility to ensure that the enabling qualities of intellectual property can be used to the maximum.

The EU maintained that it has shown utmost flexibility and has moved its position significantly throughout this process. It touted its own proposal on compulsory licensing, saying that it would allow members to authorize their manufacturers to produce and export vaccines in the fastest possible manner and without red tape, and with maximum flexibility as to the legal instruments used to do so.

The US said it has stated its support for a waiver of intellectual property protections for COVID-19 vaccines, adding that it will continue to engage with members to look for areas of convergence that can lead to a solution, including its participation in the Director-General's consultations.

Several other members such as Chile, the African Group, the LDC Group, New Zealand, the United Kingdom, Australia, Nigeria, Japan and Switzerland made their respective interventions. Apparently, several members expressed confidence over the ongoing efforts to bring about convergence on this most important issue that has been blocked by a handful of countries for the past 18 months, said people who asked not to be quoted.

Switzerland and the UK raised sharp concerns over the continued "opacity" of the small-group consultations among the US, the EU, India and South Africa.

Switzerland, one of a handful of countries that have severely opposed a TRIPS waiver, said the consultations do not correspond to the fundamental WTO principles of inclusiveness, transparency or regular reporting to the membership. It raised concerns about the imbalance of representation in the small-group process and demanded to be part of it. An inclusive and transparent process is indispensable if a mutually agreeable outcome on this matter is to be found, it said.

Switzerland maintained that any WTO outcome needs to be comprehensive and balanced in order to be meaningful, saying that intellectual property has played a positive role in fighting this pandemic effectively.

The UK, which has also vehemently opposed a waiver, raised doubts about whether small-group formats ensure transparency and representation of the wider WTO membership, especially if the composition of a grouping does not represent a range of views and positions of members. The UK underlined that any agreement reached outside of the TRIPS Council will need to be presented, scrutinized and discussed by all WTO members in order for an agreement to be arrived at by consensus.

Several other countries also called for greater transparency and emphasized that the wider membership will have to be included in discussions of any approach or proposal that could be developed into a consensus-based outcome. *(SUNS9521)*

Global trade hit record high in 2021 but likely to slow this year

The value of global trade reached a record level in 2021 but is expected to grow at a reduced pace this year, according to a UN trade monitor.

by Kanaga Raja

GENEVA: Global trade reached a record high of about $28.5 trillion in 2021, an increase of almost 13% relative to pre-COVID-19 pandemic levels, the UN Conference on Trade and Development (UNCTAD) has reported.

In its latest Global Trade Update, released on 17 February, UNCTAD said while growth in global trade accelerated during the last quarter of 2021, it is expected to slow in the first quarter (Q1) of 2022.

According to the UNCTAD report, during the fourth quarter of 2021, trade in goods remained strong and trade in services finally returned to its pre-pandemic levels.

Furthermore, developing countries' trade outperformed that of developed countries in Q4 2021, while growth in South-South trade was above the global average, it said.

According to the UNCTAD report, global trade growth remained strong during 2021, as its value continued to increase through each quarter of that year.

Trade growth was not only limited to goods, as trade in services also grew substantially through 2021, to finally reach pre-pandemic levels during Q4 2021, said UNCTAD.

"Overall, the value of global trade reached a record level of about $28.5 trillion in 2021, an increase of about 25% relative to 2020 and an increase of about 13% relative to the pre-pandemic level of 2019."

While most global trade growth took hold during the first half of 2021, growth continued in the second half of that year. After a relatively slow third quarter, trade growth picked up again in Q4 2021, when the value of global trade increased by about 3% relative to Q3 2021.

Trade in goods and trade in services followed similar patterns during 2021, with stronger increases during the first half of the year, noted UNCTAD. "Trade growth continued to be positive for both goods and services in Q3 2021 and especially in Q4 2021."

During Q4 2021, trade in goods increased by almost $200 billion to reach about $5.8 trillion, setting a new record, said the report. During the same period, trade in services rose by about $50 billion to reach about $1.6 trillion, a value just above pre-pandemic levels.

On a year-over-year basis, trade in goods strongly outperformed trade in services, with an increase of about 27% and 17% respectively.

Slower trade growth in 2022

"The UNCTAD nowcast indicates that trade growth will continue to slow during Q1 2022," said the report. Positive growth rates are expected for both trade in goods and in services, albeit only marginally, keeping trade values at similar levels to Q4 2021.

The positive trend for international trade in 2021 was largely the result of increases in commodity prices, subsiding pandemic restrictions and a strong recovery in demand due to economic stimulus packages, said UNCTAD. "As these trends are likely to abate, international trade trends are expected to normalize during 2022," it added.

Overall, the evolution of world trade in 2022 is likely to be affected by the following factors: slower-than-expected economic growth; continuing challenges for global supply chains; trade agreements and regionalization trends; the transition towards a greener global economy; and rising concerns about debt sustainability, said UNCTAD.

UNCTAD noted that economic growth forecasts for 2022 are being revised downwards. For example, the International Monetary Fund (IMF) cut its world economic growth forecast for 2022 by 0.5 points (from 4.9% to 4.4%) because of persistent inflation in the United States and concerns related to China's real estate sector. It is likely that global trade trends will reflect these macroeconomic trends, with lower-than-expected trade growth, said UNCTAD.

According to UNCTAD, the COVID-19 pandemic resulted in unprecedented pressures on supply chains. Logistic disruptions, a semiconductor shortage and rising energy prices have further contributed to supply shortages and spiralling shipping costs. "As a result, major companies have become strongly focused on improving reliability and managing risks for their supply networks, but delays have persisted nevertheless." Efforts to shorten supply chains and to diversify suppliers could affect global trade patterns during 2022, said UNCTAD.

The report noted that the Regional Comprehensive Economic Partnership (RCEP) entered into force on 1 January 2022. It said this trade agreement facilitates trade among many of the East Asian and Pacific economies, and is expected to significantly increase trade between members, including by diverting trade from non-member countries.

The regionalization of trade flows is also expected to increase in other parts of the world in line with other regional initiatives (e.g., the African Continental Free Trade Area), as well as due to increasing reliance on geographically closer suppliers.

UNCTAD also said that trade patterns in 2022 are expected to reflect the increasing global demand for products that are environmentally sustainable. "Such patterns may also be supported by government policies regulating the trade of high-carbon products." Moreover, global trade patterns could also be influenced by increased demand for strategic commodities required to support greener energy alternatives (e.g., cobalt, lithium and rare earth metals).

UNCTAD further said that, given the record levels of global debt, concerns of debt sustainability are likely to intensify in the incoming quarters due to mounting inflationary pressures. "A significant tightening of financial conditions would heighten pressure on the most highly indebted governments, amplifying vulnerabilities and negatively affecting investments and international

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trade flows."

Trends in major economies

Highlighting some trends in the imports and exports of some of the world's major trading economies, the UNCTAD report said in Q4 2021, trade in goods in all major economies was well above pre-pandemic levels in 2019, for both imports and exports.

Negative quarter-over-quarter rates reveal that the positive export trends reversed for some of the major economies during Q4 2021. Nevertheless, export growth in this period remained strong for China, the United States and also for the Republic of Korea. Conversely, import trends continued to be positive, said UNCTAD.

In Q3 2021, trade in services for most major economies was still substantially lower than pre-pandemic averages of 2019. However, as shown by quarter-over-quarter rates, Q3 2021 marked a substantial recovery in services trade for all major economies, with the exception of Japan.

In Q4 2021, trade in goods increased more strongly for developing than for developed countries, said UNCTAD. Exports of developing countries in Q4 2021 were about 30% higher than in Q4 2020. In comparison, this figure was about 15% for developed countries.

Moreover, trade growth between developing countries (South-South) outpaced global trade during Q4 2021, with an increase of about 32% relative to Q4 2020, and with an increase of about 38% when excluding East Asian economies. Similar patterns are found when comparing Q4 2021 with the pre-pandemic levels.

Trade growth rates in Q4 2021 remained very strong across all geographic regions, although lower in Europe, North America and East Asia. Export growth has been generally stronger in commodity-exporting regions, as commodity prices have increased.

At the sectoral level, the report said that with the exception of transport equipment, all economic sectors saw a substantial year-over-year increase in the value of their trade in Q4 2021. "High fuel prices are behind the strong increase in the value of trade of the energy sector. Trade growth was also above average for metals and chemicals."

As a result of the global shortage of semiconductors, trade growth in communication equipment, road vehicles and precision instruments was subdued during Q4 2021, said UNCTAD. *(SUNS9517)*

Global food prices hit all-time high in February, says FAO

International prices of key food commodities have struck a record level, according to the UN agriculture agency.

by Kanaga Raja

GENEVA: The international prices of a basket of key agricultural food commodities reached a new all-time high in February, mainly driven by large increases in prices of vegetable oils and dairy products, the UN Food and Agriculture Organization (FAO) has said.

According to FAO, its Food Price Index (FFPI) averaged 140.7 points in February 2022, up 5.3 points (3.9%) from January and as much as 24.1 points (20.7%) above its level a year ago. This represents a new all-time high, exceeding the previous high of February 2011 by 3.1 points.

The FAO Food Price Index is a trade-weighted index that tracks the monthly change in the international prices of a basket of key food commodities.

The February rise was led by large increases in vegetable oil and dairy price sub-indices. Cereals and meat prices were also up, while the sugar price sub-index fell for the third consecutive month.

"Concerns over crop conditions and adequate export availabilities explain only a part of the current global food price increases. A much bigger push for food price inflation comes from outside food production, particularly the energy, fertilizer and feed sectors," said FAO economist Upali Galketi Aratchilage. "All these factors tend to squeeze profit margins of food producers, discouraging them from investing and expanding production."

According to FAO, its Cereal Price Index averaged 144.8 points in February, up 4.2 points (3.0%) from January and 18.7 points (14.8%) from one year ago. In February, prices of all major cereals increased from their respective values in the previous month. "World wheat prices increased by 2.1%, largely reflecting new global supply uncertainties amidst disruptions in the Black Sea region that could potentially hinder exports from Ukraine and the Russian Federation, two major wheat exporters."

Coarse grain export prices also rose by 4.7%, FAO said. World maize prices increased by 5.1% month-on-month, underpinned by a combination of continued crop condition concerns in Argentina and Brazil, rising wheat prices, and uncertainty regarding maize exports from Ukraine, a major exporter. Among other coarse grains, both sorghum and barley export prices firmed month-on-month as well, gaining 5.9% and 2.7%, respectively.

International rice prices increased by 1.1% in February, primarily sustained by the appreciation of currencies of some exporters against the US dollar and strong demand for fragrant rice from Near East Asian buyers.

FAO said that its Vegetable Oil Price Index averaged 201.7 points in February, up 15.8 points (8.5%) month-on-month and marking a new record high. FAO attributed the continued price strength mostly to rising palm, soy and sunflower oil prices.

In February, international palm oil prices increased for the second consecutive month due to the sustained global import demand that coincided with the reduced export availabilities from Indonesia, the world's leading palm oil exporter. Meanwhile, world soy oil values continued to rise on deteriorating soybean production prospects in South America. "International sunflower oil prices also increased markedly, underpinned by concerns over the disruptions in the Black Sea region, which could potentially lower exports. Surging crude oil prices also lent support to the vegetable oil complex."

According to FAO, its Dairy Price Index averaged 141.1 points in February, up 8.5 points (6.4%) from January, marking the sixth successive monthly increase and placing the index 28.0 points (24.8%) above its value in the corresponding month last year.

In February, international quotations for all dairy products represented in the index firmed, underpinned by the continued tightening of global markets on the back of lower-than-expected milk supplies in Western Europe and Oceania. "Besides tight global supplies, persistent import demand, especially from North Asia and the Middle East, led to steep increases in whole milk powder and cheese price quotations." International skim milk powder prices rose significantly as well, reflecting a lower volume of milk deliveries for drying plants in Western Europe, while butter prices received a boost from the high demand for spot supplies.

FAO's Meat Price Index averaged 112.8 points in February, up 1.2 points (1.1%) month-on-month and 15.0 points (15.3%) from its level a year ago.

International bovine meat quotations reached a new record high in February, driven by strong global import demand amidst tight supplies of slaughter-ready cattle in Brazil and the high demand for herd rebuilding in Australia. "Pig meat prices also edged up, reflecting increased internal demand and scaled-back hog supplies in the European Union and the United States of America."

However, quotations for ovine (lamb and mutton) meat weakened for the fourth consecutive month due to high exportable supplies in Oceania. Meanwhile, poultry meat prices fell slightly due to reduced imports by China following the end of the Spring Festival and lower domestic demand in Brazil.

According to FAO, its Sugar Price Index averaged 110.6 points in February, down 2.1 points (1.9%) from January, marking the third consecutive monthly decline and reaching its lowest level since last July. "Favourable production prospects in major exporting countries, notably India and Thailand, coupled with improved growing conditions in Brazil continued to weigh on world sugar prices," it said.

FAO said that ethanol prices in Brazil declined for the third successive month in February on the back of reduced domestic demand, exerting further downward pressure on world sugar prices. However, it said the strengthening of the Brazilian real against the US dollar, which tends to restrain shipments from Brazil, the world's largest sugar exporter, prevented more substantial sugar price declines. *(SUNS9530)*

Financialization at heart of economic malaise

The rise of finance has slowed productivity growth and impeded development of the real economy.

by Anis Chowdhury and Jomo Kwame Sundaram

COVID-19 has exposed major long-term economic vulnerabilities. This malaise – including declining productivity growth – can be traced to the greater influence of finance in the real economy.

The deep-seated causes of the current resurgence of inflation, inequalities and contractionary tendencies have not been addressed. Meanwhile, reform proposals after the 2008-09 global financial crisis (GFC) have been largely forgotten.

Declining productivity

Productivity growth has been declining in major economies since the early 1970s. As the World Bank noted, well "before the ... pandemic, the global economy featured a broad-based decline in productivity growth".

World labour productivity growth slowed from its 2007 peak of 2.8% to a post-GFC nadir of 1.4% in 2016, remaining under 2.0% in 2017-18. This slowdown has hurt over two-thirds of advanced, emerging market and developing economies.

Except for a brief productivity spike in some countries around the turn of the century, labour productivity growth in developed Organization for Economic Cooperation and Development (OECD) countries was declining, with trends low but stable after the GFC.

For Robert Gordon, this was mainly due to declining total factor productivity (TFP) growth – or slower technical innovation, organizational improvements and labour skill growth – in recent decades, particularly in industrial nations.

For the World Bank, reduced investment and TFP growth deceleration have been roughly equally responsible for the productivity slowdown. Slowing working-age population growth and limited education progress have also contributed.

The United Nations noted that "as firms around the globe have become more reluctant to invest, productivity growth has continued to decelerate". It blamed the slowdown on reduced investments in machinery, technology, etc.

Slower transitions to more diverse and complex production have also delayed progress. Some supply shocks due to "natural causes" – of which 70% were climate-change-related – have also hurt productivity growth.

Growing inequality has weakened demand, slowing economic and productivity growth. As workers' spending declined with labour's income share, demand has been sustained by more public and private borrowing.

The International Monetary Fund (IMF)'s April 2017 World Economic Outlook confirmed this trend. Productivity growth declines have lowered real incomes, reducing consumer spending, demand and growth.

A joint report of the Bank for International Settlements (BIS), the OECD and the IMF also blamed unconventional monetary policies – very low, even negative real interest rates, and corporate bond purchases.

Thus, corporate financial fragilities have weakened investment and productivity growth, especially since the GFC.

Deeper malaise

More sustainable and inclusive growth policies can help increase productivity. But blind faith in "market solutions" since the 1980s has worsened resource misallocations, sectoral imbalances and job-skill mismatches.

One-sided demand stimuli – through more deficit spending or monetary expansion, without complementary supply-side measures – have only had a limited impact. Also, supply-side measures to enhance growth need appropriate regulatory reforms – not wholesale deregulation. Deregulation has often strengthened product market oligopolies while labour's bargaining strength has generally declined. Growing corporate power has reduced labour income shares even as executive salaries have risen since the 1980s.

Paranoia around deficits and debt has cut public spending. Public investment remained flat during the early 2000s, rising slightly after the GFC before declining until the pandemic. Worse, public spending cuts have not been offset by more private investment. Slower capital stock increases cut potential growth in advanced economies from the 1980s. Debt and deficit paranoia has cut public services, social protection, public education and healthcare – hurting the vulnerable most.

Markets have also failed the environment, undermining sustainability. Inadequate investments in renewable energy and sustainable agriculture have resulted in food and energy shortages – now exacerbating inflationary pressures.

Financialization, tax cuts and deregulation have also encouraged speculative activities, share buybacks and other portfolio purchases. Unconventional monetary policies have also enabled unviable "zombie" firms to survive.

Thus, there has been rising protectionism and harmful beggar-thy-neighbour policies – such as competing corporate income tax rate cuts while weakening environmental protection and labour rights.

Meanwhile, much-needed productive investments, especially in infrastructure, technology and innovation, remain underfunded. National problems have been worsened by failure to improve multilateral economic governance.

Financialization

Declining productivity growth was due to finance's creeping dominance over the real economy from the 1970s. With banking more internationalized and concentrated, traditional financial intermediation by commercial banks has been undermined by market allocation and "universal banking", combining both commercial and investment banking services.

Financialization has thus subverted economic motives, markets and institutions, adversely affecting progress, balanced development and long-term productivity growth in various ways:

- Corporate decision-making and firm behaviour are increasingly influenced by short-term financial market indicators, e.g., share market prices, rather than medium- and long-term prospects.
- Non-financial corporations increasingly profit from financial rather than productive activities.
- "Non-traditional" financial activities (e.g., stock market investments) of commercial banks have increased their exposure to systemic, including external risks.
- The distinction between short-term speculation and patient long-term investment has become blurred.
- Executive and even managerial remuneration has been increasingly linked to short-term profitability, as measured by share prices, not longer-term considerations.

Such features have adversely affected real investments and innovation, due to finance pursuing short-term returns. Thus, financialization has negatively affected investment, technology adoption and skill upgrading, with adverse consequences for productivity and decent jobs.

The financial system has also undermined the real economy by siphoning talent from it with attractive inducements. Thus, talent has gone to finance at the expense of the real economy, especially harming technological progress.

James Tobin challenged "throwing more and more of our resources, including the cream of our youth, into financial activities remote from the production of goods and services, into activities that generate high private rewards disproportionate to the social productivity."

Then American Finance Association president Luigi Zingales showed financial growth in the last four decades has basically been rent seeking, i.e., securing profits without adding any value.

Finance has captured rents "through a variety of mechanisms including anti-competitive practices, the marketing of excessively complex and risky products, government subsidies such as financial bailouts, and even fraudulent activities ... By overcharging for products and services, financial firms grab a bigger slice of the economic pie at the expense of their customers and taxpayers".

Banking abuses have been innovative, ranging from collusion and abusive practices to market manipulation, rigging interest, exchange and other rates, passing risk to unsuspecting customers, and aiding and abetting tax evasion and money laundering.

Finance has thus retarded development of the real economy in various ways.

First, financial development has not been conducive to intermediating between savings and real investments. Markets allocate funds by criteria other than promoting investment in the real economy.

Second, financial markets and speculation do not generate or otherwise add real value.

Third, financialization and regulatory failure have generated more frequent and damaging financial crises.

Seeking to maximize returns, fund managers and their ilk mainly invest in response to short-term financial trends.

Presumed to be best left to markets, actual capital formation – increasing economic output – and productivity growth have slowed, to the detriment of most. *(IPS)*

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

Inflation targeting constrains development

Keeping an unduly tight lid on inflation will only curtail developing countries' growth prospects.

by Anis Chowdhury and Jomo Kwame Sundaram

All too many developing countries have been persuaded or required to prioritize inflation targeting (IT) in their monetary policy. By doing so, they have tied their own hands instead of adopting bolder economic policies for growth, jobs and sustainable development.

IT refers to monetary policy efforts to keep the inflation rate within a certain low range. Many countries – developed and developing – have adopted this policy priority following New Zealand's 1989 lead, arbitrarily aiming to keep inflation under 2%.

Initially, developing economies adopted IT after crises to get financial support from the International Monetary Fund (IMF), e.g., after the 1997-98 Asian financial crisis. From the mid-1970s, many had borrowed heavily to accelerate growth. After the US Federal Reserve raised interest rates sharply from 1980, many succumbed to debt crises.

The IMF insisted on severe short-term stabilization policies to keep inflation and debt low. The World Bank complemented it with medium-term structural adjustment policies demanding market liberalization and other reforms.

Price stabilization policies to keep inflation low have been an IMF priority since. But instead of accelerating growth as promised, IT has actually slowed it. Yet, developing countries have jumped

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on the IT bandwagon – 25 had formally adopted IT by 2020, while most others strive to keep inflation very low.

How bad is inflation?

Most believe that inflation is the greatest threat to the economy and growth. Many presume inflation creates uncertainty, causing resource misallocation. All this is said to retard growth – meaning fewer jobs, less tax revenue and lasting poverty.

Higher prices hurt by reducing purchasing power, especially harming wage-earners. Conversely, price stability – implying low and steady inflation – is believed to be more conducive to ensuring growth and prosperity.

Another core IT belief is that money only temporarily affects growth but permanently affects prices. IT advocates believe central bankers should mainly strive for price stability – not employment or growth. They usually presume independent central banks are better at doing so.

Many central bankers and economists dogmatically believe – without evidence – that tightly reining in inflation actually spurs growth. Acknowledging developing countries are more prone to external and supply shocks, the IMF recommended targets of up to 5% – higher than developed countries' 2%.

Most developing countries aspiring to become emerging market economies have formally adopted IT – e.g., South Africa's 3-6% or India's 2-6%. By setting successively lower short-term inflation targets, they believe financial markets are impressed.

But by doing so, they prevent themselves from realizing their full economic potential. Striving to emulate the developed countries' 2% target constrains both growth and structural transformation. After all, that target was quite arbitrarily set for no economic reason, except the New Zealand finance minister liking the "0 to 2 by '92" slogan!

While there is little disagreement about likely problems associated with "hyper-" or very high inflation, the threshold beyond which inflation becomes harmful is a moot issue on which there is no consensus.

Inflation targets are arbitrarily set, as acknowledged in an IMF paper. Hence, "any choice of a medium-term inflation target for these [developing] countries is bound to be arbitrary". Harry Johnson had found early IMF empirical studies of the inflation-growth relationship to be inconclusive.

Later studies did not settle the matter. For example, Michael Bruno and William Easterly at the World Bank concluded that inflation under 40% did not tend to accelerate or worsen, and "countries can manage to live with moderate – around 15-30 percent – inflation for long periods".

MIT's Rudiger Dornbusch and Stanley Fischer, later IMF Deputy Managing Director, came to similar conclusions. They found moderate inflation of 15-30% did not harm growth, noting "such inflations can be reduced only at a substantial short-term cost to growth".

A 2000 IMF paper suggested 11% inflation was optimal for developing countries; 7% inflation would have "an insignificant negative effect" on growth, while 18% inflation remained positive for growth. Yet, it recommended an IT target of 7-11% and "bringing inflation down to single digits and keeping it there".

The IMF Independent Evaluation Office's 2007 report on Sub-Saharan Africa found "mission chiefs are evenly divided on whether (or not) the Fund should tolerate higher [than 5%] inflation rates … IMF policy staff acknowledge that the empirical literature on the inflation-growth relationship is inconclusive".

Hence, very low inflation targets are quite arbitrary without any sound theoretical and empirical bases. But the IMF and its chorus of economists have not hesitated to insist on keeping inflation very low by promoting IT for all, especially to susceptible developing-country policymakers.

Constraining development

Very low inflation targets particularly constrain low-income countries (LICs). LIC governments face modest revenue bases and limited domestic savings. Hence, they should borrow more from central banks to finance their development spending.

But such borrowings are prohibited by law in many developing countries – especially those which have formally embraced IT – to prove their anti-inflationary commitment. Thus, a potentially major means for central banks to be more developmental is denied by statute.

By raising interest rates to keep inflation very low, central banks reduce not only consumer spending but also business investments. Such policies also increase both public and private debt burdens, in turn constraining spending.

Thus, overall aggregate demand remains depressed, limiting growth unless compensated by greater export demand. But higher interest rates attract capital inflows, causing exchange rates to appreciate, undermining export competitiveness.

IT policy is problematic for two major reasons. First, it demands debilitatingly low targets. Second, it denies central banks' potential developmental role by insisting on price stability – read: containing inflation – as its principal goal.

IMF researchers have acknowledged that "identifying the growth effects of moving from, say, 20 percent inflation to 5 percent has been challenging". They concluded: "pushing inflation too low – say, below 5 percent – may entail a loss of output …, suggesting a need for caution in setting very low inflation targets in low-income countries … In particular, inflation targets should be set so as to help avoid risks of an unintended contractionary policy stance."

Also, San Francisco US Federal Reserve Bank research has concluded that "developing economies that adopted an inflation target did not show any substantial gains in growth in the medium term compared with those that did not adopt a target".

Thus, developing countries prioritizing IT have, often unwittingly, curtailed their own economic prospects. Falsely promoted as a means to enhancing growth, jobs and development, IT, in fact, constrains them – the ultimate con!

Rejecting the IT fetish does not mean doing nothing about inflation. Instead, developing countries need to better know the economic challenges they face and the efficacy of their policy tools. National economic priorities should be comprehensively addressed without subordinating all policy goals to the god of IT. *(IPS)*

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Services, value chains and the Global South

Participation in global value chains in the services sector is unlikely to substantially benefit the least-developed countries, write *Karin Fischer* and *Christian Reiner.*

Many consumption and investment goods are "made in the world". Different stages of production are distributed to suppliers in various countries which can perform the task at lowest cost. These global value chains (GVCs) account for about half of world trade, and powerful transnational corporations (TNCs) from the Global North decide their geography, conditions and remuneration.

Institutions such as the World Bank and the World Trade Organization (WTO) have been very optimistic about the development potential of GVCs. This sanguine view of globalization is predicated on the idea that countries of the Global South can specialize in a limited number of simple tasks, instead of building up national industries from scratch. The advice for catching up is upgrading – improving products and processes to enable firms and workers to capture more value from participating in GVCs.

This upbeat narrative, drawn from the neoliberal "Washington Consensus", has however not come true for most least-developed countries (LDCs), let alone their workforces. It turns out to be mainly upper-middle- and high-income countries which benefit from GVCs. Upgrading is neither automatic nor frequent, leaving most countries stuck in low-technology and low-wage segments. Highly unequal bargaining power between firms is key, as markups by firms in the Global South diverge – rather than converge – with those in the Global North.

Magic bullet?

LDCs are thus in need of a new development strategy. And, once again, the WTO and World Bank believe they have found one. The new magic bullet is services, traded in GVCs just like manufactured goods. Justifying its optimism, the WTO presents India and the Philippines as role models.

True, both countries have benefited from the offshoring of business processes and information-technology services. Closer scrutiny, however, reveals a more nuanced picture. Linkages between these IT-based companies and other indigenous firms, essential if wider benefits for development are to ripple out, are unaffected or even weakened.

Skill-intensive employment opportunities in IT services do increase school enrolment but this effect is limited to just a few kilometres around an IT firm. As for the Philippines specifically, reports of cut-throat competition among call centres, very low wages coupled with high staff turnover and rising vulnerability and uncertainty due to COVID-19 qualify a rose-tinted view. The peculiarities of these countries – the prevalence of English-speaking, close connections with former colonial powers and an IT infrastructure – also raise doubts about the replicability of their models.

Among all countries, LDCs manifest the lowest representation in the knowledge-intensive services, such as IT or business processes, which have the greatest potential for export. Most of their service activities are in low-productivity, informal micro-enterprises, with very little chance of developing a business model fit for selling services to rich-country buyers. Labour productivity in services in African LDCs declined overall by 0.5% annually between 2011 and 2017.

Non-market services, such as health or education, only employ about 17% of LDC service workers, compared with 35% in rich countries – reflecting limited public spending in areas essential to develop the skilled workforce needed for knowledge-intensive services. This unfavourable specialization is reflected in a persistent trade deficit in services and a stagnant LDC share in world service exports of about 0.3%, with tourism, transport and distribution alone accounting for about 75% of this.

From a conceptual perspective, things look even more bleak. According to the value-chain "smile curve" – in which value is held to be moving from fabrication to pre- and post-fabrication stages – rich countries specialize in high-value, high-profit activities such as design or research and development, while offshoring lower-value-added manufacturing.

This pattern is reinforced by unequal power relationships: TNCs obstruct the upgrading of LDC firms from production to marketing or branding, "because such upgrading encroaches on their buyers' core competencies". While digitalization is expected to reduce entry barriers, it is also likely to widen the gap in value added between activities offshored and those at the TNC's headquarters.

The value added of knowledge-intensive services is not only highly concentrated in a few rich regions but also very immobile, due to agglomeration economies and the continuing need for face-to-face communication. And while sophisticated service sectors emerge in close connection with manufacturing, LDCs are suffering from premature deindustrialization.

Social wellbeing

More realistic and socially inclusive approaches towards services in LDCs have recently been suggested by Dani Rodrik and Joseph Stiglitz. Instead of focusing on their rather elusive export potential, industrial and social policies should target the small and often informal firms catering to local markets, which absorb most of the unskilled workers in cities. While unlikely to become exporters, it is important to support these firms by providing training or technology to raise economy-wide productivity.

The service sector also includes many non-traded services important for the wellbeing of a society. The role of government is here crucial, as education, housing, health and environmental services are public goods. Public policies will also be needed to tackle inequalities stemming from rising wage differentials among service firms.

In any event, a more regional production system, focused on the needs of the local population, seems more promising for LDCs than a one-sided, export-led GVC model, which mainly profits TNCs, raises inequality and does not provide many benefits for the wider economy.

***Karin Fischer** is head of the development research unit and teaches global sociology at the Institute of Sociology at Johannes Kepler University, Linz.* ***Christian Reiner** is senior lecturer and head of research at the Lauder Business School, Vienna. They are co-editors, with Cornelia Staritz, of* Globale Warenketten und Ungleiche Entwicklung *(Global Commodity Chains and Uneven Development). The above article is reproduced from Social Europe.*

Putting the Third World First

A Life of Speaking Out for the Global South

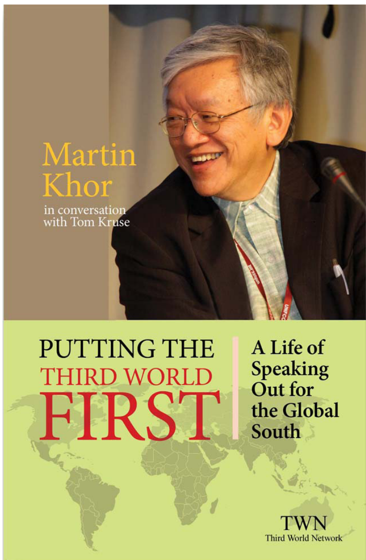
Martin Khor in conversation with Tom Kruse

Martin Khor was one of the foremost advocates of a more equitable international order, ardently championing the cause of the developing world through activism and analysis. In this expansive, wide-ranging conversation with Tom Kruse – his final interview before his passing in 2020 – he looks back on a lifetime of commitment to advancing the interests of the world's poorer nations and peoples.

Khor recalls his early days working with the Consumers Association of Penang – a consumer rights organization with a difference – and reflects on how he then helped build up the Third World Network to become a leading international NGO and voice of the Global South. Along the way, he shares his thoughts on a gamut of subjects from colonialism to the world trade system, and recounts his involvement in some of the major international civil society campaigns over the years.

From fighting industrial pollution in a remote Malaysian fishing village to addressing government leaders at United Nations conferences, this is Khor's account – told in his inimitably witty and down-to-earth style – of a life well lived.

Martin Khor (1951-2020) *was the Chairman (2019-20) and Director (1990-2009) of the Third World Network.*



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