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Ukraine war darkens economic outlook

The Russia-Ukraine conflict is set to inflict a heavy toll on the global economy, with developing countries being hit hard. The impact will be felt across several channels, from rising food and fuel prices and mounting trade costs to heightened financial volatility.

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

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Ukraine conflict has resulted in worsening outlook for world economy

The Ukraine crisis is sending shockwaves through the global economy, says a UN development body, with disruptions in food, fuel and finance hitting developing countries especially hard.

by Kanaga Raja

GENEVA: The war in Ukraine has resulted in a rapidly worsening outlook for the world economy, underpinned by rising food, fuel and fertilizer prices, heightened financial volatility, sustainable development divestment, complex global supply chain reconfigurations and mounting trade costs, according to the United Nations Conference on Trade and Development (UNCTAD).

In a rapid assessment of the impact of the war in Ukraine on trade and development, released on 16 March, UNCTAD said that this fast-evolving situation is alarming for developing countries, especially for African and least developed countries, some of which are particularly exposed to the war in Ukraine and its effect on trade costs, commodity prices and financial markets.

The risk of civil unrest, food shortages and inflation-induced recessions cannot be discounted, particularly given the fragile state of the global economy and the developing world as a result of the COVID-19 pandemic, it added.

In a statement issued earlier on 11 March, UNCTAD Secretary-General Rebeca Grynspan said that the war has a huge cost in human suffering and is sending shocks through the world economy.

"I want to express solidarity with the millions of men, women and children impacted and displaced by the invasion of Ukraine and I echo the call made by United Nations Secretary-General Antonio Guterres for the conflict to stop now," said Grynspan.

This crisis, coming during the pandemic, is accelerating existing vulnerabilities and widening inequalities across the world, she added.

All countries will be affected by the crisis, but developing countries already hit by the pandemic, rising debt and climate change will be hit especially hard by disruptions in food, fuel and finance, said Grynspan.

"Soaring food and fuel prices will affect the most vulnerable in developing countries, putting pressure on the poorest households which spend the highest share of their income on food, resulting in hardship and hunger." This is cause for great concern, as social and political stability and increasing food prices are highly correlated, she said.

"Countries, already under severe pressure due to the costs of the pandemic, will see disruption in trade, deficits widen and investment contract."

Additionally, the significant increase in oil and gas prices can shift investment back into fossil-fuel-based energy generation, which risks reversing the trend towards renewables at a time of acute climate crisis, said Grynspan.

"All these shocks threaten the gains made towards recovery from the COVID-19 pandemic and block the path towards sustainable development," she said.

Exposure to supply shocks

According to the UNCTAD report, a key area of concern is the two fundamental "Fs" of commodity markets: food and fuels.

It noted that the Russian Federation and Ukraine are global players in agri-food markets. Together, the countries represent 53% of the share of global trade in sunflower oil and seeds, and 27% of the share of global trade in wheat.

In the area of fuels, global energy prices are skyrocketing with the prospect of reductions in purchases of oil, gas and coal from the Russian Federation, which is the second-largest oil exporter in the world, selling about 5 million barrels of oil daily.

UNCTAD said the Russian Federation is also a major global supplier of chemical products including fertilizers, as well as metals and wood products.

"The crisis' effect on the food front is particularly worrying," said the UNCTAD report. It said some countries are particularly dependent on agri-food commodities coming from the Russian Federation and Ukraine. For example, the share of imports from the Russian Federation and Ukraine – as a percentage of total imports of wheat, corn, barley, colza, sunflower oil and seeds – is 25.9% for Turkey, 23% for China and 13% for India.

The report pointed out that lower-income countries are the most exposed. Based on UNCTAD calculations, on average, more than 5% of the import basket of the poorest countries are products that are likely to face a price hike resulting from the ongoing war in Ukraine, while the share is below 1% for richer countries.

Wheat markets are a case in point; in 2018-20, Africa imported $3.7 billion in wheat (32% of total African wheat imports) from the Russian Federation and another $1.4 billion from Ukraine (12% of total African wheat imports). The corresponding imports of wheat from the two countries by the least developed countries were, respectively, $1.4 billion (29%) and $0.5 billion (10%).

A look at specific African countries, including some least developed countries, reveals a far higher degree of dependence for many on wheat imports from the Russian Federation and Ukraine than these overall percentages. "As many as 25 African countries, including many least developed countries, import more than one third of their wheat from the two countries, and 15 of them import over half." This figure includes mainly North African and East African economies, as well as a few countries already struggling with internal conflicts and precarious food security situations.

Furthermore, said UNCTAD, there is limited scope to replace imports from the Russian Federation and Ukraine through intra-African trade, as the regional supply of wheat is comparatively small and many parts of the continent lack efficient transport infrastructures and storage capacity.

"In this context, and considering country-specific shocks, climate change, export restrictions and stockpiling, there might be a potential for food insecurity crises in some regions, especially if increased costs of fertilizers and other energy-intensive inputs negatively impact the next agricultural season."

A further rise in the costs of inputs is a significant risk factor in Africa, as the costs of urea and phosphate – two major components of fertilizer – had already risen by 30% and 4%, respectively, by the end of 2021, said the report.

Longstanding effects of rising food prices are hard to predict, but UNCTAD said that its analysis of historical data sheds light on some troubling possible trends. In general, political instability and increases in agri-food commodity prices are highly correlated, it noted. Agri-food commodity cycles have coincided with major political events such as the 2007-08 food riots and the Arab Spring.

Impact on transport

It is unclear to what extent the war will reduce commodity supplies from the Russian Federation and Ukraine, but initial assessments point to a substantive reduction despite some efforts from the West to not disrupt commodity supplies, said the UNCTAD report.

It said most economic restrictive measures have explicitly avoided commodities. However, restrictive measures on airspace, contractor uncertainty and security concerns are complicating all trade routes going through the Russian Federation and Ukraine, and the two countries are a key geographical component of the Eurasian Land Bridge.

While Russian airspace is closed to 36 countries and vice versa, some freight forwarders currently recommend not booking overland shipments between Asia and Europe. The war will have a negative impact on global air freight capacity and raise air cargo prices as carriers are forced to take longer routes and spend more money on fuel, said UNCTAD.

"On top of this, already expensive and overstretched maritime trade will find it difficult to replace these suddenly unviable land and air routes."

UNCTAD reported that in 2021, 1.5 million ocean containers of cargo were shipped by rail west from China to Europe. If the volumes currently going by container rail were added to the Asia-Europe ocean freight demand, this would mean a 5% to 8% increase in an already congested trade route, it said.

UNCTAD said that due to higher fuel costs and re-routing efforts, current container shipping carrying capacity is being constrained. This is evident from the ongoing supply chain crisis and a potential shift from land to maritime transport (between Asia and Europe).

"The impact of the war in Ukraine can be expected to lead to even higher freight rates," the report cautioned.

Nevertheless, it noted that, so far, global container freight rates seem to have not risen, but rather continued their most recent slightly downward trend from earlier record highs. This is related more to a global trend in the easing of pandemic lockdowns and phasing out of stimulus packages, vis-a-vis slowly improving congestion in some port areas of the world. Upward pressure on prices, however, may soon win out on balance, said UNCTAD.

It noted that the disruption has already been felt across smaller tankers, which are key for the Black Sea and Baltic Sea regional oil trade. Black Sea-Med Aframax and Suezmax tanker earnings jumped from about $10,000 per day on 18 February 2022 to over $170,000 per day on 25 February 2022.

UNCTAD said the underlying freight costs increased by about 400%. By mid-March 2022, tanker rates in the region remained firm, with some spillover into some but not all tanker segments.

These increases in freight rates can have significant impacts on the economy, said UNCTAD. It simulated that the container freight rate increase during the pandemic increased global consumer prices by 1.5% – with particularly oversized effects in vulnerable economies, such as small island developing states, landlocked developing countries and least developed countries.

Finance and investment

According to the UNCTAD report, the rise in food and fuel prices stemming from the war in Ukraine is already accelerating inflation in many countries. The adverse distributional impacts will hit the poorest segments of populations, as they tend to spend a disproportionately high share of their income on food. "At

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the same time, fuel- and food-import dependent countries will see worsening balance of payments and rising exchange rate pressure."

In periods of heightened uncertainty and volatility, significant volumes of wealth shift to safe havens, UNCTAD said. The shift by financial investors from assets perceived as high-risk, such as emerging market debt instruments, to safe havens such as the government debt instruments of advanced economies, may exacerbate pressures on developing-country exchange rates and external capital account balances. "This would force developing economies to tighten domestic monetary conditions and would weaken growth and lower domestic real incomes."

The potential for a vicious circle – driven by asset "fire sales", exchange rate devaluation and rising external debt obligations – cannot be discounted, the report cautioned.

Similarly, it said the significant increase in oil and gas prices may shift investment back into extractive industries and fossil-fuel-based energy generation, running the risk of reversing the trend towards renewables documented over the past 5-10 years.

Taken together, these shifts – in investment and asset positions (that is, reversal of capital flows) – imply a serious risk of divestment from greenfield and international project finance in countries in conflict as well as other economies and towards downward pressure on investment in developing countries, especially in infrastructure and sectors relevant for the Sustainable Development Goals, said UNCTAD.

It noted that the war puts macroeconomic policymakers in advanced economies in a difficult situation. Higher inflation raises the pressure to tighten monetary policy by increasing interest rates. "However, the short run dislocations caused by the war and the potential for financial disorder could lead central banks to postpone tightening and instead further increase provision of liquidity." A "dual strategy" of liquidity provision in the form of bond purchases alongside higher interest rates could emerge in this scenario, UNCTAD suggested.

Meanwhile, mounting debt burdens, rising climate change costs and ongoing pandemic effects and the commodity price shocks clearly increase the risk of a debt crisis in developing countries, said the report.

"Rate hikes alongside financial disorder would be a double blow for developing economies, of 'taper-tantrum-like' effects through interest rate rises and greater volatility in commodity futures and bond markets, leading to increased risk premiums on top of exchange rate pressures."

The combination of very high prices of food and fuel and macroeconomic tightening will place severe pressure on households in developing countries: real incomes will be squeezed and economic growth constrained. Even in the absence of disorderly moves in financial markets, developing economies will face severe constraints on growth and development, said UNCTAD. *(SUNS9537)*

Ukraine conflict could expose global food markets to heightened risks

The conflict between Russia and Ukraine – which involves two leading farm exporters – is expected to roil world food markets and undermine food security, the UN agriculture agency says.

by Kanaga Raja

GENEVA: Conflict-induced disruptions to food exports by the Russian Federation and Ukraine could expose global food markets to heightened risks of tighter availabilities, unmet import demand and higher international food prices, according to the UN Food and Agriculture Organization (FAO).

In an in-depth analysis released on 11 March assessing the possible risks emanating from the conflict in Ukraine, FAO said the Russian Federation and Ukraine are among the most important producers of agricultural commodities in the world. Both countries are net exporters of agricultural products, and they both play leading supply roles in global markets of foodstuffs and fertilizers, where exportable supplies are often concentrated in a handful of countries. "This concentration could expose these markets to increased vulnerability to shocks and volatility," it cautioned.

Many countries that are highly dependent on imported foodstuffs and fertilizers, including several that fall into the least developed country (LDC) and low-income food-deficit country (LIFDC) groups, rely on Ukrainian and Russian food supplies to meet their consumption needs, said FAO. Many of these countries already prior to the conflict had been grappling with the negative effects of high international food and fertilizer prices.

According to the FAO report, in the cereal sector, the contribution of the Russian Federation and Ukraine to global production is especially significant for barley, wheat and maize. Combined, the two countries, on average and respectively, accounted for 19%, 14% and 4% of global output of these crops between 2016/17 and 2020/21.

In the oilseed complex, their contribution to global production was particularly important for sunflower oil, with just over half of world output originating, on average, in the two countries during this period. Their average shares in global rapeseed and soybean production are comparatively more limited, standing at 6% and 2%, respectively.

FAO said the critical role that the Russian Federation and Ukraine play in global agriculture is all the more evident from an international trade perspective, with both countries playing leading roles in supplying global markets in foodstuffs.

For instance, in the wheat and meslin (a mixture of wheat and rye) sector, where the top seven exporters combined accounted for 79% of international trade in 2021, the Russian Federation stands out as the top global wheat exporter, shipping a total of 32.9 million tonnes of wheat and meslin (in product weight), or the equivalent of 18% of global shipments. Ukraine stood as the fifth largest wheat exporter in 2021, exporting 20 million tonnes of wheat and meslin and with a 10% global market share.

FAO said the prominence of the two countries in the world trade arena is similarly noteworthy in global markets of maize, barley and rapeseed, and even more so in the sunflower oil sector, where their substantial production bases endowed them with a combined world export market share of close to 64%.

The high export concentration that characterizes food commodity markets is also mirrored by the fertilizer sector, where the Russian Federation plays a leading supplier role, noted FAO. In 2021, the Russian Federation ranked as the top exporter of nitrogen (N) fertilizers and the second leading supplier of both potassic (K) and phosphorous (P) fertilizers.

Both the Russian Federation and Ukraine, FAO stated, are key suppliers to many countries that are highly dependent on imported foodstuffs and fertilizers. Several of these countries fall into the LDC group, while many others belong to the group of LIFDCs. For instance, Eritrea sourced the entirety of its wheat imports in 2021 from both the Russian Federation (53%) and Ukraine (47%).

Wheat imports of many countries situated in North Africa and Western and Central Asia are also highly concentrated towards supplies from the Russian Federation and Ukraine. Overall, almost 50 nations are dependent on both countries for over 30% of their wheat import needs, said FAO.

FAO said the very high likelihood of disruptions to Ukraine's grain and oilseed harvests, combined with the threat of trade restrictions on Russia's exports of cereals and other basic foodstuffs (as reflected in either record or near-record benchmark price quotations), would jeopardize the food security of many countries around the world, and of concern, to many economically vulnerable countries.

As for fertilizers, the reliance at the global level on Russian N, P and K is less pronounced, with some 25 countries having a dependency rate of 30% or more, said FAO. Ukraine does not feature heavily as a dependent fertilizer exporter, with the exception of purchases by Benin and a handful of countries in the European Union. Many countries located in Eastern Europe and Central Asia have an import dependency of well over 50% on Russian fertilizers, for all three ingredients.

Again, with the prospect of a trade embargo on Russia's exports or a self-imposed export restriction, the global fertilizer market would be subject to considerable disruptions. This prospect is already reflected in record urea (N) benchmark fertilizer quotations, said the FAO report.

FAO said record (natural) gas – the main source of fuel for N-fertilizer production – could render once-unprofitable investment in energy production commercially viable, such as fracking installations in the United States. "This would eventually ease international fertilizer prices, but the term of supply response is not expected to be quick, and fertilizer shortages could extend to crops this year and into the next," it added.

According to FAO, the upshot is that countries that are highly dependent on the Russian Federation and Ukraine for essential food and fertilizer supplies will need to prepare contingency plans to source from other countries, in the expectation that these countries can exact a rapid supply response.

Trade risks

In assessing the possible trade risks emanating from the conflict in Ukraine, the FAO report said conflict-induced disruptions to food exports by the Russian Federation and Ukraine expose global food markets to heightened risks of tighter availabilities, unmet import demand and higher international food prices.

FAO said that based on its forecasts for the ongoing 2021/22 season (July-June) before the conflict and on the pace of exports to date, between March and June 2022, Ukraine was expected to export approximately 6 million tonnes of wheat while the Russian Federation was estimated to ship 8 million tonnes. However, port closures in Ukraine and anticipated sales difficulties in the Russian Federation because of economic sanctions call into question whether these exports will actually be realized.

"While a sudden and steep reduction in shipments by the two countries could increase exports by alternate origins, such as the European Union, and potentially Canada and the United States of America, the potential for these exporters to fully make up for lower shipments by Ukraine and the Russian Federation is foreseen to be limited."

Indeed, wheat inventories are already especially tight in Canada and the US following reduced harvests in 2021/22, said FAO. Among other suppliers, Argentina's exports in 2021/22 will also likely remain limited by government efforts to control domestic inflation, while Australia has reached its maximum shipment capacity logistically.

In such a setting of significantly reduced global export availabilities, FAO said, other countries could enforce measures (formal or informal) to slow or restrict exports in order to protect domestic supplies and/or address domestic price inflation.

The resulting supply gaps for importers may be especially important for buyers in the Near East and North Africa and, given the importance of wheat as a food staple, they could result in some countries increasing imports now in order to secure supplies in fear that wheat markets will get tighter and prices rise further. This would put additional pressure on global supplies, the report said.

Of the top global wheat importers, Egypt, Turkey, Bangladesh and the Islamic Republic of Iran source, on average (2016/17-2020/21), 60% or more of their wheat imports from Ukraine and the Russian Federation, said FAO. Based on 2021/22 import forecasts and actual imports for the first half of the marketing year, Egypt, Turkey, Bangladesh and the Islamic Republic of Iran have roughly 6.6, 4.0, 3.7 and 1.7 million tonnes, respectively, of outstanding imports for the second half of the 2021/22 marketing season.

Lebanon, Tunisia, Yemen, Libya and Pakistan also rely heavily on Ukraine and the Russian Federation for their wheat imports, sourcing on average (2016/17-2020/21) roughly half of their wheat purchases from Ukraine and the Russian Federation.

As for maize, FAO said based on its forecasts before the conflict and on export data, for the remainder of the 2021/22 season, Ukraine and the Russian Federation were expected to export approximately 14 million tonnes and 2.5 million tonnes of maize, respectively.

As in the case of wheat flows, it is unlikely that these exports, or at least the large majority, will be realized. While Russia's maize exports do not make up a significant portion of global maize trade, Ukraine's expected maize exports in 2021/22 were forecast to make up 18% of the 2021/22 global trade in the grain, which would have made the country the world's third largest maize exporter.

FAO said that maize supply gaps for importers could be especially relevant for China and the EU (Ukraine's primary maize export destination), as well as for Egypt and Turkey, which on average (2016/17-2020/21) source roughly one-third of their maize imports from Ukraine. Based on 2021/22 import forecasts and imports for the first half of the marketing year, China, the EU, Egypt and Turkey have roughly 11.5, 3.7, 4.6 and 1.6 million tonnes, respectively, of outstanding imports for the second half of 2021/22.

These countries will need to meet their import needs from other suppliers, said FAO. "Shifts in demand to other major maize exporters, including Argentina, Brazil and the USA, are expected to occur." While Argentina's export levels for 2021/22 may remain limited by the government's efforts to control domestic inflation, increased exports could be expected from Brazil and the US. It is likely that Brazil and the US will only be able to partially meet the unfilled 14 million tonnes of maize exports from Ukraine in 2021/22.

FAO said that the global maize 2021/22 trade forecast may potentially be reduced, based on expectations that the export loss from Ukraine may not be fully compensated for by other exporters, and high prices may deter importers from importing maize for feed and see them shift to other, cheaper feed options.

As for sunflower seed oil, FAO said prior to the escalation of the conflict, improved supply situations would have enabled Ukraine and the Russian Federation to raise their exports of the product in 2021/22 (October-September) to 6.6 and 3.7 million tonnes, respectively. FAO estimates that about half of these volumes were already shipped by the countries between October 2021 and February 2022, leaving a balance of 3.3 and 1.9 million tonnes to be respectively exported by Ukraine and the Russian Federation in the remaining seven months of the 2021/22 marketing year, were its forecasts to be realized.

The very high likelihood of disruptions to Ukraine's grain and oilseed harvests, combined with the threat of trade restrictions on Russia's exports of cereals and other basic foodstuffs, would jeopardize the food security of many countries around the world.

However, much uncertainty surrounds current export prospects. In Ukraine, shipments of sunflower seed oil have come to a virtual halt due to conflict-induced logistic bottlenecks at port facilities and the suspension of crushing operations across the country. In addition, as of 5 March 2022, Ukrainian sunflower seed oil exports were also subject to licensing requirements. Yet, details as to how these export licences will be issued are yet to emerge. In the case of the Russian Federation, questions also exist on the potential impact of the financial sanctions on sunflower seed oil exports.

Given the significant export shares of Ukraine and the Russian Federation in the global sunflower seed oil market, any disruption to their shipments would have notable implications for major sunflower oil importers, namely India, the European Union, China, the Islamic Republic of Iran and Turkey, said FAO. It estimates that, combined, these major sunflower oil importing countries still require inflows to the tune of 5.4 million tonnes between March and September 2022.

Should these import requirements not be fulfilled through Ukrainian and Russian supplies, these importing countries would have to shift to other suppliers of sunflower seed oil or to other vegetable oils, said FAO. This implies that the impacts of the conflict could go beyond the sunflower seed oil sector, with spillover effects onto other vegetable oils, such as palm, soy and rapeseed oils.

FAO said recent international vegetable oil price developments suggest that global markets are already reacting to the conflict along these lines, with sunflower seed oil quotations from Argentina, the world's third largest exporter, rising sharply since late February, in tandem with a marked increase in international palm oil quotations.

As for rapeseed and derived products, FAO said although Ukraine stands out as the world's third largest rapeseed exporter, its share in global rapeseed trade is more limited, suggesting that there could be greater room for alternate suppliers, such as Canada and Australia, to compensate for potential reductions in Ukrainian rapeseed exports.

On the other hand, in the global rapeseed oil market, where the Russian Federation accounts for 10% of world trade outflows, much like sunflower seed oil shipments, uncertainties exist regarding the potential impact of the sanctions imposed on the country.

Impact on food prices

In assessing the potential impact on international food prices caused by a conflict-induced reduction in cereal and vegetable oil exports from Ukraine and the Russian Federation, FAO said it simulated two scenarios to account for a range of conceivable export developments during the 2022/23 marketing year, namely:

(1) A moderate shock, under which wheat and maize exports from Ukraine and the Russian Federation, combined, underwent a 10 million tonne reduction

each, while their exports of other coarse grains were reduced by 2.5 million tonnes and those of other oilseeds by 1.5 million tonnes; and

(2) A severe shock, entailing a 25 million tonne reduction in their combined exports of wheat and maize in 2022/23, alongside a 5 million tonne decrease in their shipments of other coarse grains and a 3 million tonne cut to those of other oilseeds.

Both scenarios were anchored on the assumption that reference crude oil prices would reach $100 per barrel in 2022/23, up from an initial baseline value of $75 per barrel.

According to FAO, its results indicate that:

(a) The global reference price of fertilizer would undergo a 13% increase in 2022/23, relative to its already elevated baseline level, in response to the more expensive production inputs implied by the higher crude oil price, but also by the higher crop prices. This increase would influence production costs for 2022/23 growing seasons.

(b) In this input price context, the capacity of alternate origins to boost output and exports to compensate for reduced Russian and Ukrainian shipments could be only partial and would vary depending on the magnitude of the market shock and the relative elasticities of supply and demand. Under the moderate shock scenario, this would result in global trade volumes of wheat contracting by 8 million tonnes, as only an additional 2 million tonnes would be supplied by alternative exporters. For maize, the world trade reduction would amount to 7 million tonnes. Under the more severe scenario, global trade volumes would fall by 16 million tonnes for wheat and by 12 million tonnes for maize.

(c) International prices of the four commodities with important Ukrainian and Russian export shares would rise in response to reduced export supplies, with their rate of increase determined by the magnitude of the shock, supply elasticities of alternative suppliers and the commodities' relative demand elasticities. Compared with their already elevated baseline values, wheat price would increase by 8.7% under the moderate shock scenario and by 21.5% under the severe shock scenario. For maize, the increase would be to the tune of 8.2% in the moderate case and 19.5% in the severe case. Prices would rise by 7% to 19.9% for other coarse grains, and by 10.5% to 17.9% for other oilseeds.

(d) Market impacts would also be felt in related sectors. For instance, a reduction in exportable supplies for oilseeds (mainly sunflower) would push prices of other oilseeds up. A cut in feed wheat and maize availabilities would similarly bolster prices of feed products. Combined, these factors would drive livestock prices up, with the more feed-intensive poultry and pork sectors directly affected the most.

FAO said that because of the numerous uncertainties that surround the conflict itself, including its duration and scale, and given its potential to inflict lasting damage to productive assets and ancillary infrastructure, two separate scenarios were simulated to assess the impact of reduced Ukrainian and Russian export participation for five seasons, until marketing year 2026/27. These scenarios were developed under the assumption that reference crude oil prices would remain on an upward trajectory to reach $108 per barrel in 2026/27.

According to FAO, the results of this scenario analysis are that:

(a) Continued gains in crude oil prices would keep the global reference price of fertilizer on the rise over the next five marketing years, contrary to expected trends under the projection's baseline, which foresaw oil and fertilizer prices easing over this period. As a result, the 2026/27 export price would stand 25% above the originally foreseen baseline value.

(b) Even as alternative producers would expand their output in response to the higher prices instigated by reduced Ukrainian and Russian food export participation, a considerable supply gap would remain in the global market. In the moderate shock scenario, this compensation rate or share of the global export shortfall covered by non-Russian and Ukrainian origins over the next five seasons would range between 30% and 52% for maize, and between 19% and 48% for wheat. Under a severe shock scenario, the compensation rate would range from 47% to 67% for maize, and from 30% to 57% in the case of wheat.

(c) International prices of the four commodities with important Ukrainian and Russian export shares would remain elevated in response to the overall reduced export supplies. Compared with their baseline values, by 2026/27, wheat prices would rise by 10% under the moderate shock scenario and by 19% under the severe shock scenario. Similarly, the simulation's projected maize price would be 8.5% and 14% above the baseline in 2026/27.

(d) In related sectors, livestock prices would range 3-6% above baseline levels in 2026/27 in the moderate shock scenario and 5-10% under the severe shock scenario.

Apart from the trade risks, the report also highlighted the logistical, production, humanitarian, energy, as well as exchange rate, debt and growth risks that are likely to emanate from the conflict in Ukraine.

FAO said that globally, in terms of impacts on food security, under the moderate shock scenario, the number of undernourished people would increase by 7.6 million, while this level would rise to 13.1 million people under the more severe setting.

From a regional perspective and with respect to the projected baseline levels in 2022, the most pronounced increase in the number of undernourished people would take place in the Asia-Pacific region (up by 4.2 million under the moderate shock scenario and by 6.4 million in the severe shock scenario), followed by sub-Saharan Africa (up by 2.6 million and 5.1 million) and the Near East and North Africa (up by 0.4 million and 0.96 million).

The report said if conflict-related factors prolong the countries' export reduction into the 2026/27 marketing year and keep reference crude oil prices elevated, international food prices would stay above their baseline level. Compared with the baseline estimate, this would raise the number of undernourished by 8.1 million people in a moderate setting and by 11.2 million in a severe shock scenario.

From a regional perspective, the most pronounced increase in the number of people undernourished would remain in the Asia-Pacific region, followed by sub-Saharan Africa and the Near East and North Africa, it added. *(SUNS9535)*

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Proposed COVID IP outcome not yet agreed

A long-awaited agreement to override COVID-19-related intellectual property rights seems to be taking shape at the WTO, but the deal being hammered out is seen as too limited in scope.

GENEVA: The "compromise outcome" purportedly reached among the members of the so-called Quad – the United States, the European Union, India and South Africa – with respect to the TRIPS waiver proposal is not an agreed outcome, according to a statement issued by the WTO Director-General on 16 March.

The Quad has been engaged in intense negotiations in recent months to find a path forward on the TRIPS waiver proposal co-sponsored by 65 WTO members.

The statement by the DG stressed that "not all the details of the compromise have been ironed out and that internal domestic consultations within the four members are still ongoing" and that "work must commence immediately to broaden the discussions to include all 164 members of the WTO".

The statement followed the publication by STATnews.com on 15 March of the leaked text of the so-called compromise outcome.

The outcome is only for COVID-19 vaccines, leaving the fate of diagnostics and therapeutics to be decided within six months of the adoption of the decision.

In an official statement issued on 15 March, the spokesperson for the United States Trade Representative, Adam Hodge, had said "the difficult and protracted process has resulted in a compromise outcome that offers the most promising path toward achieving a concrete and meaningful outcome."

The spokesman said categorically that "while no agreement on the text has been reached and we are in the process of consulting on the outcome, the US will continue to engage with WTO Members as part of the Biden-Harris Administration's comprehensive effort to get as many safe and effective vaccines to as many people as fast as possible."

The EU is currently holding consultations with its member states.

Significant departure

After more than 18 months of gruelling efforts by the co-sponsors of the TRIPS waiver proposal, who tabled their first proposal on 2 October 2020, the proposed outcome is a significant departure from their revised proposal tabled on 25 May 2021 that has received widespread global support.

That proposal by the 65 co-sponsors clearly states that "the obligations of Members to implement or apply Sections 1, 4, 5 and 7 of Part II of the TRIPS Agreement or to enforce these Sections under Part III of the TRIPS Agreement, shall be waived in relation to health products and technologies including diagnostics, therapeutics, vaccines, medical devices, personal protective equipment, their materials or components, and their methods and means of manufacture for the prevention, treatment or containment of COVID-19."

The proposed outcome, as published in STATnews.com, is as follows:

"1. Notwithstanding the provision of patent rights under its domestic legislation, an eligible Member[1] may limit the rights provided for under Article 28.1 of the TRIPS Agreement (hereinafter 'the Agreement') by authorizing the use of patented subject matter[2] required for the production and supply of COVID-19 vaccines without the consent of the right holder to the extent necessary to address the COVID-19 pandemic, in accordance with the provisions of Article 31 of the Agreement, as clarified and waived in paragraphs 2 to 6 below.

[Footnote [1] reads: 'For the purpose of this Decision, an "eligible Member" means any developing country Member that exported less than 10 percent of world exports of COVID-19 vaccine doses in 2021.'

[Footnote [2] reads: 'For the purpose of this Decision, it is understood that "patented subject matter" includes ingredients and processes necessary for the manufacture of the COVID-19 vaccine.']

"2. For greater clarity, an eligible Member may authorize the use of patented subject matter under Article 31 without the right holder's consent through any instrument available in the law of the Member such as executive orders, emergency decrees, government use authorizations, and judicial or administrative orders, whether or not a Member has a compulsory license regime in place. For the purpose of this Decision, the 'law of a Member' referred to in Article 31 is not limited to legislative acts such as those laying down rules on compulsory licensing, but it also includes other acts, such as executive orders, emergency decrees, and judicial or administrative orders.

"3. Members agree on the following clarifications and waivers for eligible Members to authorize the use of patented subject matter in accordance with paragraphs 1 and 2:

"a) With respect to Article 31(a), an eligible Member may issue a single authorization to use the subject matter of multiple patents necessary for the production or supply of a COVID-19 vaccine. The authorization shall list all patents covered. In the determination of the relevant patents, an eligible Member may be assisted by WIPO's [World Intellectual Property Organization] patent landscaping work, including on underlying technologies on COVID-19 vaccines, and by other relevant sources. An eligible Member may update the authorization to include other patents.

"b) An eligible Member need not require the proposed user of the patented subject matter to make efforts to obtain an authorization from the right holder for the purposes of Article 31(b).

"c) An eligible Member may waive the requirement of Article 31(f) that authorized use under Article 31 be predominantly to supply its domestic market and may allow any proportion of the authorized use to be exported to eligible Members and

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to supply international or regional joint initiatives that aim to ensure the equitable access of eligible Members to the COVID-19 vaccine covered by the authorization.

"d) Eligible Members shall undertake all reasonable efforts to prevent the re-exportation of the COVID-19 vaccine that has been imported into their territories under this Decision. All Members shall ensure the availability of effective legal remedies to prevent the importation into their territories of COVID-19 vaccines produced under, and diverted to their markets inconsistently with, this Decision.

"e) Determination of adequate remuneration under Article 31(h) may take account of the humanitarian and not-for-profit purpose of specific vaccine distribution programs aimed at providing equitable access to COVID-19 vaccines in order to support manufacturers in eligible Members to produce and supply these vaccines at affordable prices for eligible Members. In setting the adequate remuneration in these cases, eligible Members may take into consideration existing good practices in instances of national emergencies, pandemics, or similar circumstances.[3]

[Footnote [3] reads: 'This includes the Remuneration Guidelines for Non-Voluntary Use of a Patent on Medical Technologies published by the WHO (WHO/TCM/2005.1).']

"4. Nothing in Article 39.3 of the Agreement shall prevent a Member from taking measures necessary to enable the effectiveness of any authorization issued as per this Decision.

"5. For purposes of transparency, as soon as possible after the adoption of the measure, an eligible Member shall communicate to the Council for TRIPS any measure related to the implementation of this Decision, including the granting of an authorization.[4]

[Footnote [4] reads: 'The information provided shall include the name and address of the authorized entity, the product(s) for which the authorization has been granted and the duration of the authorization. The quantity(ies) for which the authorization has been granted and the country(ies) to which the product(s) is(are) to be supplied shall be notified as soon as possible after the information is available.']

"6. An eligible Member may apply the provisions of this Decision until [3][5] years from the date of this Decision. The General Council may extend such a period taking into consideration the exceptional circumstances of the COVID-19 pandemic. The General Council will review annually the operation of this Decision.

"7. Members shall not challenge any measures taken in conformity with this Decision under subparagraphs 1(b) and 1(c) of Article XXIII of the GATT 1994.

"8. No later than six months from the date of this Decision, Members will decide on its extension to cover the production and distribution of COVID-19 diagnostics and therapeutics."

"Lowest common denominator"

The original TRIPS waiver proposal has been vehemently opposed by some developed countries especially the EU, the UK and Switzerland.

The EU in particular has always advocated reaffirming and clarifying existing flexibilities under Article 31 of the TRIPS Agreement, i.e., "Other use without authorization of the right [patent] holder". This approach is visible in the proposed outcome.

The US, while supporting an intellectual property (not just patents) waiver, has wanted it limited to vaccines.

Responding to the leaked proposal, Lori Wallach, Director of Rethink Trade at the American Economic Liberties Project, said: "It seems to represent the lowest common denominator of EU fealty to Big Pharma by not waiving intellectual property monopolies and the US insistence that only vaccines be considered despite the new lifesaving treatments that President Biden spotlights as critical to dealing with COVID." She added that "Absent substantial improvements, the current approach would fail President Biden's righteous mission of increasing access to vaccines to end the COVID crisis."

On the positive side, the proposed outcome clearly waives Article 31(f) of the TRIPS Agreement that restricts the use of non-voluntary licensing "predominantly" to "the supply of the domestic market".

In 2003, the WTO agreed on a mechanism that would enable exports to countries with insufficient manufacturing capacity. However, this mechanism is riddled with cumbersome procedures that have hindered its use. In waiving Article 31(f), the current proposed outcome excludes many of these procedures.

However, waiver of Article 31(f) is the only waiver clearly provided for in the proposed outcome.

Feminists for a People's Vaccine, in a statement, points to several concerns with respect to the proposed outcome:

- "The compromise speaks only of patented subject matter. However, pending patent applications can act as deterrents for developing-country manufacturers looking to enter the market."
- Conditions are attached to the use of Article 31 that have never been required by the TRIPS Agreement, such as the need for the authorization to list patents, which is "almost impossible to achieve because the patent landscape for COVID-19 technologies is constantly evolving and is not fully known – international patent applications are usually not published until after 18 months of filing".
- Another condition added to use of Article 31 that is not required by the TRIPS Agreement is the need to notify the WTO's TRIPS Council of the entities, products, countries and quantities for which authorization has been provided.
- The proposed outcome appears to continue to require product-by-product authorization. As such, "freedom to operate for follow-on manufacturers continues to be hindered as it requires repeated action on the part of a government, entrenching a cumbersome process and erecting entry barriers".
- The proposed outcome fails to adequately address other intellectual property barriers (besides patents), in particular Article 39 of the TRIPS Agreement which concerns protection of undisclosed information and is "a separate barrier irrespective of patent status". The proposed outcome "does not address the entirety of Article 39 which is an essential aspect for the manufacturing and supply of COVID-19 vaccines."

"In a crisis, half measures are not acceptable. Every barrier to accessing these crucial vaccines and treatments must be cleared away. We urge [WTO] member states to return to the negotiating table and come back with a comprehensive waiver that will work to cut short this pandemic and guarantee everyone is protected," said Max Lawson, co-chair of the People's Vaccine Alliance. *(TWN/SUNS9536)*

Linking IP "compromise" with MC12 deliverables?

Some WTO members are reportedly seeking to tie the proposed pandemic intellectual property deal to agreement on other issues under negotiation ahead of the trade body's upcoming 12th Ministerial Conference.

by D. Ravi Kanth

GENEVA: Efforts seem to be underway at the World Trade Organization to link the proposed "deliverables" for the WTO's 12th Ministerial Conference (MC12), including the trade and health package and agriculture, to the draft intellectual property (IP) outcome, said people familiar with the development.

Even before the tentative IP outcome was reportedly agreed among the Quad members – the United States, the European Union, India and South Africa – several countries had already sounded their intentions to link the draft outcome to the overall package of deliverables for MC12, said people who asked not to be quoted.

The proposed IP compromise was leaked on 15 March by STATnews.com. The Quad members apparently agreed to discuss with their domestic stakeholders and evaluate the draft compromise before they decide on their final stand, said a representative from one Quad member.

Meanwhile, criticism of the proposed outcome has emerged and there is resounding agreement that the draft does not deliver a meaningful outcome in relation to the TRIPS waiver proposal. Instead, the outcome adds conditions to the use of existing TRIPS flexibilities. This is seen as reflecting the hardline positions of the EU and the US, with civil society organizations suggesting that it may do little to address equitable access.

Linkages drawn

At a closed-door meeting of trade envoys from a dozen countries convened by WTO Director-General Ngozi Okonjo-Iweala on 16 March, some participants began linking the draft IP outcome with the overall package of issues, including agriculture, said people familiar with the meeting.

The dozen countries that took part in the meeting were the Quad members and eight other countries – Brazil, Argentina, Canada, Switzerland, the United Kingdom, Japan, Indonesia and Australia. Surprisingly, China was not invited.

At the meeting, WTO Deputy Director-General Anabel Gonzalez is understood to have explained the salient features of the tentative IP outcome.

During the meeting, two sets of concerns were apparently raised. Switzerland, the UK and Japan apparently sought to know the timeframe for the implementation of this "agreement".

In the text leaked on 15 March, the duration for the IP outcome is stated as either three or five years in square brackets, implying that there is no consensus yet.

Canada is understood to have asked at the meeting whether the tentative outcome would be part of the overall package that could include all other issues.

Although the issues were not clearly spelt out at the meeting, the EU and the Canada-led Ottawa Group of countries have for some time now pursued the following:

- trade and health, particularly the controversial text issued by the former facilitator, Ambassador David Walker from New Zealand, as part of the WTO's proposed response to the pandemic;
- a fisheries subsidies agreement with weak special and differential treatment provisions for developing countries;
- acceptance of the controversial draft agriculture text issued by the chair of the Doha agriculture negotiating body, Ambassador Gloria Abraham Peralta from Costa Rica, as the proposed basis for finalizing an outcome at MC12;
- WTO reforms involving a work programme to be agreed at MC12; and
- several other issues, including the moratorium on levying customs duties on electronic transmissions.

At the 16 March meeting, Brazil apparently linked the tentative IP outcome to agriculture, an area in which it is seeking major deliverables such as a work programme to reduce domestic support, as well as other issues, said people familiar with the discussions.

It is apparent that Brazil, the EU, Canada and other developed countries are ready to exploit the weak IP outcome to advance their agenda at the WTO, if given the opportunity by India, South Africa and other developing countries.

Separately, the WTO Director-General held meetings with different groups of countries including GRULAC (Group of Latin American and Caribbean countries) and ASEAN (Association of South-East Asian Nations) on 17 March to explain the tentative IP outcome while eliciting the views of members from these groups.

Exclusions from IP decision

Meanwhile, it appears that China, South Korea and Brazil could be excluded from the coverage of the tentative IP outcome.

The criterion set in the text limits eligibility to "any developing country [WTO] Member that exported less than 10 percent of world exports of COVID-19 vaccine doses in 2021".

China may thus not qualify because its share of the world exports of vaccines is around 33.7%, according to the WTO-IMF Covid-19 Vaccine Trade Tracker's figures as of 31 January 2022.

In March 2019, according to the US Embassy in Brazil, Brazilian "President Bolsonaro agreed that Brazil will begin to forgo SDT [special and differential treatment] in WTO negotiations, in line with the United States proposal."

The then WTO Director-General Roberto Azevedo clarified in a March 2019 Reuters article that this includes giving up the ability to benefit from differentiated treatment for developing countries in future WTO negotiations.

The same Reuters article noted that in return for Brazil agreeing to give up SDT in negotiations after 19 March 2019, the US would back Brazil's bid to become a member of the Organization for Economic Cooperation and Development (OECD).

If to benefit from the proposed IP outcome, Brazil now reverses its agreement to give up SDT, it is unclear if the US will stop supporting Brazil's bid to join the OECD.

In October 2019, also before the COVID-19 pandemic, South Korea's finance minister said "the government decided not to seek special treatment as a developing country from future negotiations at WTO", and that this decision was "not to forgo the developing country status, but is to not seek any special treatment from the negotiations going forward."

There are other WTO members which also seem to have given up either their developing-country status or their ability to enjoy SDT in WTO negotiations.

On 27 January 2020, the US Mission in Geneva stated that Singapore agreed to forgo SDT in current and future negotiations, and according to a November 2019 Bloomberg article, Chinese Taipei agreed to relinquish its developing-country rights in future trade negotiations. *(SUNS9538)*

Attempts to "stonewall" WTO permanent solution for PSH programmes

The longstanding call by many developing countries for greater leeway to maintain public food stocks continues to face opposition from several agricultural exporter countries at the WTO.

by D. Ravi Kanth

GENEVA: The prospects for the much-demanded permanent solution for public stockholding (PSH) programmes for food security in developing countries appear to hang in the balance due to the alleged "stonewalling" tactics being adopted by a group of farm-exporting countries, particularly Brazil, to scupper any outcome on this crucial issue, said people familiar with the development.

Many developing countries led by Indonesia and India on 21 March demanded an outcome on the PSH permanent solution at the WTO's 12th Ministerial Conference (MC12), likely to be held in Geneva from 12-15 June.

The developing countries have stepped up their efforts for a simple and effective permanent solution for PSH programmes for food security as well as for a special safeguard mechanism (SSM) for developing countries through their bilateral discussions with the key opponents for some time now.

At a meeting of the Doha agriculture negotiating body on 21 March, Indonesia, which coordinates the G33 group of developing and least-developed countries, India, the African Group and several Caribbean countries raised the stakes on the PSH permanent solution as a "must-have" at MC12.

The developing countries argued that they have answered the questions raised by several of the non-proponents and provided evidence on the need for a PSH permanent solution as well as an SSM, said people familiar with the development.

However, members of a group of farm-exporting countries, particularly the United States and now Brazil, have continued to adopt "stonewalling" tactics to scupper any outcome on these two issues, said people who asked not to be quoted.

PSH programmes questioned

At the 21 March meeting, nearly three hours were spent discussing the PSH permanent solution during which the group of farm-exporting countries dominated the proceedings, said people familiar with the discussions.

Canada, on behalf of the US, Australia, New Zealand, Chile, Colombia, Paraguay, Uruguay and Brazil, made a detailed presentation questioning the proponents on the need to have a permanent solution for PSH programmes for food security.

Earlier, the farm-exporting countries had circulated a 20-page paper on 17 March which raised the following issues: (1) there are several questions regarding the expenditures incurred for market price support that undergirded the PSH programmes; (2) difficulties to "corroborate that procurement was made at a market price and not via a form of price support or administered prices"; (3) more than 100 questions were raised at the WTO's Committee on Agriculture but failed to secure clear answers, and so on.

According to the farm-exporting countries, "the amount of detail, variety of sources, and the approach taken in order to write this paper attests to inconsistencies and information gaps on the way Members notify expenditures for PSH."

The opponents to a PSH permanent solution argued that "most Members [which are implementing PSH programmes] have provided very little information over the years in their DS:1 [Domestic Support 1] notification to help the WTO Membership better understand their programmes."

The paper submitted by the farm-exporting countries underscored "the need for more transparency to help inform negotiations related to PSH."

These countries maintained that "discussions may be warranted to clarify whether a developing country Member that does not report its PSH as a measure under Annex 2, paragraph 3 [of the WTO Agreement on Agriculture] could benefit from the current Bali decision or a permanent solution on PSH."

The farm-exporting countries said that what was followed for the Bali interim decision on PSH programmes for food security cannot be followed for the permanent solution.

Further, Brazil and several other farm-exporting countries such as Paraguay, Canada and even the United Kingdom have maintained that they will not accept anything that will restrain their right to challenge these programmes.

The farm-exporting countries said that there is no concept of a permanent "peace clause", suggesting that when it is permanent, it would be called a waiver.

Brazil apparently said that "a permanent solution for PSH built upon a permanent peace clause, uncapped limits for subsidization and weak transparency and safeguards requirements, is not consensual and does not fit into a comprehensive package for food security."

Brazil also apparently came to the rescue of the chair of the agriculture negotiations, Ambassador Gloria Abraham Peralta from Costa Rica, saying that "we disagree with the Members that seek to put the blame for any failure in the agriculture negotiations on you and on the negotiating process."

As previously reported in *TWE* (No. 739), Peralta has apparently shifted the goalposts due to her alleged "biased" position on the PSH permanent solution.

In her report to the WTO's Trade Negotiations Committee on 23 November 2021, the chair recommended that the trade ministers at MC12 effectively defer the outcome on PSH programmes to MC13, despite demands by many developing countries for an outcome at MC12 itself.

A cursory glance at the draft MC12 decision on agriculture attached to the report suggests that the chair has put the issues of interest to the Cairns Group of farm-exporting countries, of which Costa Rica is an active member, such as domestic support, market access and transparency provisions on a higher pedestal compared with PSH programmes, the SSM and the long-pending cotton issue, said people familiar with the draft text.

In short, it appears that there may not be any outcome on the PSH permanent solution at MC12 unless the large majority of developing countries put up a determined fight. *(SUNS9540)*

LDCs need a new generation of international support measures

The world's least developed countries should have access to international support measures that are "fit for purpose in a fast-changing global environment" and that will build their productive capacities to achieve structural economic transformation, says a UN development body.

by Prerna Bomzan

KATHMANDU: A recent United Nations paper stresses that the least developed countries (LDCs) need a new generation of international support measures to face the development challenges of the 2020s.

The United Nations Conference on Trade and Development (UNCTAD), in a policy brief issued in February, pointed out that "beset by longstanding structural weaknesses, shortcomings in international support and widening inequalities within and among all countries, [LDCs] have to confront new or intensifying problems worsened by the coronavirus disease (COVID-19) crisis, climate change, the rapidly evolving character of globalization and the new technological realities of the digital age".

"The health crisis emerged at a time when progress was unsatisfactory, with many LDCs already facing broadly similar economic challenges that led to the establishment of the category in 1971, including high levels of poverty; commodity dependence; inadequate accumulation of financial, physical and human capital; low labour productivity; low value addition to exports; and structurally weak economies."

In order to cope with and overcome both old and new challenges, LDCs need a new generation of international support measures that are "fit for purpose in a fast-changing global environment" and these measures should be "tailored more closely to enabling and sustaining the aspirations of the LDCs and addressing the longstanding structural vulnerabilities of these countries", underscored UNCTAD.

International support measures for LDCs are classified into three main areas: international trade; development cooperation; and support for participation in the UN and other international forums.

Trade-related support measures comprise preferential market access for goods; preferential treatment for services and services suppliers; special treatment regarding obligations and flexibilities under the World Trade Organization rules as well as under regional agreements; and trade-related technical assistance and capacity-building.

Under development cooperation, support measures for the LDCs include special quantitative and qualitative commitments in bilateral official development assistance flows; specific resource allocations by multilateral and regional development organizations including the UN system; dedicated mechanisms such as the Technology Bank for LDCs, the Enhanced Integrated Framework under Aid for Trade, the Least Developed Countries Fund, the UN Capital Development Fund and Investment Support Programme for LDCs; South-South and triangular cooperation; and scholarships and other forms of financial support for education and research.

As regards support measures for participation in international forums, these include support for travel; caps and discounts to UN system budget contributions; capacity-building for participation in negotiations; and flexibility in reporting requirements under international agreements.

"Overall, existing international support measures have so far had only modest impacts due to inadequate design, partial implementation by donor countries, insufficient funding, declining effectiveness, institutional weaknesses and limited utilization by LDCs," highlighted UNCTAD.

"Critically, LDCs need a new development model centred on productive capacities to eliminate structural impediments, build resilience to shocks and overcome the limitations imposed by their continued marginalization in the global economy."

UNCTAD further emphasized that the new generation of international support measures should aim at strengthening the existing measures, and at establishing new measures, to address the gaps in international support.

It proposed the following principles towards enhancing the coordination, synergy and coherence of international support measures:

- Align the new generation of international support measures with the overall objective of fostering the development of productive capacities aimed at achieving structural transformation.
- Foster coherence and synergy among international support measures in the field of trade, finance, technology and capacity-building.
- Adapt international support measures to 21st century realities, including the lingering effects of COVID-19, climate change and the accelerated digitalization of the world economy.
- Strengthen the mutual accountability of LDCs and their development partners through a specially designed, overarching multilateral governance framework and monitoring and evaluation to achieve greater transparency in international support measure operations.
- Strengthen and accelerate the process of graduation from the LDC category.

The policy brief provided examples of measures in the areas of trade, financing for development and technology, illustrating in a tabular format their past performance, challenges as well as alternatives to address the challenges.

For in-depth analyses and recommendations, it pointed to UNCTAD's *The Least Developed Countries Report 2021: The Least Developed Countries in the Post-Covid World – Learning from 50 Years of Experience*. That report was published in September 2021, marking the 50-year anniversary of the establishment of the LDC category in 1971 by the UN General Assembly.

Doha Programme of Action

At the same time, the 50-year landmark coincided with the intergovernmental negotiations taking place on the Doha Programme of Action for the LDCs for the Decade 2022-2031, which had been expected to be adopted by the Fifth UN Conference on the LDCs (LDC5) scheduled for January 2022 in Doha, Qatar.

However, LDC5 was subsequently postponed amid the continuing COVID-19 pandemic. This was the second postponement, with the conference having originally been scheduled for January 2021 after the end of the previous Istanbul Programme of Action (2011-2020) implementation period.

On 23 February 2022, the UN General Assembly adopted a resolution deciding to reschedule LDC5 and, "on an exceptional basis, to hold it in two parts". The first part, consisting of one plenary meeting held on 17 March at the UN headquarters in New York, adopted the Doha Programme of Action.

The second part is scheduled for 5-9 March 2023 in Doha and is expected to adopt the political Doha Declaration. It will also feature the General Debate of Member States, high-level thematic roundtables, the Parliamentary Forum, the Civil Society Forum, the Youth Forum and the Private Sector Forum.

With the newly adopted Doha Programme of Action (2022-2031) and the final remaining decade for the aspirational Sustainable Development Goals running in parallel, UNCTAD underlined the need for "enhanced and renewed international support" in the form of a new generation of international support measures to the LDCs to advance progress towards both agendas. *(SUNS9534)*

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Stagflation threat: Be pragmatic, not dogmatic

Addressing the spectre of stagflation – economic stagnation coupled with inflation – requires a range of complementary policy measures rather than simply hiking up interest rates in a bid to check rising prices.

by Anis Chowdhury and Jomo Kwame Sundaram

"If your only tool is a hammer, every problem looks like a nail." Still haunted by the clever preaching of monetarist guru Milton Friedman's ghost, all too many monetary authorities address every inflationary threat or sign they see by raising interest rates.

Friedman's dictum that "inflation is always and everywhere a monetary phenomenon" still defines the orthodoxy. Despite changed circumstances in the world today, for Friedmanites, inflation must be curbed by monetary tightening, especially interest rate hikes.

No central banker consensus

The threat of higher inflation has risen with Russia's Ukraine incursion and the punitive Western "sanctions from hell" in response. International Monetary Fund (IMF) Managing Director Kristalina Georgieva warns wide-ranging sanctions on Russia will worsen inflation.

European Central Bank (ECB) President Christine Lagarde fears: "The Russia-Ukraine war will have a material impact on economic activity and inflation." US Treasury Secretary Janet Yellen has also acknowledged the new threat. She recognizes tighter monetary policy could be contractionary, but expresses confidence in the US Federal Reserve's ability to balance that.

Meanwhile, Federal Reserve chair Jerome Powell has pledged to be "careful". Terming Russia's invasion "a game changer" with unpredictable consequences, he stressed readiness to move more aggressively if needed. On 16 March, the Fed raised its benchmark short-term interest rate while signalling up to six more rate hikes this year.

But other central bankers do not agree on how best to respond. Bank of Japan Governor Haruhiko Kuroda has ruled out tightening monetary policy. He recently noted, "It's inappropriate to deal with [cost-push inflation] by scaling back stimulus or tightening monetary policy." For Kuroda, an interest rate hike is inappropriate to deal with inflation due to surging fuel and food prices.

Friedman's disciples at some central banks began tightening monetary policy from mid-2021. The Reserve Bank of New Zealand, the first to adopt strict inflation targeting in 1989, raised interest rates in August for the second time in two months.

The Bank of England (BOE) raised interest rates for the first time in more than three years in December. Going further, Norway's central bank doubled its policy rate on the same day.

Anticipating interest rate rises in the US and under pressure from financial markets, central banks in some emerging market and developing economies (EMDEs) – such as Brazil, Russia and Mexico – began raising policy interest rates after inflation warning bells went off in mid-2021. Indonesia and South Africa joined the bandwagon in January 2022.

Ukraine effect

With inflation surging after the Ukraine incursion, the Bank of Canada doubled its key rate on 2 March – its first increase since October 2018.

The ECB has a more hawkish stance, dropping its more cautious earlier language. Its governing council has reiterated an old pledge to "take whatever action is needed" to pursue price stability and safeguard financial stability.

Following the US Fed's move, the BOE raised its interest rate the next day. A month before, in February, the BOE chief economist had been against raising interest rates, favouring a more nuanced approach.

However, instead of kneejerk interest rate responses, the Reserve Bank of Australia's Governor Philip Lowe is "prepared to be patient" while monitoring developments.

EMDE central bankers have also responded differently. Brazil has raised its benchmark interest rate after the Fed, and signalled more increases could follow this year. But Indonesia has been more circumspect.

Interest rate not inflation cure-all

The interest rate is a blunt policy tool. It does not differentiate between activities facing rising demand and those experiencing supply disruptions. Thus, interest rate hikes adversely impact investments in sectors facing supply bottlenecks and needing more investment.

In short, the interest rate is indiscriminate. But the prevailing policy orthodoxy of the past four decades does not differentiate among causes of inflation, prescribing higher interest rates as the miracle cure-all.

This monetarist policy orthodoxy does not even recognize multiple causes or sources of inflation. Most observers believe that current inflationary pressures are due to both demand and supply factors. Some sectors may be experiencing surging demand while others are facing supply disruptions and rising production costs. All this has now been exacerbated by the Ukraine crisis and the ensuing sanctions interrupting supplies.

Well over half a century ago, the UN's World Economic Survey 1956 warned, "A single economic policy seems no more likely to overcome all sources of imbalance which produce rising prices and wages than is a single medicine likely to cure all diseases which produce a fever."

Addressing "cost-push" inflation using measures designed for "demand-pull" phenomena is not only inappropriate, but also damaging. It can increase unemployment significantly without dampening inflation, warned the UN's World Economic Survey 1955 as Friedman's anti-Keynesian arguments were emerging.

Interest rates do not discriminate between credit for consumer and investment spending. In efforts to dampen demand sufficiently, interest rates are raised sharply. Such monetary tightening can do much lasting economic damage. Declining or lower investment is harmful for the progress needed for sustainable development, which requires innovation and productivity growth. After all, improved technologies typically require new machines and tools.

No "one size fits all"

Dealing with stagflation – economic stagnation with inflation – caused by multiple factors requires both fiscal and monetary policies working together complementarily. Also needed are particular tools and regulatory measures for specific purposes.

Monetary authorities should also create government fiscal space by financing unanticipated urgent needs and long-term sustainable development projects, e.g., for renewable energy.

Governments need to first provide some immediate cost-of-living relief to defuse unrest as food and fuel prices surge. This can be done with measures that may include food vouchers and suspending some taxes on key consumer products.

In the medium to long term, governments can expand subsidized public provisioning of healthcare, transport, housing, education and childcare to offset rising living costs. Such public provisioning – increasing the "social wage" – defuses wage demands, preventing wage-price spirals.

Such policy initiatives brought down inflation in Australia during the 1980s without causing large-scale unemployment. This contrasted with the deep recessions in the UK and US then due to high interest rates.

But to do so, governments need more fiscal space. Hence, tax reforms are critical. Progressive tax reforms – such as introducing wealth taxes and raising marginal tax rates for high income earners – also mitigate inequality. Governments also need to align their short- and long-term fiscal policy frameworks.

Monetary authorities need to apply a combination of tools, such as reserve requirements for commercial bank deposits, more credit, including differential interest rate facilities, and more inclusive financing.

For example, central banks should restrict credit growth in "overheated" sectors, while expanding affordable credit for those facing supply bottlenecks. Central banks also need to curb credit growth likely to be used for speculation.

Governments also need regulatory measures to prevent unscrupulous monopolies or cartels trying to manipulate markets and create artificial shortages. Regulatory measures are also needed to check commodity futures and other speculation. These increase food and fuel price rises and other problems.

Relying exclusively on the interest rate hammer is an article of monetarist faith, not macroeconomic wisdom. Pragmatic policymakers have demonstrated much ingenuity in designing more appropriate macroeconomic policy responses – not only against inflation, but worse, the stagflation now threatening the world. *(IPS)*

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