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Trends and Analysis

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Revisiting and reviving the NIEO

Launched in 1974, the initiative for a New International Economic Order conducive to development in the South eventually foundered as a market-oriented, capital-driven policy paradigm took hold. After decades of instability and inequity under the prevailing system, renewing the call for fairer and more inclusive global economic relations has become an urgent need.

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Global trade growth turns negative despite record year – UNCTAD

While international trade is projected to hit a record level this year, it is now experiencing a slowdown due to deteriorating economic conditions and rising uncertainties, according to a UN trade monitor.

by Kanaga Raja

GENEVA: Global trade is set to reach a record level of almost $32 trillion for 2022, but its growth has turned negative during the second half of the year, the UN Conference on Trade and Development (UNCTAD) has said.

In its latest Global Trade Update, released on 13 December, UNCTAD said trade in goods is expected to total almost $25 trillion (an increase of about 10% from 2021), while trade in services is expected to total almost $7 trillion (an increase of about 15% from 2021).

"Those record levels are largely due to robust growth in the first half of 2022. Conversely, trade growth has been subdued during the second half of the year," said the UNCTAD report.

It said during Q3 2022, trade in goods declined by about 1% relative to Q2 2022, while trade in services increased by about 1.3% during the same period.

"The UNCTAD nowcast indicates that the value of global trade will decrease in Q4 2022 both for goods and for services," said the report.

While the value of international merchandise trade has stabilized during the second half of 2022, the volume of trade increased during Q3 2022 and is expected to continue increasing during Q4, it said.

Trade slowdown

Deteriorating economic conditions and rising uncertainties have resulted in a trade slowdown during the second half of 2022, said UNCTAD.

"However, the decline in global trade has been nominal, as the volume of trade continued to increase throughout 2022, a signal of resilient global demand."

UNCTAD said that part of the decline in the value of international trade during the second half of 2022 is due to a decrease in the prices of primary products, especially energy. On the other hand, the prices of internationally traded intermediate inputs and consumer goods have continued to increase during the same period, raising additional concerns about persisting global inflation.

"The decline in the value of global trade has been so far limited to goods. Trade in services has been more resilient, with its value continuing to rise during the second half of 2022."

"The ongoing trade slowdown is expected to worsen for 2023," said UNCTAD.

While the outlook for global trade remains uncertain, negative factors appear to outweigh positive trends, it said.

According to UNCTAD, the negative factors are lower economic growth, high prices of traded goods and concerns over debt sustainability.

Economic growth forecasts for 2023 are being revised downwards due to high energy prices, rising interest rates, sustained inflation in many economies and negative global economic spillovers from the war in Ukraine.

Persistently high energy prices and the continued rise in the prices of intermediate inputs and consumer goods are expected to dampen demand for imports and to lead to a decline in the volume of international trade.

Meanwhile the record levels of global debt and the increase in interest rates pose significant concerns for debt sustainability. The ongoing tightening of financial conditions is expected to further heighten pressure on highly indebted governments, amplifying vulnerabilities and negatively affecting investments and international trade flows.

On the other hand, the positive

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factors affecting the outlook for global trade, said UNCTAD, are improvements in the logistics of global trade, and recently signed trade agreements coming into fruition, such as the Regional Comprehensive Economic Partnership (RCEP) and the African Continental Free Trade Area, as well as a number of smaller trade agreements.

In terms of logistics, UNCTAD noted that ports and shipping companies have now adjusted to the challenges brought by the COVID-19 pandemic. New ships are entering service and port congestion is being resolved. Freight and cargo rates are still higher than the pre-pandemic averages, but their trend is downwards.

UNCTAD said other factors affecting international trade patterns include reshaping of global supply chains and the transition towards a greener global economy.

Risks and uncertainties remain high for global supply chain operations, it said. "Risk mitigation strategies, such as the diversification of suppliers, re-shoring, near-shoring and friend-shoring, will likely affect international trade patterns in the coming year."

Meanwhile the efforts towards a greener global economy are expected to spur demand for environmentally sustainable products, while reducing the demand for goods with high carbon content and for fossil fuel energy. This shift will reflect into international trade patterns.

Regional trade trends

The report also highlighted the import and export trends of some of the world's major trading economies during Q3 2022.

Except for the Russian Federation, the trade in goods for all major economies was well above levels of one year ago, it said. However, quarter-over-quarter rates reveal that these positive trends reversed for most economies in Q3 2022.

Noting that data on services is only available with a lag of one quarter, UNCTAD said in Q2 2022, the trade in services for most major economies was higher than in Q2 2021. "Quarter-over-quarter growth rates indicate that these positive trends have weakened considerably in Q2 2022."

In Q3 2022, the value of the global trade in goods was significantly above the levels of Q3 2021 for both developing and developed countries.

Trade between developing countries (South-South) was about 13% higher than in the same period of 2021, UNCTAD said, adding that South-South trade excluding East Asian economies grew by 19%.

The decline in trade of Q3 2022 with respect to Q2 2022 was similar for developed and developing countries. However, when East Asian economies are excluded, the more significant decline in developing countries' trade is remarkable, said UNCTAD.

Year-over-year growth rates remained strong across all geographic regions, except for the region comprising the Russian Federation, said the report.

On a quarter-by-quarter basis, trade declined in all geographic regions, except for East Asia for which trade remained at a level similar to that of Q2 2022, and for the region comprising the Russian Federation, whose imports recovered from the sharp drop in Q2 2022.

At the sectoral level, UNCTAD said the substantial trade growth during the last year was largely due to increases in the value of the trade of energy products.

While trade in some sectors also increased (e.g., apparel, chemicals, road vehicles), the value of trade in Q3 2022 was lower than in Q3 2021 for several sectors including pharmaceuticals, minerals, communication equipment and transport equipment.

In comparison with Q2 2022, the value of trade in Q3 2022 was lower for most sectors, but substantially higher in the sectors of apparel, communication equipment and office equipment, said the report. *(SUNS9711)*

TRIPS Council recommends extending diagnostics-therapeutics deadline

The deadline for WTO member states to decide on loosening intellectual property restrictions on production of COVID-19 tests and treatments is set to be extended, after they failed to reach an agreement by the original 17 December date.

by D. Ravi Kanth

GENEVA: The TRIPS Council of the WTO has recommended that the WTO General Council extend the 17 December deadline concerning expansion of the WTO's 12th Ministerial Conference (MC12) Decision on the TRIPS Agreement to cover the production and supply of COVID-19 diagnostics and therapeutics.

During a TRIPS Council meeting on 16 December, the United States agreed to draft language on extending the deadline set out in paragraph 8 of the MC12 decision, said people who asked not to be quoted.

Just a day earlier, the US had maintained that the extension of the deadline should only be such that "discussions in the TRIPS Council will continue and will be reported to the General Council no later than 30 June 2023."

However, on 16 December, the US drafted a so-called compromise decision that states: "In view of paragraph 8 of the Ministerial Decision on the TRIPS Agreement adopted on 17 June 2022 (the 'Decision') providing that no later than 6 months from the date of this Decision members will decide on its extension to cover the production and supply of COVID-19 diagnostics and therapeutics, the TRIPS Council recommends that the General Council extend the deadline."

Many developing countries, particularly the key members among the 65 co-sponsors of the original TRIPS waiver proposal, agreed to the reiteration of paragraph 8 of the Ministerial Decision on the TRIPS Agreement and its extension, said people who asked not to be identified.

However, Switzerland and the United Kingdom were reluctant to agree to the US compromise text, saying that it was not clear whether the General Council, which was to meet on 19-20 December, could agree to adopt the decision or whether it was proper to place the decision before the next General Council meeting in 2023.

At this point in a meeting of heads of delegation on 16 December, the WTO secretariat apparently intervened to say that the decision could be adopted at the General Council meeting on 19-20 December, said people who asked not to be quoted.

In the face of the growing convergence around the US compromise proposal, Switzerland and the UK apparently reluctantly agreed to join the consensus, said people who asked not to be quoted.

This agreed recommendation differs from the text that had been put forward by the chair of the TRIPS Council, Ambassador Lansana Gberie of Sierra Leone, on 15 December and that was rejected by many developing countries. That text had included language stating, inter alia:

"On 6 December 2022 a group of 65 Members tabled a proposal for the General Council to extend the [Ministerial] Decision mutatis mutandis to COVID-19 therapeutics and diagnostics (IP/C/W/694). Other Members preferred to continue fact- and evidence-based discussions on whether there are IP- and TRIPS-related barriers to accessing COVID-19 therapeutics and diagnostics, and on the exact scope of a potential extension of the Decision.

"In light of the above, discussions in the TRIPS Council will continue and will be reported to the General Council no later than 30 June 2023."

While developing countries opposed to the chair's text called for further discussions on the matter on 16 December, the chair had ruled out conducting any further meeting unless members agreed to his proposal and also reportedly invoked "logistical" reasons.

However, he was forced to retreat from this position due to sharp criticisms by Sri Lanka that the WTO seemed able to provide space for meetings of the non-mandated Joint Statement Initiative (JSI) groups but not for the TRIPS Council, said people familiar with the development.

Finally, the chair held an informal meeting of the TRIPS Council in the morning of 16 December and a formal meeting of heads of delegation in the afternoon where the US-drafted compromise text was agreed.

WHO view

Separately on 16 December, World Health Organization (WHO) Director-General Tedros Adhanom Ghebreyesus expressed hope that WTO member states would soon reach an agreement on the extension of the decision to diagnostics and therapeutics.

Speaking at the WHO-WIPO-WTO Joint Technical Symposium on the COVID-19 Pandemic, he said that "we have come a long way in bringing the pandemic under control, and we are in a much better position. But the pandemic is still not over" and that "ten thousand people are dying from this virus every week".

"Despite all the gains we have made in the past three years, severe global inequities still hamper the response," he stressed.

He reinforced that "access to diagnostics and life-saving treatments for COVID-19 remains unacceptably unaffordable and unequal", and that "the burden of post-COVID-19 condition is only likely to increase".

He highlighted "local production" as the "key to bringing this pandemic to an end, and for strengthening preparedness for future emergencies".

"This pandemic has been a visceral demonstration of how health directly impacts societies and economies. Simply put, we cannot afford not to work together," he added.

He urged member states to implement all the available tools they have to make local production possible and improve access, including the use of TRIPS flexibilities and implementation of the TRIPS decision.

WHO will continue providing technical assistance on how to make use of these instruments, said Tedros. *(SUNS9714)*

A new NIEO moment

Nearly 50 years after the call for a New International Economic Order was issued, and with trade and finance now marked by persistent imbalance and instability, the time is ripe to revive the NIEO vision of more equitable, development-friendly global economic relations.

by Richard Kozul-Wright and Kevin Gallagher

The Bretton Woods negotiations are generally described as an "Anglo-American" affair in which the leading officials from the United States and the United Kingdom – Harry Dexter White and John Maynard Keynes, respectively – orchestrated a hegemonic handover of power and fashioned a new set of global rules, centred on the primacy of the US dollar. This helped prevent a return to the economic chaos of the inter-war years, but did little to support the needs and interests of the bulk of the world's population in developing countries.

There is, no doubt, much truth in this description. Yet, well over half of the governments invited to Bretton Woods were from developing regions. Moreover, whilst the United States promoted its own strategic economic and political interests at Bretton Woods, an internationalist vision emerging from the New Deal, fashioned in the years preceding the conference, particularly in relations with Latin America, did allow for a more inclusive multilateral dialogue which at least recognized a place for all the participating countries in the conference discussions.

Particularly active in the discussions were officials from Latin America, China (which had the second largest delegation to the conference) and India (whose delegation was divided equally between British and Indian officials because of its colonial status). The developing countries were in agreement with the broad aims of the conference to support managed currency regimes and provide short-term loans to manage balance-of-payments difficulties. Many of them also saw an opportunity to construct a more development-friendly international financial regime that would accommodate the special needs of commodity exporters and support their efforts to raise standards of living through a state-led industrialization drive. However, incipient North-South lines were also visible during the negotiations, with sharp divisions over whether long-term financing should be private or public, and the relative importance given to reconstruction versus development.

The retreat from these more developmental dimensions of the Bretton Woods negotiations began soon after Roosevelt's death in April 1945, as foreign policy positions crystallized along Cold War lines, and business interests, particularly those in the financial sector, pushed back against the New Deal coalition in the United States. The 1950s witnessed a series of further retreats from a more inclusive multilateral development agenda. Truman's inauguration speech in 1949 made a point of emphasizing the role of private capital in promoting development, which strengthened the World Bank's own turn to focusing on domestic reforms to attract private capital and away from providing international public assistance to state-led development programmes. The United States, along with other developed countries, also fended off moves by developing countries at the United Nations to expand its reach into development finance, blocking a proposal for a Special United Nations Fund on Economic Development to offer long-term concessional loans to developing countries, despite a General Assembly vote in its favour.

As the 1950s came to a close, with more and more developing countries gaining their political independence, the constraints on their development ambitions arising from an unbalanced international economic order became ever more apparent. In 1962, 36 developing countries from all regions of the world organized a conference in Cairo to discuss their shared economic challenges. The meeting ended with a call to convene a United Nations Conference on Trade and Development (UNCTAD). This was subsequently endorsed by the General Assembly.

The NIEO

The first UNCTAD conference, held in 1964 and led by the Argentinian economist Raúl Prebisch, provided some key programmatic elements that developing countries would pursue in the following years: addressing terms-of-trade losses of primary exporters through commodity agreements or compensatory financing; ensuring affordable and reliable financing for development; and promoting a sustainable export-oriented strategy for developing countries that manufactured goods for developed-country markets.

Prebisch's report to the conference addressed all these issues based on three essential premises: the necessity of industrialization, the need to counter external imbalances and the forces that generate them, and the need for different treatment for structurally different economies. But he also highlighted the close interdependence of trade and finance in rebalancing the agenda for international cooperation and, in particular, the mutually reinforcing nature of savings and foreign exchange constraints on desired investment and growth targets for developing countries. All this meant that developing countries would need determined political efforts, domestically and internationally, to remove the obstacles to more sustained and inclusive growth.

The creation of UNCTAD as a permanent body following the end of the first conference set the stage for a more inclusive trade and development agenda. The purpose was to move beyond policies aimed simply at removing trade barriers to a more positive agenda. In the decade following the conference, UNCTAD advanced this agenda through its efforts to extend supplementary financing, improve the mechanisms of international liquidity, help create commodity agreements, and advocate for tariff preferences, increased flows of official development assistance (ODA) and debt relief. Despite these efforts and the fact that development issues were more vociferously raised at international meetings and discussions, the institutional and other arrangements that determined the functioning of global markets did not fundamentally change.

From the late 1960s, as economic

tensions within and between the developed economies began to grow and spread across the global economy, the calls for a new international economic order (a term reminiscent of the call at the first UNCTAD conference by the Group of 77 (G77) for "a new and just world economic order") grew steadily louder. The growing strains on the Bretton Woods system around the anchoring role of the dollar, the oil price shocks that followed the collapse of the fixed exchange rate system, and the accelerating distributional struggles in the developed countries that accompanied a slowdown in productivity growth, provided further opportunities for developing countries to push for a more inclusive multilateral agenda.

Negotiations on a New International Economic Order (NIEO) were launched at a special session of the United Nations in 1974. The thrust of the initiative, to break the international constraints on growth in developing countries, had much in common with the earlier efforts of developing countries at Bretton Woods and with reform proposals advanced by UNCTAD. However, the political context of the time encouraged a broader agenda which included regulation and supervision of transnational corporations (TNCs) – and their possible nationalization when required – the promotion of greater economic cooperation among developing countries, and, very explicitly, the strengthening of policy autonomy to manage deeper change in the structures of their economies.

The NIEO negotiations were seen at the time as a further challenge to the economic order established at Bretton Woods but can, with hindsight, be better understood as an attempt to revive the multilateral financial system by recovering some of its original ambition. Indeed, the possibility of forging a North-South consensus to rebalance global economic relations, strengthen international cooperation and recover the stability lost with the breakdown of the fixed exchange rate system was a central aim of the Brandt Commission established in 1977.

The triumph of the rentiers

The favourable geopolitical and global economic situation was, however, only shortlived. Beginning in the late 1970s, international economic relations took a very different turn from what had been envisaged in the NIEO, with a more concerted policy backlash in the industrialized countries against the postwar Keynesian policy consensus.

The initial response of policymakers in these countries to the breakdown of the Bretton Woods system, two oil shocks, rising labour militancy, a loss of control over inflation and, to some extent, government budget deficits, had been a series of ad hoc adjustments that aimed to contain the threat of "stagflation". However, as governments and business groups increasingly viewed redistribution measures and monetary disorder as the root of a wider socio-political malaise, moves to cut welfare provision, control the money supply, liberalize financial flows and use unemployment as a tool of adjustment crystallized into an alternative policy paradigm. That paradigm sought to shift the distribution of income back towards profits through a withdrawal of the state from the active management of the economy and a dismantling of the postwar political and social compromise.

The resulting paradigm shift extolled the virtues of smaller government and the benefits of freeing markets from regulatory discipline and oversight. This had its international dimension in a return to beggar-my-neighbour policies and "aid weariness", combined with capital account liberalization and with corporations seeking greater support from their governments to find new profit opportunities abroad. Moreover, solidarity in the South was beginning to fray as robust growth in some developing countries led them to downplay the threat from structural asymmetries at the international level.

As competitiveness trumped employment as the go-to measure of economic success, liberalization moved to the centre of the policy stage, with tight monetary policy cast in the sole supportive macroeconomic role. The promise was simple: freed from government intervention, particularly regulation on international capital movements, and wage-price spirals, increased competition would spur entrepreneurship, stimulate investment and bolster wealth creation, with the gains trickling down to even the poorest strata of society. The wealth creation would ostensibly spread globally through free trade and heightened capital flows. President Reagan's refusal in 1981 to give any credence to the Report of the Brandt Commission at a meeting in Cancun effectively ended the North-South dialogue and, with it, any lingering hopes of negotiating an NIEO.

At the same time, the economic reality in developing countries was becoming increasingly challenging; as Paul Volcker, Chair of the United States Federal Reserve, pushed interest rates into double figures, a strengthening dollar and falling demand for commodities turned the liquidity strains and financial stresses in developing countries into solvency crises. Mexico's default in 1982 cast suspicion on other sovereign borrowers and the flight of private capital triggered debt crises across much of the South.

In the absence of timely concessional multilateral support, stringent retrenchment measures were inevitable. Structural adjustment programmes, backed by a very different development policy paradigm from the one envisaged in the NIEO, and subsequently christened the "Washington Consensus", became commonplace in developing countries as a condition for renewed access to multilateral financing and an entry ticket to private capital markets. The damage these programmes caused through dramatic cuts in government spending, rising import costs and exposure to intense international competition resulted in a "lost decade" for many developing countries, particularly in Latin America and sub-Saharan Africa, and put an abrupt end to the political solidarity that had underpinned the discussions for a new international economic order.

The space for countries to tailor their policies to particular histories, contexts and institutional structures, recognized at Bretton Woods, was replaced with a one-size-fits-all agenda of so-called "sensible economic policies". The rapid ascent of financial interests eroded the checks and balances that had previously helped to constrain the more destructive impulses of market forces and channelled their more creative impulses into the kind of productive activities needed for long-term growth. Instead, it now encouraged increasingly concentrated forms of market power, shorter investment horizons, and rent-seeking behaviour by banks and businesses.

A new NIEO moment?

The collapse of the Bretton Woods system and the derailing of progressive alternatives paved the way for a new international financial and economic order built on the free movement of capital and a strong ideological faith in the inherent efficiency and stability of markets. Whilst its champions have declared an era of "great moderation", the reality has been one of persistent instability and rising insecurity characterized by speculative trading, boom-and-bust cycles, and extreme levels of inequality, in developed and developing countries alike.

In the face of these centrifugal forces, the glue holding the system together has been the explosion of private debt along with a Pandora's box of new financial instruments which promised to enhance market flexibility, ensure the smooth management of debt accumulation and boost stability. The emergence of this lightly regulated and privatized credit system has, instead, allowed the financial sector to transact more and more with itself, creating a complex network of closely interconnected debtor-creditor relations that harbour dangerous levels of fragility and cannot easily be re-engineered for productive investments (private or public) without a fundamental reorganization of the financial system.

Recurrent banking and financial crises have become endemic in developing countries, linked to sudden surges and stops in capital flows. The end of the boom cycle has not only pushed millions back into poverty but left behind large debt overhangs that delay the recovery of the real economy, sometimes for decades. When this cycle was repeated in the advanced countries, the consequences were global.

The response to the global financial crisis of 2008, despite bold pronouncements at the time, failed to rein in the unchecked power of footloose capital and undertake the required reforms to the international financial architecture, particularly with respect to managing sovereign debt. A decade on, the COVID-19 pandemic caused the largest global recession since the end of World War II and further exposed and intensified the inequities and fragilities of the hyperglobalized world that emerged from the ashes of the Bretton Woods system. It has again demonstrated the incapacity of a liberalized international governance architecture to respond to a global crisis with effective, coordinated and inclusive global policy and action. If the recovery from the pandemic is to avoid stretching the economic gaps within and across countries to political breaking point, as well as to bring us back from the brink of a climate catastrophe, big changes to that architecture will be needed.

Much like in the 1970s, a combination of slower growth, economic shocks and political polarization has translated into a crisis of hegemonic leadership at the international level. And like then, geopolitical tensions, energy security and the dollarized financial system are at the centre of that crisis. However, progressives in developed countries have, to date, struggled to find a successful reform narrative that links their, albeit limited, political successes at the local level and a growing intergenerational movement around environmental issues to a truly international vision. The concept of a green new deal harbours that possibility but it remains work in progress.

The kind of political solidarity in the South that underpinned the push for an NIEO is also missing. Still, there are a growing number of initiatives that challenge the dominant institutions and ideas that emerged with hyperglobalization: the New Development Bank and the Common Reserve Arrangement launched by the BRICS, China`s Belt and Road Initiative and India's Solar Alliance, and the developing-country coalition at the WTO pushing for a TRIPS waiver in response to the pandemic.

Today's world can appear bewilderingly complex and deeply interdependent. But in truth, people everywhere desire much the same things: a decent job, a secure home, a safe environment, a better future for their children, and a government that listens and responds to their concerns. They want a different deal from that offered by the sirens of free trade and footloose capital. A new new international economic order is urgently needed.

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The Structural Power of the State-Finance Nexus: Systemic Delinking for the Right to Development

The current era of financial hegemony is characterized by a dense financial actor concentration, an exacerbated reliance of many South countries on private credit, and an internalized compliance of South states with financial market interests and priorities. This structural power of finance enacts itself through disciplinary mechanisms such as credit ratings and economic surveillance, compelling many South states to respond to creditor interests at the expense of people's needs.

As a human rights paradigm, the Declaration on the Right to Development has the active potential to redress the structural power of finance and the distortion of the role of the state through upholding the creation of an enabling international environment for equitable and rights-based development on two levels of change. The first comprises structural policy reforms in critical areas of debt, fiscal policy, tax, trade, capital flows and credit rating agencies. The second area of change envisions systemic transformation through delinking as articulated by dependency theorist Samir Amin, which entails a reorientation of national development strategies away from the imperatives of globalization and towards economic, social and ecological priorities and interests of people.

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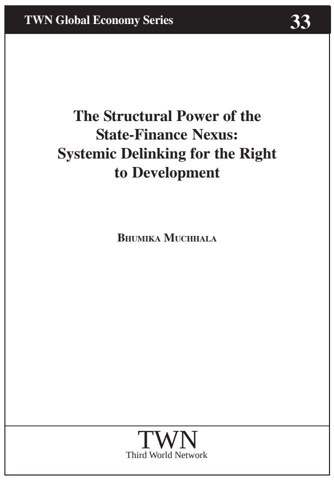

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Global structural constraints continue to disadvantage African economies

Rick Rowden points out how the international trade and financial architecture impedes African countries' pursuit of economic development.

Today's international trade and financial systems were constructed over the last 70 years by and for the rich countries, and primarily with their needs and interests in mind. African countries have long complained that the institutions, policies and practices of the global trade and financial architecture put them at a structural disadvantage in the global economy, and pose substantial constraints to their long-term national economic development.

One major constraint faced by African countries is the loss of "policy space" in international trade agreements and investment treaties. Historically, many of today's advanced economies had used policies such as trade protection, subsidies, subsidized commercial credit, preferential tax policies, rules of entry on foreign investors, and a range of other policies to help build up their domestic manufacturing industries over time. However, since 1995, the membership rules of the World Trade Organization (WTO) have called for reductions in the use of such policies. In addition, African countries have also ratified hundreds of bilateral and regional free trade agreements (FTAs) and bilateral investment treaties (BITs) that have gone even further than WTO rules in restricting the use of various industrial policies. This has made it much more difficult for African governments to proactively support the development of their domestic manufacturing sectors over time.

A second major constraint is more generally reflected in the way we have thought about development in recent decades. Beginning with the era of globalization and free markets in the 1980s, African countries were advised by the World Bank and other major bilateral and multilateral foreign aid donors to adopt free-market policies and to integrate into the global economy as they were – largely still primary commodity exporters – and to set aside aspirations for using industrial policies for long-term structural transformation. This meant rejecting the pathway of development many advanced Western states had accepted to pursue their own national economic development – to be followed later by their gradual integration into the international economy.

But this contemporary development model has not seen much success. The broad-based failure of this approach is reflected in the recent report by the United Nations Conference on Trade and Development (UNCTAD) titled *State of Commodity Dependence 2021*, which lists the number of developing countries classified as commodity-dependent, namely where commodity export earnings account for more than 60% of total merchandise export value. In 2019, it found that nearly two-thirds of all developing countries were still commodity-dependent, up from 93 in 2009. In Africa, most of the 54 countries in the region remain classified as commodity-dependent, increasing from 40 in 2009 to 45 in 2019.

A third major constraint faced by African economies is the lack of an international sovereign debt workout mechanism. Under the current system, whenever an African economy faces a sovereign debt crisis and begins to default on its external creditors, it must try to renegotiate its debt payments with hundreds of different creditors at the same time. Some are willing to take a loss and restructure debt payments, but others act as holdouts and refuse to negotiate, often leading to years of international litigation. This disorderly process can prevent economies from recovering more quickly and reestablishing new credit ratings. In extreme cases, sovereign debt defaults can lead to financial crises that could spread across the region and potentially ignite an international financial crisis as we saw in East Asia in the late 1990s.

Today, many African countries have been hit with multiple challenges compounded further by COVID-19 economic shutdowns, increased health expenditures, and imported inflation from global supply chain bottlenecks resulting further from Russia's invasion of Ukraine. Several African countries are increasingly at risk of sovereign debt default, including Ghana, Kenya, Zambia, South Africa, Guinea Bissau, Eritrea, Togo, Sierra Leone, Gabon, Congo, Angola and Mozambique. Yet, the global financial architecture still lacks anything like an international sovereign debt workout mechanism. In 2020, advanced economies established a limited facility for temporary debt relief for some countries, and the G20 established the Debt Service Suspension Initiative (DSSI), which expired at the end of 2021. However, the DSSI did not include restructuring among the world's growing number of private creditors, making both initiatives insufficient. The only solution is for the international community to establish an international sovereign debt workout mechanism that sets agreed rules for orderly, predictable, transparent and equitable sovereign debt restructurings, and that includes and applies to all major public and private creditors.

A fourth global structural constraint faced by African economies are the related problems of illicit financial flows (IFFs), capital flight and tax evasion. IFFs include resources that originate from criminal activities – drug dealing or human trafficking, for instance – as well as international transfers of income and profits legally generated but illicitly transferred abroad to avoid or evade taxes. It is estimated that illicit tax and commercial practices by multinational corporations (MNCs) and wealthy individuals account for up to two-thirds of total global IFFs annually, costing hundreds of billions per year in lost tax revenues.

Common mechanisms for tax evasion include the use of anonymous shell companies and trusts to hide the identity of the actual company owners, and establishing such shell companies in the world's growing network of offshore centres and tax havens known as "secrecy jurisdictions." The Tax Justice Network's annual *The State of Tax Justice 2021* report estimates that countries are losing $483 billion in tax per year to global tax abuse committed by MNCs and wealthy individuals. For Africa, one estimate is that its countries have lost nearly $1 trillion over the last five decades, facilitated by offshore centres and tax havens that enable tax avoidance and evasion. This means much more money has been flowing out of Africa each year in IFFs than into Africa, making the continent a net creditor to the world.

But recently there has been a growing recognition of the problem. For example, tax authorities and national governments are increasingly establishing due diligence regulatory requirements on their financial services firms that typically function as "enablers" of IFFs, including banks, tax accountancies, law firms, auditors, real estate brokers and other financial services. Increasingly, new due diligence rules require such services to first know the actual owners of the companies they are working with and the sources of their assets, and, in some cases, to share this information with national tax authorities and law enforcement. While these developments are important, much more needs to be done to stop the loss of billions of dollars in tax revenues from African economies each year.

Other global constraints include the systems which prevent African countries from borrowing in their own currencies, requiring them to export more commodities to earn the foreign exchange with which to repay external debts; and the related fact that African economies cannot use their own currencies to pay for needed imports. There is also the need for an improved "lender of last resort" that does not include the International Monetary Fund (IMF)'s onerous loan conditions; and for major governance reforms at the IMF and World Bank that can give African economies more voice in lending decisions. Last but not least, the level of foreign aid is insufficient to address development and climate change. As with the other constraints mentioned above, the international community needs to undertake major reforms of the global trade and finance systems that can meaningfully help African and other developing economies.

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How to increase fiscal space

Governments are struggling to raise the resources needed to deal with a host of pressing challenges, but this need not remain the case, maintains *Praveen Jha*.

To understand the straits many governments find themselves in, it helps to take a long-term perspective. Starting from the late 1970s, it has become increasingly difficult to raise taxes. It was much easier earlier, in the era of regulated capitalism after World War II. The top marginal income tax rate was 97% in India at one point. In Britain the highest rate was 95% and even in the US it was 92%.

In the postwar period, economic growth was strong. Public spending served to build infrastructure and to reduce inequality. In both developed and developing countries, productivity increased fast. An unintended side-effect was a propensity towards tax evasion, but it was not strong enough to undermine the resource mobilization and developmental capacity of states.

A paradigm change soon followed with the ascendancy of market fundamentalism since the early 1970s, led by Prime Minister Margaret Thatcher in Britain and President Ronald Reagan in the US. The World Bank and the International Monetary Fund were strong proponents as well. The emphasis was now on the unrestrained flow of goods, services and capital internationally. Market dynamics were expected to deliver the best results, and the economic policy autonomy of nation states was reduced dramatically. The era of neoliberal globalization had begun.

A well-understood consequence was that finance capital has become extremely powerful. The flow of money across borders today far exceeds transactions related to trade and productive investments, in large measure due to speculation focused on a host of different financial assets including company shares, government bonds, currencies, commodity futures and other derivatives.

Although measuring financialization is tricky and complex, a simple estimate – the ratio of the value of global financial transactions to the value of transactions in global trade – points towards the gravity of the issue. This ratio increased by a factor of 45 from 2:1 in 1973 to 90:1 in 2004. Indeed, in 2017, the annual value of global trade was $17.9 trillion. By comparison, financial transactions amounted to $5.1 trillion per day that year, according to a Transnational Institute publication by Frances Thomson and Sahil Dutta (2018).

Financial investors do not like income and corporate taxes. Accordingly, governments around the globe reduced their tax rates. A marathon run to the bottom began, with nations gradually reducing tax rates to keep their economies competitive. In prosperous nations, the marginal top rate is now typically below 50%. Wealth and inheritance taxes, which investors resent even more, withered away as well.

Governments around the world increasingly began to rely on indirect taxes such as the value-added tax, which hit spending for consumption purposes and particularly hurt low-income households which must spend most of the money they earn to fulfil their daily needs.

The cumulative result has been that all nation states are now struggling to generate the tax revenues they need. As a result, sovereign debt has soared around the world, with government spending increasingly being financed with the sale of bonds. Bonds are basically loans to the government that issues them.

The situation is particularly difficult in developing countries. The members of the OECD (Organisation for Economic Co-operation and Development), a club of high-income countries, on average have a tax-to-GDP ratio of 33%. The tax-to-GDP ratios for low- and middle-income countries lie between 10% and 30%, mostly towards the lower end. Although different international agencies estimate tax-to-GDP ratios differently, the basic insight is the same: The developing world is actually closer to market fundamentalists' ideal of a "small state", in which there is little government interference in economic life, than OECD nations are.

Rising to the challenge

The international community today must cope with multiple crises. The list of problems is long and includes global warming, the erosion of biodiversity, high inflation, excessive sovereign debt, lingering impacts of the pandemic, the consequences of Russia's attack on Ukraine and more. Quite obviously, governments cannot rise to the challenge unless their fiscal space increases. This is particularly true of developing and least developed countries. Typically, their national debt is high and dollar-denominated. A higher exchange rate means the debt burden increases because it takes a larger share of their GDP measured in the national currency.

Further, their tax revenues remain low due to two reasons:

- Many people's livelihoods still depend on subsistence farming, which is not monetized and thus does not count.
- There is very much informal economic activity, which largely bypasses legal regulations and is not taxed.

The smaller a country's GDP per capita is, the lower its tax revenues tend to be. Therefore, the governments of low-income countries find it especially hard to build infrastructure and provide public services.

It is therefore important to focus on how to widen and deepen the tax base. There are several critical issues in this context, including especially the collection of direct taxes on income and wealth, the reliance on social-protection levies and the curbing of illicit financial flows (see box).

International debate tends to focus on official development assistance (ODA) as though it were of crucial importance. According to the OECD, the governments of high-income countries spend about $179 billion on assisting the developing world. That is roughly twice the amount of illicit financial flows from Africa alone, if one trusts UN estimates. Illicit flows, of course, are impossible to measure precisely, and other sources put the figures much higher. In 2012, the illicit financial flows out of developing countries probably amounted to $1 trillion, according to a working paper published jointly by the International Labour Organization, UNICEF and UN Women (Ortiz et al., 2017). The ODA developing countries

Broadening and deepening the tax base

There are three things that matter in particular when it comes to increasing the tax revenues of the least developed and developing countries. Taxes should be progressive, levies to fund social protection are needed, and illicit financial flows must be reduced:

- It is important to widen the tax base and introduce more targeted tax legislation. It is not enough to tax consumption with sales or value-added taxes. These taxes are regressive; they hurt low-income people the most. What is needed are taxes on personal incomes, corporate profits, personal wealth and inheritance. These taxes burden more those who are strong enough to carry a greater weight. A rough estimate by my Jawaharlal Nehru University colleague Prabhat Patnaik shows that, in India, just two steps could increase total tax revenues by up to 70%. They would be: imposing a 2% wealth tax on the richest 1% of the population, as well as an inheritance tax of 25% levied on their fortune should they pass away (assuming that 5% of the richest people bequeath their wealth to their children every year). On the other hand, "sin taxes" on carbon emissions or luxury goods like alcohol can make sense too, though the potential for generating revenues is much smaller. Taxes on international financial flows would obviously help increase the fiscal space too.
- Unlike high-income countries, low- and middle-income countries generally do not collect what are called social-protection contributions in Germany, payroll taxes in the US or national insurance in Britain. This money is collected like an income tax and is used to pay for old-age pensions, unemployment benefits and other social-protection schemes. Low- and middle-income countries would benefit from such systems too, and the big challenge is to formalize the informal sector in order to be able to register the payers.
- The international community must get a grip on illicit financial flows. From sub-Saharan Africa alone, they amounted to up to about $89 billion, according to 2020 estimates by the United Nations Conference on Trade and Development (UNCTAD). These flows include revenues from illegal drugs and arms smuggling, human trafficking and other forms of organized crime. They also include illegal tax evasion as well as legal forms of tax avoidance, such as "profit shifting" which means that a multinational corporation declares profits made in one country and shifts them to another country with much lower tax rates or even no taxes ("tax havens").

received that year from OECD nations, however, was one-eighth of that amount, a mere $120 billion.

The truth is that ODA is really only a tiny fraction of the total international transactions. In past decades, far more money has moved from the Global South to the Global North. Aid thus only amounts to a small band-aid on a blistering wound. Concerted action to relieve and restructure sovereign debt, however, would help many economies in crisis today, especially as the rising exchange rate of the dollar is making their debt burden harder to service.

Moreover, ODA pledges keep being broken. Since the 1970s, the high-income countries were supposed to pay 0.7% of their gross national income as ODA. On average, they are now paying 0.33%. It is thus no surprise that climate-finance promises are not being dutifully fulfilled either. Quite obviously, that must change.

All these things matter, but they will stay very hard to implement unless the international community adopts a new paradigm that focuses more on real-economy problems than on the flimsy preferences of finance capital. Market dynamics have not prevented the escalating crises we are facing. To a large extent, they have made them happen. Instead of empowering oligarchs, public policy must serve to fulfil the daily needs of the masses and ensure the sustainability of nature, on which the viability of each and every society depends.

In the current context, it is becoming increasingly clear that the ideology of the "small state" is a recipe for disaster. The next paradigm shift may actually be under way. It was fascinating how financial markets recently punished Liz Truss, Britain's seven-week prime minister, for policy choices that were meant to please them. Truss wanted to cut taxes and increase debt. Investors responded by driving up the costs of bonds, making her strategy unfeasible and forcing her to resign.

As proposed by Nigeria on behalf of African nations, the UN has agreed to negotiate a tax convention and set up a new global tax body. While OECD nations had already started cooperation on better tax enforcement, low-income countries will benefit from relying on the more inclusive UN context.

The rhetoric of the International Monetary Fund and the World Bank, moreover, has changed too, though their stance in negotiations with low-income countries has largely remained the same. This, of course, is where change is most needed.

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Needed global financial reforms forgone yet again

Amid continued financial volatility and vulnerability, there is an urgent need to move away from "finance-as-usual".

by Jomo Kwame Sundaram

Calls for more government regulation and intervention are common during crises. But once the crises subside, pressures to reform quickly evaporate and the government is told to withdraw. New financial fads and opportunities are then touted, instead of long-needed reforms.

The 2007-09 global financial crisis (GFC) began in the US housing market. Collateralized debt obligations (CDOs), credit default swaps (CDSs) and other related contracts, many quite "novel", spread the risk worldwide, far beyond US mortgage markets.

Transnational financial "neural-like" networks ensured vulnerability quickly spread to other economies and sectors, despite government efforts to limit contagion. As these efforts were only partially successful, deleveraging – reducing the debt level by hastily selling assets – became inevitable, with all its dire consequences.

The GFC also exposed massive resource misallocations due to financial liberalization with minimal regulation of supposedly efficient markets. With growing arbitrage of interest rate differentials, achieving balanced equilibria has become impossible except in mainstream economic models.

Financialization has meant much greater debt and risk exposure as well as vulnerability for many households and firms, e.g., due to term (duration) and currency "mismatches", resulting in greater overall financial system fragility.

This has worsened global imbalances, reflected in larger trade and current account deficits and surpluses. In unfavourable circumstances, exposure of firms and households to risky assets and liabilities has been enough to trigger defaults.

Bold fiscal efforts succeeded in inducing modest economic recoveries before they were nipped in the bud soon after the "green shoots of recovery" appeared. Instead, the US Federal

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Reserve initiated "unconventional" monetary policies, offering easy credit with "quantitative easing".

Currencies in flux

The seemingly coordinated rise of various, apparently unconnected asset prices cannot be explained by conventional economics. Thus, speculation in commodity, currency and stock markets has been grudgingly acknowledged as worsening the GFC.

The exchange rates of many currencies have also come under greater pressure as residents borrowed in low-interest-rate currencies such as the Japanese yen. In turn, they have typically bought financial assets promising higher returns.

Thus, higher interest rates attract capital inflows, raising most domestic asset prices. Exchange rate movements are supposed to reflect comparative national economic strengths, but rarely do so. But conventional monetary responses worsen, rather than mitigate, contractionary tendencies.

Globalization of trade and finance has generated contradictory pressures. All countries are under pressure to generate trade or current account surpluses. But this, of course, is impossible as not all economies can run surpluses simultaneously. Many try to do so by devaluing their currencies or cutting costs by other means. But only the US can use its "exorbitant privilege" to maintain both budgetary and current account deficits by simply issuing Treasury bonds.

Currency markets can also undermine such efforts by enabling arbitrage on interest rate differentials. International imbalances have worsened, as seen in larger current account deficits and surpluses.

Contrary to mainstream economics, currency speculation does not equilibrate national let alone international markets. It does not reflect economic fundamentals, ensuring exchange rate volatility, to damaging effect.

Thanks to currency mismatches, many companies and households face greater risk. Exchange rate fluctuations, in turn, exacerbate price volatility and its harmful consequences, which vary with circumstances.

Changes in "fundamentals" no longer explain commodity price volatility. Meanwhile, more commodity speculation has resulted in greater price volatility and higher prices for food, oil, metals and other raw materials.

These prices have been driven by much more speculation, often involving indexed funds trading in real assets. The resulting price volatility especially affects everyone, as food consumers, and developing countries' agricultural producers.

> Lasting solutions to threats such as currency and commodity speculation require international cooperation and regulation.

Sharp increases in commodity prices since mid-2007 were largely driven by speculation, mainly involving indexed funds. With the Great Recession following the GFC, most commodity producers in developing countries faced difficulties.

Since then, nearly all commodity prices fell from the mid-2010s as the world economic slowdown showed no sign of abating, until economic sanctions in 2022 pushed up food, energy, fertilizer and other prices once again.

Besides hurting export revenues, lower commodity prices and even greater volatility have accelerated depreciation of earlier investments in equipment and infrastructure following the commodity price spikes.

Integrated solutions needed

The uneven financial system meltdown following the GFC raised expectations that "finance-as-usual" would never return. But lasting solutions to threats such as currency and commodity speculation require international cooperation and regulation.

Meanwhile, goods and financial markets have become more interconnected. Thus, a truly multilateral and cooperative approach has to be found in the complex interconnections involving international trade and finance.

In this asymmetrically interdependent world, policy reforms are urgently needed. All countries need to be able to pursue appropriate countercyclical macroeconomic policies. Also, small economies should be able to achieve exchange rate stability at affordably low cost.

Although prompt actions were undertaken in response to the GFC, the world economy experienced a protracted slowdown, the Great Recession. Myopic policymakers in most developed economies focus on perceived national risks, ignoring international ones, especially those affecting developing countries.

Contrary to widespread popular presumption, the Bretton Woods multilateral monetary and financial arrangements did not include a regulatory regime. Nor has such a regime emerged since, even after US President Nixon unilaterally ended the Bretton Woods system in 1971.

With the gagged voice of developing countries in international financial institutions and markets, the United Nations must lead, as it did in the mid-1940s. It is the only world institution which could legitimately develop a better alternative. Thankfully, the UN Charter assigns it responsibility to lead efforts to do so. *(IPS)*

***Jomo Kwame Sundaram**, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.*

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Can we talk sensibly about inequality and ignore the rich?

Not if we want to see a safe, decent and sustainable future, say UN researchers.

by Sam Pizzigati

Some conflicts we can see – and understand – rather easily. Their raw rhetoric will typically help us identify the opposing players and what they're fighting over.

But sometimes the rhetoric never gets raw. The dominant players smother real differences with appeals to vague values. They paper over real conflicts and choices and leave the general public unaware and uninvolved.

Exhibit A in this sort of smothering? The international dialogue over "sustainable development."

Over the past decade, nations worldwide have been gathering at a series of global confabs to hammer out what we all ought to be doing to save our planet and bring all peoples living on it up to a decent standard of living. These huddles, back in 2015, appeared to have scored an unprecedented breakthrough.

That September, our global heads of state gathered at the UN in New York and announced they had "adopted a historic decision on a comprehensive, far-reaching, and people-centred set" of goals and targets that would, among other noble outcomes, "build peaceful, just, and inclusive societies" and ensure our Earth's "lasting protection."

"We envisage a world in which every country enjoys sustained, inclusive and sustainable economic growth and decent work for all," the assembled dignitaries declared. "A world in which consumption and production patterns and use of all natural resources – from air to land, from rivers, lakes and aquifers to oceans and seas – are sustainable."

"We commit ourselves," the dignitaries added, "to working tirelessly for the full implementation of this Agenda by 2030."

We've now come about halfway through the years those leaders figured that "full implementation" would take. But that glorious global end state they originally promised, researchers at the Geneva-based UN Research Institute for Social Development noted in October, now seems frighteningly distant.

"With only eight years remaining to make this ambition a reality," UNRISD observes in a powerful new report that has so far received far too little global attention, "the context for achieving the vision of Agenda 2030 has never been more daunting."

Direct and difficult challenges to the goals world leaders so triumphantly announced in 2015 now seem everywhere. The rise of austerity. The backlash against egalitarian and human rights discourses and movements. The worsening climate crisis "threatening our very existence."

We have, the UN researchers conclude, "a world in a state of fracture, and at its heart is inequality."

The spirited new report from these researchers, *Crises of Inequality: Shifting Power for a New Eco-Social Contract*, frames our globe's continuing maldistribution of income and wealth as the most formidable obstacle the world now faces to a safe and decent future.

"Our current system perpetuates a trickle-up of wealth to the top, leaving no possibilities for shared prosperity," advises UNRISD Director Paul Ladd. "It destroys our environment and climate through over-consumption and pollution and offloads the steep costs onto those who consume little and pollute the least."

UN Secretary-General António Guterres has of late been sounding similar themes.

"Divides are growing deeper. Inequalities are growing wider. Challenges are spreading farther," Guterres told the UN General Assembly this past September. "We have a duty to act. And yet we are gridlocked in colossal global dysfunction."

Narrow perspective

Both this bluntness from Guterres and the UN Research Institute's new report reflect somewhat of a desperate desire for the sort of debate the world's rich and powerful – and the nations they call home – so desperately want to avoid.

Sakiko Fukuda-Parr, a former UN human development official and currently a professor of international affairs at The New School in New York, has been tracking the internal international community debates that have ended up papering over the dangers of concentrated income and wealth. She sums up her research in a revealing analysis that appears in the new *Crises of Inequality* report.

The current "Sustainable Development Goal" discourse on "inequality," Fukuda-Parr points out, fixates almost exclusively "on those who are excluded, marginalized, and living below the poverty line." This same discourse gives "little attention" to those at "the top of the distribution: the rich and powerful."

Why speak of "inequality" but essentially address only poverty? The international negotiators who delivered up the new Sustainable Development Goals knew their work had to somehow address the inequity of our global income and wealth distribution. Their predecessors who had produced the Millennium Development Goals in 2000, Fukuda-Parr notes, had come under heavy fire for their "glaring failure to include inequality."

But *how* to include inequality became the central question. Would the new Sustainable Development Goals directly address the impact and extent of all the wealth and income that has settled into super-rich pockets? Or would the goals only focus on the "exclusion" of vulnerable and marginalized poor people from economic "opportunity"?

The first approach threatened the privileged status of the world's wealthiest. The second ignored it. The second won out – by setting targets for the Sustainable Development Goals, Fukuda-Parr explains, that "do not take into account the distribution of wealth within and between countries or make reference to extreme inequality."

Fukuda-Parr goes into helpful detail on the behind-the-scenes struggle that generated this outcome. Global economic justice groups and some national delegations to the global negotiations wanted the goals to include statistical yardsticks that could tell us whether income and wealth distributions are becoming more or less concentrated. One such yardstick, the Palma ratio, lets societies compare over time the incomes going to a nation's richest 10% and poorest 40%.

But the dominant national players in these negotiations rejected any indicator that might show the rich gaining at the expense of everyone else. Their preferred approach: tracking whether or not the incomes of the poor were increasing faster than the national average. Societies where the incomes of the poor were rising faster than that national average, the argument went, were moving smartly to "shared prosperity."

This narrow perspective on inequality would end up dominating the negotiations. The problem? By conflating "inequality" and "poverty," as Fukuda-Parr helps us understand, those negotiators most defensive about their home nation's extreme concentrations of income and wealth had come up with a global framework that "excludes from the narrative the problems of extreme inequality and the power of the wealthy."

And that exclusion comes with a heavy cost. Ever-heavier concentrations of income and wealth, researchers have shown over recent years, erode social cohesion and democracy, invite monopoly power, and even dampen the economic growth that cheerleaders for grand fortune claim we gain when wealth concentrates.

The poor don't gain, in short, when societies ignore the rich. The rich just amass more of the clout and power they need to keep getting richer off the poor – and everyone else.

The new UN Research Institute for Social Development report recognizes that reality. Let's hope this research gains much more global attention. But let's not just hope. Let's do whatever we can to help that gain along.

***Sam Pizzigati** co-edits [Inequality.org](), where this article was originally published under a Creative Commons licence. His latest books include* The Case for a Maximum Wage *and* The Rich Don't Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class, 1900-1970. *Twitter: @Too_Much_Online.*

Gendered Austerity in the COVID-19 Era: A Survey of Fiscal Consolidation in Ecuador and Pakistan

by Bhumika Muchhala, Vanessa Daza Castillo and Andrea Guillem

Austerity is gendered in that the power relations that shape the distribution of resources and wealth as well as the labour of care and reproduction turn women and girls into involuntary "shock absorbers" of fiscal consolidation measures. The effects of austerity measures, such as public expenditure contraction, regressive taxation, labour flexibilization and privatization, on women's human rights, poverty and inequality occur through multiple channels. These include diminished access to essential services, loss of livelihoods, and increased unpaid work and time poverty. This report examines the dynamics and implications of gendered austerity in Ecuador and Pakistan in the context of the fiscal consolidation framework recommended by International Monetary Fund (IMF) loan programmes.

Available at https://twn.my/title2/books/pdf/GenderedAusterity.pdf