Third World ECONOMICS
Trends and Analysis

No. 708 1-15 October 2020 e-ISSN : 2716-5388

TRIPS waiver proposals under discussion at WTO

Two major proposals related to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) were recently put forward for consideration at the WTO's TRIPS Council. The proposal to waive certain provisions of the Agreement in order to facilitate access to COVID-19 medical products has received backing from developing countries but met with opposition from developed countries. The second proposal sought to extend the exemption for the poorest member states from having to implement most of the TRIPS rules.

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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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Proposal for TRIPS waiver secures strong support from South

A proposal to set aside some intellectual property rights in order to ease access to and supply of COVID-19 medical products has drawn differing responses from WTO member states. *D. Ravi Kanth* reports on the vigorous debate that recently took place at the trade body over this landmark initiative.

WASHINGTON DC: In the global battle for putting people's lives before patents and the profits of big pharmaceutical companies, South Africa, India, Kenya and Eswatini have issued a clarion call for a waiver from certain provisions of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) for combating the COVID-19 pandemic.

The proposal for a TRIPS waiver secured strong support from developing countries at a meeting of the WTO's TRIPS Council on 15-16 October, while the United States and the European Union among others rejected it, said participants who asked not to be identified.

The proposal calls for a waiver of "certain obligations related to COVID-19 products and technologies" under the TRIPS Agreement's sections on copyright, industrial designs, patents and protection of undisclosed information.

In a tweet posted on 17 October, the Director-General of the World Health Organization (WHO), Tedros Adhanom Ghebreyesus, welcomed the proposal "to ease international and intellectual property agreement on COVID-19 vaccines, treatments & tests in order to make the tools available to all who need them at an affordable cost."

"Ending the pandemic starts with collaboration," he said, adding that WHO had launched the "COVID-19 Technology Access Pool in May, inviting countries to share data, knowledge and intellectual property on vital, life-saving health products in the fight against the coronavirus."

The Joint United Nations Programme on HIV/AIDS (UNAIDS), Unitaid, the Drugs for Neglected Diseases initiative (DNDi), the Geneva-based South Centre, Medecins Sans Frontieres (MSF) and other international civil society organizations including Third World Network strongly supported the TRIPS waiver proposal on the grounds that it would accelerate efforts by developing countries to collectively fight COVID-19 through creating requisite capacities for manufacturing and securing vital personal protective equipment, therapeutics and vaccines.

"We are not seeking a donation and we are not confident about the market-based instruments such as COVAX," one participant at the TRIPS Council meeting said, adding that "the developing countries want to create manufacturing and industrial capacities so as to ensure that we are in a position to fight the current COVID-19 as well as future pandemics."

"In actual fact, what we are questioning is the structure of the IP [intellectual property] system and the organizations that depend on the funding," said a South American participant who asked not to be quoted.

More than 30 developing countries supported the joint proposal by South Africa, India, Kenya and Eswatini (formerly Swaziland) at the TRIPS Council, while several other countries conveyed their willingness to support the proposal, the participant said.

Some developing countries like Ecuador and Chile sought more clarifications from the proponents on various aspects, including the costs involved, suggesting that they were open to the proposal, the participant said.

However, the United States, the European Union, Japan, Norway and Brazil among others refused to give up their grip on the international patent system that continued to hinder attempts to fight the pandemic, the participant added.

Despite concerted attempts to close the debate once and for all, South Africa and India managed to ensure that the issue

remained open for further discussion at the TRIPS Council before the WTO General Council meeting sometime in December, the participant said.

Need to overcome IP barrier

Introducing the joint proposal at the TRIPS Council meeting, South Africa said that "the COVID-19 pandemic is a clarion call for us to answer to the better angels of our nature."

"The high-minded language on solidarity and global public goods, however, has not been matched by tangible steps to share knowhow and intellectual property rights to facilitate deep technology transfer in the COVID-19 response," it lamented.

Business-as-usual approaches, it said, "will not bring back the countless lives that were lost, neither will it ensure that IP barriers to the prevention, containment and treatment of COVID-19 will be addressed effectively."

Referring to the earlier HIV/AIDS crisis, South Africa said that antiretroviral medicines were unavailable to patients at affordable prices and out of reach for many developing countries, ultimately resulting in huge death rates.

Despite the 2001 Doha Declaration on the TRIPS Agreement and Public Health, which reaffirmed flexibilities to accommodate access to medicines, prices of many life-saving diagnostics, therapeutics, vaccines and other medical products continued to remain out of reach of most governments and their people, said South Africa.

During the highly pathogenic avian influenza (H5N1) outbreak in 2004, the developed countries had priority access to vaccines while affected developing countries did not, South Africa pointed out. "Within five years, another pandemic flu (H1N1) emerged and once again rich countries placed large pre-orders of a vaccine, buying almost all doses that could possibly be manufactured," South Africa said. "Many countries promised to donate vaccines, most of them reneged and moved to secure their own countries' supply, and with COVID-19, history is repeating itself."

Against this backdrop of global emergence of COVID-19, South Africa said that "it is important for WTO members to work together to ensure that intellectual property rights such as patents, industrial designs, copyright and protection of undisclosed information do not create barriers to the timely access to affordable medical products including vaccines and medicines or to scaling up of research, development, manufacturing and supply of medical products essential to combat COVID-19."

"An effective response to the COVID-19 pandemic requires rapid access to affordable medical products including diagnostic kits, medical masks, other personal protective equipment and ventilators, as well as vaccines and medicines for the prevention and treatment of patients in dire need," South Africa stressed. Moreover, "the longer the current global crisis persists, the greater the socioeconomic fallout, making it imperative and urgent to collaborate internationally to rapidly contain the outbreak".

Further, as new diagnostics, therapeutics and vaccines for COVID-19 are developed, "there are significant concerns how these will be made available promptly, in sufficient quantities and at affordable price to meet global demand," said South Africa.

It was obvious that critical shortages in medical products had also put at grave risk patients suffering from other communicable and non-communicable diseases, it added.

Therefore, "the rapid scaling up of manufacturing globally is an obvious crucial solution to address the timely availability and affordability of medical products to all countries in need," it emphasized. Moreover, the emerging second wave of the disease underscored the importance of finding global solutions that ensure equitable access.

Referring to "the findings in several reports about intellectual property rights hindering or potentially hindering timely provisioning of affordable medical products to the patients", South Africa said "some WTO members have carried out urgent legal amendments to their national patent laws to expedite the process of issuing compulsory/government use licences."

Given the changing dynamics of the international IP structures, South Africa said that "beyond patents, other intellectual property rights may also pose a barrier, with limited options to overcome those barriers."

"In addition, many countries especially developing countries may face institutional and legal difficulties when using flexibilities available in the [TRIPS] Agreement," South Africa said. "A particular concern for countries with insufficient or no manufacturing capacity are the requirements of Article 31bis [of the TRIPS Agreement] and consequently the cumbersome and lengthy process for the import and export of pharmaceutical products."

Internationally, said South Africa, "there is an urgent call for global solidarity and the unhindered global sharing of technology and knowhow in order that rapid responses for the handling of COVID-19 can be put in place on a real time basis."

South Africa said their joint proposal called for "a waiver to be granted to all WTO members so that they do not have to implement, apply or enforce certain obligations related to COVID-19 products and technologies under Sections 1 (copyright and related rights), 4 (industrial design), 5 (patents) and 7 (protection of undisclosed information) of Part II of the TRIPS Agreement." It stressed that the proposed waiver "would be applicable only to COVID-19."

"The waiver is limited and does not suggest a waiver from all possible TRIPS obligations, nor does it suggest a waiver beyond what is needed for COVID-19 prevention, containment and treatment," South Africa said. It added that the waiver should continue "until widespread vaccination is in place globally, and the majority of the world's population has developed immunity, hence we propose an initial duration of [X] years from the date of the adoption of the waiver."

In its intervention at the TRIPS Council, India said that the joint proposal among others catered for those with insufficient or no manufacturing capacity in the health products required to combat the COVID-19 crisis.

India said it had supplied medical products and equipment required for fighting the pandemic to 150 countries and had resisted attempts by a few countries to corner the supplies.

"We would like to remind members that in a global pandemic where every country is affected, we need a global solution, and our waiver proposal represents an open and expedited global solution to allow uninterrupted collaboration in development, production and supply of health products and technologies required for an effective COVID-19 response," India said.

Opposition to waiver

During the marathon debate that lasted over five hours, the US stressed the importance of innovation during the COVID-19 pandemic for safe, effective and affordable medical solutions. It argued that IP rights were only one part of the puzzle, since existing health infrastructure and supply chain constraints may have a substantial impact on access. It said it did not support the waiver since it did not address the challenges faced, according to a participant at the meeting.

The US also argued that the perspective that IP was a barrier to access to medicines was often forced by governments that had significant barriers like taxes and tariffs in place that affected access.

The European Union, which intervened in the discussion several times, maintained that it did not see IP as a barrier, and that other factors such as health infrastructure and lack of materials were more relevant. It admitted, somewhat unwittingly, that the development of a vaccine would take a decade, said a participant who asked not to be quoted.

The EU also stressed on its initiative for liberalization of medical products and other trade facilitation measures. At a previous WTO meeting on 12 October, the EU had said that the Ottawa Group of developed and some developing countries, of which the EU was a member, was soon to launch a plurilateral initiative on trade and health.

The EU also spoke about the importance of global cooperation and its support for the Access to COVID-19 Tools (ACT) Accelerator/COVAX facility, suggesting that the TRIPS Agreement was fit for purpose and that a waiver was thus not needed.

Brazil flatly rejected the waiver, saying that it was not needed for guaranteeing access and that it might give the wrong signals to innovators and potentially hinder efforts to produce the solutions needed. Brazil said WTO members must be honest in recognizing that not all difficulties encountered were attributable to the TRIPS Agreement.

Ironically, Brazil, which had started the global movement against patents in the late 1990s under the leadership of former foreign minister Celso Amorim, was today the new member of an initiative (Quire) for supporting the structure of the international patent system that appeared to operate on "coercion" and "arm-twisting" developing countries whenever they sought to invoke a compulsory licence, said a South American participant who asked not to be quoted.

China said it would support the proposal for the waiver, adding that it had some clarifications from South Africa and India.

"Expedited, open and automatic global solution"

Responding to the concerns raised by the US, the EU and other developed countries, South Africa stressed that "the protection and enforcement of intellectual property are not absolute, and Article 8 of the TRIPS Agreement recognizes that countries may adopt necessary measures to protect public health".

COVID-19 "constitutes an unimaginable global pandemic which requires swift and bold action", South Africa said, noting that the EU had said the pandemic "is here to stay, and developing new vaccines would take up to 10 years."

"We explained the rationale for our proposal and believe that our proposal demonstrates the existence of exceptional circumstances that justifies our request for a waiver decision, with clear terms and conditions governing the application of the waiver," South Africa said. The proposed waiver did not imply any change of the substantive treaty obligations but "only temporarily suspends their operation for a period to be agreed by members and thus will be time-bound."

South Africa said the proposal "offers an expedited, open and automatic global solution that allows for uninterrupted collaboration in development and scale up of production and supply and that collectively addresses the global challenge facing all countries."

In response to the claim that the TRIPS Agreement was fit for purpose and that its flexibilities could be invoked without any problem, South Africa clarified that "countries should continue to use TRIPS flexibilities to safeguard public health, including issuing compulsory licences and placing limitations on, or making exceptions to, exclusive rights."

However, the "case-by-case" or "product-by-product" approach required when using flexibilities to address IP barriers at the national level could be limiting during the pandemic, it argued. "Some countries also face limitations with respect to their national laws, pressures from their trading partners, or lack the practical and institutional capacity required to exercise TRIPS flexibilities during the pandemic quickly and effectively."

Further, "the existing mechanisms for compulsory licences under Article 31 and Article 31bis of the TRIPS Agreement contain territorial and procedural restrictions that make the practice of issuing product-by-product compulsory licences a complex process, making it difficult for countries to collaborate," South Africa said. Article 31 required that compulsory licences be issued on a case-by-case basis and used predominantly to supply domestic markets, thereby limiting the ability of manufacturing countries to export to countries in need. Article 31bis required that any product produced and exported under a compulsory licence be identified with specific packaging and quantities, which South Africa said could lead to unnecessary delays in the context of COVID-19 where countries needed urgent access to medical tools.

Beyond patents, there was even less experience in areas such as industrial designs, trade secrets, algorithms and copyright, and applying compulsory licences to such areas may be legally complicated and novel, South Africa said.

South Africa also drew attention to political pressure from "two delegations that oppose the waiver proposal" to ensure that countries do not use compulsory licences.

It cited the EU's IP enforcement report of 2020, issued before the COVID-19 pandemic, that "put a number of developing countries, including India, Indonesia, Turkey, Ecuador, under the spotlight of criticism for their laws allowing the use of compulsory licence if patent holding companies do not fulfil the obligation of supporting production of medicines locally."

In a similar vein, the Special 301 report by the Office of the US Trade Representative, issued during the middle of the COVID-19 pandemic, inveighed against countries which improved their laws on compulsory licensing or made use of compulsory licensing.

Criticizing attempts to tout voluntary licences as the solution, South Africa observed that "IP rights can be exercised by their owners to decide on whether to grant a licence or withhold from licensing the technology, designs and knowhow required for manufacturing or for further

developing the products required for COVID-19."

"By enforcing exclusive rights backed by IP, such as patents, pharmaceutical companies slow down research and innovation," South Africa argued, adding that "the use of restrictive voluntary licence terms limits the catching up and innovation made by generic competitors".

"Nine months into the pandemic, voluntary approaches have proven to be insufficient," South Africa said. It cited the example of the pharmaceutical corporation Gilead, which, despite receiving significant public funding of at least $70.5 million, had "signed secretive bilateral licences for remdesivir (a therapeutic for COVID-19 treatment) with a few generic companies of its choosing that exclude nearly half of the world's population from its licensed territories."

"Much of Gilead's supply has also been reserved for very rich nations. As a result, to date, most developing countries have barely received any supply of remdesivir and the prices of remdesivir are also prohibitively high," South Africa said.

"On the other hand, to date not a single company has committed to the voluntary COVID-19 Technology Access Pool of WHO," it noted.

"In cases where companies have made such commitments to issue voluntary licences, the lack of transparency of licence agreements for products to treat COVID-19 is substantial," South Africa added, emphasizing that "these initiatives are ad hoc and are not a sustainable way of addressing IP barriers."

Besides, "such companies can limit the production, quantity and export of products produced under licence to certain geographical areas, thereby excluding large parts of the world population."

"Non-profit undertakings are time-bound, while such companies will decide when they think the pandemic is over," South Africa further said.

"If we are serious to address access issues, production cannot be concentrated in the hands of only a few manufacturers; in order to scale up production, governments have a critical role to play," stressed South Africa.

As regards the assertions made by the US, the EU, Japan, Norway, Switzerland and Brazil that the waiver proposal would impede innovation, South Africa observed that "never has there been a weaker case for the granting of monopolies." In fact, "governments have been funding the development of COVID drugs and vaccines, and no company is able to meet the global demand".

"In the context of COVID-19, despite the billions of taxpayer dollars invested in R&D [research and development], and announcements that COVID-19 vaccines should be considered a public good, no government has openly committed to this undertaking," South Africa said.

It argued that "monopoly-based and market-driven R&D in biomedical sector ignores unmet health needs – no new medicine was developed for more than 40 years on tuberculosis, no effective R&D in addressing antimicrobial resistance – despite the constant increasing of number of IP patents granted in pharmaceutical sector globally for zero value addition."

South Africa said that "the R&D of drugs is often a joint multi-stakeholder effort, benefitting from significant amounts of public taxpayer money". "For COVID-19, the search for an effective treatment or vaccine is a global effort involving multiple actors – it is not the result of the pharmaceutical industry's efforts alone," it said, pointing out that governments and public funding agencies around the world had poured billions of dollars of public money to support COVID-19 R&D, especially for drugs and vaccines.

Sadly, "by and large no conditions for access or affordability have been included as a precondition to any of that funding," it said.

"Governments must attach strings to any public money given for COVID-19 medical tools to guarantee that, if they prove safe and effective, they are available to everyone," South Africa insisted.

"Today, some members have admitted that some conditions had been set on companies, but none of it goes far enough to ensure that IP rights assigned to companies benefiting from taxpayer money do not abuse such rights down the line," it said.

Regarding the claims made by the EU and other countries that voluntary cooperative approaches would solve the COVID-19 crisis through generous pledges to multi-stakeholder collaborative platforms, South Africa thanked the EU and other delegations for their generous support for these initiatives, including the donation of vaccines and access to the COVAX facility to cooperate in the purchase of future vaccines for the benefit of vulnerable countries.

However, it said COVAX was "insufficient" in addressing the COVID-19 pandemic, while the waiver proposal was designed to work synergistically with such initiatives by enabling the rapid scaling of production by multiple producers across many countries, allowing the sharing of knowledge and transfer of technology.

It added that "COVAX at best provides very short-term, limited access to vaccines," suggesting that the underlying approach of the initiative "is not sustainable in the medium and long term."

"The global needs are massive and can only be addressed with global sharing of technology, knowledge and related IP," South Africa said, "not by artificially limiting competition and supply which in turn only results in high prices in the medium and long term."

South Africa noted that the EU together with some other wealthy nations and regions had already pre-booked more than 51% of the global supply capacity of the potential future COVID-19 vaccines, leaving a limited share for developing and least-developed countries. It was this conduct that had created huge uncertainty over the guarantee of universal access to COVID-19 medical tools and products.

South Africa argued that "global equitable allocation and donation are separate issues from the waiver proposal that we put on the table."

It pointed out that while some initiatives such as COVAX aimed to address the initial shortage of supply of medical tools for COVID-19 treatment and prevention, its effects could be limited due largely to the following factors:

- The model and the conduct reinforce the deep inequality in the global health architecture and do not provide a sustainable solution;
- Both the investment to COVAX and donation commitment cannot solve the issue of the need to diversify, to the maximum level, the global capacity for developing, manufacturing and supplying COVID-19 medical tools;
- COVID-19 reveals the deep structural inequality in access to medicines globally, and one of the root causes is that IP sustains the dominant industry's interests at the cost of lives.

South Africa also addressed claims that "intellectual property is not a hindrance but a help to end COVID-19" and that "suspending key protections of the TRIPS Agreement would send the wrong message to industry investors." It offered the following facts in response:

- Huge public funding has been poured into R&D for COVID-19 – more than $70 billion mostly from governments including many developing-country governments; it is taxpayers in different countries who have invested in the COVID-19 R&D;
- People around the world are taking the huge risk of joining in and supporting the unprecedented R&D process and clinical trials. Their motivation has nothing to do with IP, but the conscience and common sense of contributing to the search for a cure for all;
- Industry has asked governments to take over its liability and requested for indemnity so that it does not have to bear the risk but can make all the profit without much value added.

In response to claims that intellectual property has enabled collaboration between bio-pharmaceutical innovators and governments, universities and other research partners to speed up progress on the most pressing medical needs, South Africa said that "it is the pandemic – not IP – that has mobilized collaboration of multiple stakeholders."

Further, "it is knowledge and skills held by scientists, researchers, public health experts and universities that have enabled the cross-country collaborations – not IP!" And "it is public funding, again, [that] facilitated these collaborations – not IP!" emphasized South Africa.

It said that the co-sponsors of the proposed waiver were ready to reach out to other delegations to address more specific issues and questions that may be raised. Given the different opinions expressed by members at the TRIPS Council meeting, it said there was a need to discuss the proposal further.

According to Article IX.3(b) of the Marrakesh Agreement Establishing the WTO, a request for a waiver shall be submitted to the relevant WTO council (in this case, the TRIPS Council) for consideration during a period which shall not exceed 90 days.

South Africa requested that "this item remain open for discussion for the intervening period." *(SUNS9214)*

LDCs call for extension of TRIPS transition period

The 15-16 October TRIPS Council meeting also heard a call by the least-developed countries for them to continue being exempted from applying most of the TRIPS Agreement's provisions.

by D. Ravi Kanth

WASHINGTON DC: In their fight against the COVID-19 pandemic, the poorest countries have called for an extension of their transition period to implement the WTO's TRIPS Agreement.

The proposal was presented by Chad on behalf of the group of least-developed countries (LDCs) at the TRIPS Council meeting on 15-16 October.

Under Article 66.1 of the TRIPS Agreement, the LDCs, due to their economic, financial and administrative constraints and the need for flexibility to create a viable technological base, shall not be required to apply the provisions of the Agreement, other than Articles 3, 4 and 5 (which deal respectively with national treatment, most-favoured nation treatment, and multilateral agreements on acquisition or maintenance of protection), for a period of 10 years.

The LDCs secured the first extension of this transition period in 2005, when it was extended until 1 July 2013, and a second extension was subsequently approved by the WTO members until 1 July 2021.

The LDCs' latest proposal sought a further extension for "as long as the member remains in the category of least developed country and for a period of twelve years from the date of entry into force of a decision by the UN General Assembly to exclude the member from the least developed country category."

This proposal and the joint proposal by South Africa, India, Kenya and Eswatini for a waiver from implementing the TRIPS Agreement provisions on copyright, industrial designs, patents and protection of undisclosed information dominated the 15-16 October TRIPS Council meeting, said participants who asked not to be quoted.

The two proposals were largely supported by developing and least-developed countries. While the US, the EU, Switzerland, Japan and Norway said they were willing to discuss the LDC proposal next year, they rejected the joint waiver proposal, according to a participant who asked not to be quoted.

The LDCs asked the chair of the TRIPS Council, Ambassador Xolelwa Mlumbi-Peter from South Africa, to keep the item on the agenda for further consultations. South Africa, India, Kenya and Eswatini requested that their proposal also be kept on the agenda for further discussions before the WTO General Council meeting in December, the participant added.

Nevertheless, the two proposals, which are essentially aimed at addressing the COVID-19 pandemic and the resulting heath, economic and developmental crisis, have exposed the apparent "double standards and stonewalling tactics" adopted by the developed countries at the meeting, the participant said.

Challenges confronting the LDCs

In presenting the LDC proposal, Chad said the LDCs, which represent "the poorest and weakest segment of the international community, characterized by constraints such as low per capita income, low level of human development, and economic and structural handicaps to growth," face an existential crisis due to the COVID-19 pandemic. The pandemic has undoubtedly "exacerbated the challenges that the LDCs continue to face."

Chad said that the continued lockdowns and slump in global demand have "particularly impacted LDCs that are dependent on export of finished goods" in areas such as textiles and clothing, leather products and agricultural items. Even the LDCs that are expected to graduate from their current LDC status, such as

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Bangladesh, are now being impacted severely by the pandemic.

In its intervention at the TRIPS Council meeting, Bangladesh said that due to "the current grim scenario of socio-economic development in the LDCs, it is not possible to assess when LDCs will be able to overcome their economic, financial and administrative constraints."

Therefore, the LDCs "will need flexibilities as long as they are under these severe uncertainties and as long as they are unable to create a viable technological base," Bangladesh said.

According to Bangladesh, "the maximum flexibility in TRIPS implementation is vital for the LDCs." The LDCs, which have small delegations and limited capacities, will find it difficult to come to the TRIPS Council after every fixed duration to request and negotiate an extension of their transition period. "Therefore, the transition period should remain in force for as long as a country remains a least developed country," Bangladesh argued.

It said the LDCs "continue to face many difficulties in reaching their development goals, even as the period for implementing the Istanbul Programme of Action (IPoA) for the LDCs for the Decade 2011-2020 comes to an end."

It drew attention to the three criteria for LDC graduation under the United Nations procedures: (1) income, based on a three-year average estimate of per capita gross national income (GNI); (2) Human Assets Index (HAI); and (3) Economic Vulnerability Index (EVI).

Bangladesh said that "to reach eligibility for graduation, a country must reach threshold levels for graduation in two consecutive triennial reviews for at least two of the three criteria, or its GNI per capita must exceed at least twice the threshold level."

So far, only three countries have graduated during this decade, while 12 countries have met the graduation criteria and are on the path to graduation, Bangladesh said, adding that 15 countries have already met at least one criterion for graduation.

Although the graduation from LDC status has taken a new momentum, special attention is needed on a country's future course after graduation, Bangladesh said. It stressed that "graduation does not represent a solution to all the graduating country's development challenges", citing a UN report which said that "the process of development beyond graduation merits much greater attention, even during the pre-graduation period – that graduation itself should not be the primary focus of LDCs and their development partners, but should rather be viewed as one milestone in LDCs' longer-term sustainable development."

Effectively, "the challenges of the post-graduation period are a continuation of those that characterized the pre-graduation period", Bangladesh said. It added that the international community maintains similar views on post-graduation challenges, citing the UN General Assembly resolutions 59/209 of 2004 and 67/221 of 2012 that "called upon the WTO members to allow graduated LDCs the existing S&D [special and differential] treatment and exemptions available to LDCs for some additional years to help support their transition for smooth and sustainable graduation."

Bangladesh urged a "positive response to this call," emphasizing that it "is particularly important for TRIPS Agreement as LDC graduation criteria does not specifically address their economic, financial and administrative constraints." The implementation of the TRIPS Agreement requires, among other things, "adequate financial resources, administrative capacity, judicial capacity, legal regime and border measures, which may not be available soon after graduation," Bangladesh said.

Therefore, the LDC group, said Bangladesh, has proposed that a country be provided a transition period for 12 years for implementing the TRIPS Agreement after its exclusion from the list of LDCs.

Approval of the LDC proposal, according to Bangladesh, "will genuinely respond to the call that members recognized at the UN General Assembly."

In the absence of approval from the developed countries, Bangladesh, on behalf of the LDCs, requested the TRIPS Council to keep the item on its agenda until the issue is resolved. In the meantime, it said, the LDCs will engage bilaterally with the members concerned, suggesting that the chair of the TRIPS Council facilitate the consultations. *(SUNS9216)*

US veto throws WTO DG selection process into uncharted waters

The US has rejected the WTO General Council chair's recommendation to appoint Nigeria's Ngozi Okonjo-Iweala as the next head of the trade body, plunging the selection process into confusion.

by D. Ravi Kanth

GENEVA: The United States has thrown the selection of the WTO's new Director-General into uncharted waters, after it refused to accept the recommendation made by the WTO General Council chair to appoint Nigeria's former finance minister Ngozi Okonjo-Iweala as the new DG, despite her securing the "largest support" from members.

At an informal heads-of-delegation (HoD) meeting on 28 October, the US chose to cast serious aspersions on the selection panel chaired by the General Council (GC) chair, Ambassador David Walker from New Zealand, for its recommendation to appoint Okonjo-Iweala, said a trade envoy who asked not to be quoted.

The US said that it could not accept the recommendation by the "three individuals" – GC chair Walker; the chair of the WTO Dispute Settlement Body (DSB), Ambassador Dacio Castillo from Honduras; and the chair of the WTO Trade Policy Review Body (TPRB), Ambassador Harald Aspelund from Iceland – as they did not represent the entire membership, the trade envoy said.

"Most likely to attract consensus"

At the HoD meeting, the GC chair provided a brief summary of the consultations held by the "troika" (the GC chair, the DSB chair and the TPRB chair) with members on 19-27 October.

Walker said that "as was the case with the two previous rounds, members were

asked 'what is your preference'", adding that the selection panel did not accept any negative preferences.

Citing several provisions of the procedures laid out for the appointment of the DG in WTO document WT/L/509, Walker said that the panel tried "to encourage and facilitate the building of consensus" around one of the two finalists based on the preferences expressed by members.

The other candidate remaining in the DG selection process is South Korean trade minister Yoo Myung-hee.

Walker said "the results of the preferences were conveyed to the two candidates on 28 October." He said that "our [the panel] assessment of the preferences during the third round of consultations is that the candidate from Nigeria, Dr Ngozi Okonjo-Iweala, is the candidate most likely to attract consensus."

The GC chair said that Okonjo-Iweala "carried clearly the largest support of members in the final round and she clearly enjoyed the broad support of all levels of development and from all geographical regions."

Walker said "we are submitting the name of Dr Ngozi Okonjo-Iweala as the candidate most likely to attract consensus and recommending her appointment by the GC as the next DG of the WTO until 31 August 2024".

The GC chair said that he had scheduled a special GC meeting on 9 November for members to formally adopt the recommendation to appoint Okonjo-Iweala. He repeatedly reminded members that the informal HoD meeting was not meant to take a decision on the appointment, saying "that decision can only be taken by the decision-making General Council on November 9".

US opposition

In response to the GC chair's recommendation, the US Ambassador to the WTO, Dennis Shea, levelled serious criticism against the manner in which the process was conducted.

The US envoy said that Washington "strongly supports" Yoo's candidature and "takes note that Ms Yoo remains the candidate for the Director-General position."

Shea said, "It is our understanding that Ms Yoo enjoys breadth of support across the WTO membership." He went on to say that Yoo was "a bona fide trade expert and WTO expert" who had distinguished herself over a 25-year career as a successful trade negotiator.

At a time when the WTO was in deep crisis, said Shea, "we need someone at the helm with trade expertise." "Minister Yoo will not need on-the-job training and will hit the ground running here in Geneva," he claimed.

In effect, Shea suggested that Okonjo-Iweala would need on-the-job training as she was not a trade expert, said a person who asked not to be quoted.

The US envoy further said that the WTO was a member-driven organization, arguing that "it is for us, the members, to decide who the next Director-General is going to be" and not "for the three individuals to decide".

"I would like to assure members that the WTO is a consensus-based organization and the consensus principle permeates everything we do here, including the DG selection process," Shea said, adding that the selection process was "opaque" and "byzantine".

According to Shea, the US had indicated that it could not join the consensus in support of Okonjo-Iweala during the consultations, maintaining that it was simply not credible to say that her candidacy was likely to attract consensus as members heard from the GC chair.

After the HoD meeting, the US Trade Representative Robert Lighthizer issued a statement on his website, saying: "The United States supports the selection of Korean Trade Minister Yoo Myung-hee as the next WTO Director-General. Minister Yoo is a bona fide trade expert who has distinguished herself during a 25-year career as a successful trade negotiator and trade policy maker. She has all the skills necessary to be an effective leader of the organization.

"This is a very difficult time for the WTO and international trade. There have been no multilateral tariff negotiations in 25 years, the dispute settlement system has gotten out of control, and too few members fulfill basic transparency obligations. The WTO is badly in need of major reform. It must be led by someone with real, hands-on experience in the field."

It remains to be seen what the US will do at the GC meeting on 9 November, as the US elections would have been completed by then and it would be known whether the Trump administration would continue to be in power, said a person who asked not to be quoted.

"Either way, the gauntlet thrown [down] by the US about the selection process has created confusion," the person added, suggesting that the US opposition seemed to be based on its assessment that Okonjo-Iweala was being supported by the former WTO DG Pascal Lamy, who was seen as a "bete noire" by the US.

By creating confusion in the appointment of the new DG, the US may drag the selection process on for another four months or so, and it could even insist on a "neutral" candidate from the previous round such as Kenya's Amina Mohamed or Britain's former trade minister Liam Fox, the person said.

In the past, the US had created similar chaos when it insisted that it would not accept the appointment of former Thai Prime Minister Supachai Panitchpakdi as the WTO DG in 1999, demanding that Mike Moore, the former New Zealand premier, be appointed instead. Later, as part of a compromise, both Moore and Supachai were appointed for a period of three years each.

Other members' responses

Notably, even as the US held its ground in support of the Korean candidate, Korea did not make any statement at the HoD meeting. More importantly, not one member supported the US charges against the DG selection process at the meeting, the person suggested.

Several countries such as Barbados, St Lucia on behalf of the CARICOM (Caribbean Community) countries, and Botswana on behalf of the African Union members, praised the chair for navigating the selection process in an inclusive and transparent manner. They welcomed the recommendation to appoint Okonjo-Iweala as a historic moment.

China's Ambassador to the WTO, Zhang Xiangchen, said it was important to adhere to the rules and procedures that had been agreed back in 2002, emphasizing that members must respect the recommendation of the "troika" which was based on the members' preferences. He said the WTO needed a leader at this critical juncture, arguing that there was no loser in the selection process.

South Africa, which played a crucial role in mobilizing support for the Nigerian candidate, said Okonjo-Iweala was a consensus candidate, adding that "it is a historic moment when an African and a woman with proven expertise and ability

will, for the first time, occupy the position of the DG for the WTO."

South African Ambassador Xolelwa Mlumbi-Peter said the appointment of the DG was crucial given the immense challenges facing the multilateral trading system. She said that the membership must work together to ensure that there was no "paralysis" of the WTO. She said it was time for strong leadership, arguing that the selection process must be concluded so as to focus on the critical issues facing the organization.

India thanked the GC chair and the two facilitators for conducting the process smoothly, saying that members "must respect the process we had agreed and expect the candidates and members to respect the process." It further said that members must avoid further confusion and consider the recommendation on 9 November as per the established process.

The European Union congratulated Okonjo-Iweala as the candidate most likely to attract wide support. Saying that the WTO was in a deep crisis, it underscored the need to select a new DG without creating another crisis. It added that members needed leadership to take the organization forward.

The EU's Ambassador Joao Aguiar Machado said the GC chair clearly indicated that Okonjo-Iweala had secured the largest support, adding that it was not correct to say the proposal was from three individuals.

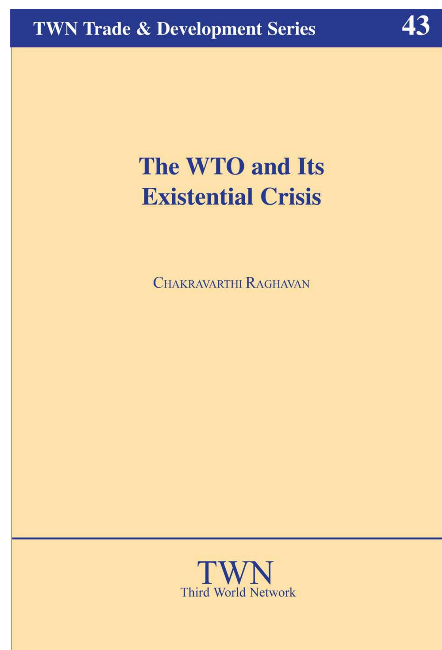
Aguiar Machado said that the GC chair acted on behalf of all the members, and that the rules and procedures "are known to everyone and this process can only work if all, including the candidates, agreed to the process that was agreed at the beginning."

Australia, the United Kingdom and Mexico also supported the recommendation made by the GC chair about the selection of Okonjo-Iweala. *(SUNS9222)*

TWN Trade & Development Series No. 43

The WTO and Its Existential Crisis

by Chakravarthi Raghavan



The multilateral trading system centred in the World Trade Organization (WTO) faces no less than an existential threat stemming from the United States' blocking of new appointments to the WTO's Appellate Body (AB) – a standstill which could effectively paralyze the entire mechanism for resolving trade disputes between countries.

While the US stance has been seen as a means to force through a reshaping of the WTO in Washington's own interests, it has also cast a spotlight on longstanding flaws in the WTO dispute settlement system. As this paper points out, dispute panels and the AB have in several cases been perceived as unduly altering the balance of WTO member states' rights and obligations, often to the detriment of developing countries.

The priority now, asserts the paper, is to "call the US bluff" and address the AB impasse at the highest political decision-making level of the WTO. Separately, a review of the WTO dispute settlement regime, which is long overdue, should be undertaken in order to ensure that the system enshrines principles of natural justice.

To purchase the book, visit: https://twn.my/title/tnd/td43.htm

Global trade to fall by 7% to 9% in 2020, says UNCTAD

A UN trade outlook report predicts a 7-9% decline in global trade this year as COVID-19-induced economic and social disruptions hit hard.

by Kanaga Raja

GENEVA: Global trade is expected to fall by 7% to 9% in 2020, despite signs of a marginal rebound in the third quarter, the UN Conference on Trade and Development (UNCTAD) has said.

In its latest quarterly "Global Trade Update", released on 21 October, UNCTAD said that the economic and social disruptions brought about by the COVID-19 pandemic have resulted in a substantial reduction in global trade.

Already on a downward trend, global trade took a sharp downturn in the second quarter (Q2) of 2020, with a drop of about 19% compared with Q2 2019, according to UNCTAD. Preliminary data suggest that, while rebounding from Q2 2020, global trade growth has remained negative in Q3 2020 with a decline of about 4.5% on a year-on-year basis.

The UNCTAD report noted that leading indicators, such as the Purchasing Manager Indices (PMIs), still signal substantial uncertainty for international trade in the coming months. It is expected that Q4 2020 will remain on a negative trend, about 3% lower than in Q4 2019, it said. However, this figure is still very uncertain due to persistent concerns about the effects of COVID-19 on economic activity in the coming months, which may result in a double-dip trend.

Overall, said UNCTAD, global trade is expected to fall by about 7% in 2020 under the assumption that the trend observed in Q3 continues into Q4. The lower bound for 2020 is at about 9% and considers the possibility of a resurgence of the pandemic during the coming months and the prospect of a deteriorating policy environment, with sudden increases in trade-restrictive policies.

Official statistics for some of the world's major trading economies further indicate the extent of the downturn in international trade caused by the pandemic, UNCTAD said, adding that none of the major economies has been spared this year.

However, UNCTAD noted that China's trade patterns have diverged from other economies. After falling in the early months of the pandemic, Chinese exports stabilized in Q2 2020 and rebounded strongly in Q3 2020, with year-on-year growth rates of almost 10%.

Overall, the level of Chinese exports for the first nine months of 2020 was comparable to that of 2019 over the same period. On the import side, the Chinese demand for imported products recovered following a decline in Q2 2020. Contrary to other major economies, Chinese imports stabilized in July and August, then grew substantially in September, said UNCTAD.

The UNCTAD report also said that the sharp and widespread decline in international trade in Q2 2020 has been similar for developing and developed countries. However, trade in developed countries appears to have fallen marginally faster, in relation to both imports and exports. On the other hand, trade among developing countries (South-South) has been relatively more resilient, with a decline of about 16% in Q2 followed by an 8% decline in July.

While no region has been spared from the decline in international trade in Q2 2020, trade in East Asia appears to have fared relatively better than in other regions, UNCTAD said, adding that this trend is even more evident for the month of July. On the other hand, the sharpest decline has been for the West and South Asia region, where imports fell by 35% and exports by 41% in Q2. As of July, the fall in trade remains significant in most regions, said UNCTAD.

At the sectoral level, UNCTAD said that the economic disruptions brought about by COVID-19 have affected some sectors significantly more than others.

In Q2 2020, the value of global trade in the automotive and energy sectors was about half of what it was in Q2 2019. Trade also declined significantly in chemicals, machineries, metals and ores, and precision instruments. On the other hand, imports increased in office machinery and textiles and apparel. "Such increases are linked to the COVID-19 pandemic as these sectors include home office equipment and protective equipment such as masks," said UNCTAD.

The data for July and August 2020 indicate similar patterns, it noted. The value of international trade in the energy and automotive sectors was still substantially below its levels of 2019. However, increases in demand for home office equipment and personal protective gear resulted in positive growth rates for trade in the communication equipment, office machineries, and textiles and apparel sectors.

COVID-19 medical supplies

The report also drew attention to the trade in COVID-19 medical supplies such as personal protective equipment, disinfectants, diagnostic kits, oxygen respirators and other related hospital equipment.

It said that international trade has played a substantial role in responding to the pandemic. "Despite the very early stages of the pandemic, characterized by several nations imposing restrictive trade policies to safeguard potentially scarce medical supplies, international markets have contributed to meet the surge in overall demand for products necessary to combat the diffusion of COVID-19."

Between January and May of this year, exports of COVID-19 medical supplies from China, the European Union and the United States rose from about $25 billion to $45 billion per month. On a year-on-year basis, the trade in these products has increased by an average of more than 50% since April 2020.

"Nevertheless, the increase in supply of COVID-19 related products has been largely to the benefit of wealthier countries," said UNCTAD. "There is substantial evidence that middle- and low-income countries have been largely priced out from access to COVID-19 related products."

Despite efforts to facilitate access to COVID-19 supplies, trade statistics show that only a tiny fraction of the additional world production of COVID-19-related supplies have reached low-income countries, according to UNCTAD.

Since the onset of the pandemic, each resident of high-income countries has

benefited, on average, from an additional $10 per month of imports of COVID-19-related products. This number is much lower for middle-income countries at about $1, and lower still for low-income countries – a mere $0.10.

In other words, said UNCTAD, per capita imports of the medical goods essential to mitigate the COVID-19 pandemic have been about 100 times larger in high-income countries than in low-income countries.

"While it should be expected that the increase of per capita imports of COVID-19 products would be larger for wealthier countries, the sheer difference is staggering," said UNCTAD.

The report said that apart from income, one factor contributing to such a vast difference in the governmental response is the substantial revenue losses to government budgets due to the impact of the pandemic. While the wealthiest countries have been able to mobilize resources so as to increase healthcare spending, many poor or highly indebted countries have found themselves with little budgetary space to do so.

"It is very possible that without additional funding sources, the pandemic will remain unchecked in many parts of the world with negative repercussions on the global economy, including international trade." This also indicates that the COVID-19 pandemic may exacerbate pre-existing social and economic inequalities, UNCTAD cautioned.

A vaccine appears to be the most promising way to assuage the pandemic and revive the global economy, it said. "Still, for any recovery to be truly global and inclusive, it is important for the vaccine to be affordable and widely available."

The ongoing initiatives to make vaccines available in developing countries may not be sufficient, said UNCTAD. Indeed, in the case of vaccines, the difference in access between wealthy and poor countries could be even more drastic than those observed so far for COVID-19 medical supplies, it pointed out. While at least some low-income countries have the capacity to locally manufacture some protective equipment, this may not be the case for vaccines as manufacturing and logistic capacities are generally weaker in poorer countries.

UNCTAD said that in the immediate future it remains essential for countries, the private sector and philanthropic sources to mobilize additional funding to fight the COVID-19 pandemic in developing countries and to support financial mechanisms, such as the global COVAX initiative, to provide safe and effective COVID-19 vaccines to poor countries. *(SUNS9216)*

Global FDI flows fall by 49% in first half of this year

Like trade, foreign direct investment has also taken a battering from the pandemic, with global FDI flows in the first six months of 2020 almost halved, according to UNCTAD.

by Kanaga Raja

GENEVA: Global foreign direct investment (FDI) flows fell by 49% in the first half of 2020 compared with 2019, the United Nations Conference on Trade and Development (UNCTAD) has said.

In its latest "Investment Trends Monitor" (No. 36), which was released on 27 October, UNCTAD attributed the drastic decline in FDI flows to lockdowns around the world due to the COVID-19 pandemic which slowed existing investment projects, as well as to prospects of a deep recession that led multinational enterprises (MNEs) to reassess new projects.

According to UNCTAD, the decline cut across all major forms of FDI. New greenfield investment project announcements dropped by 37%, cross-border mergers and acquisitions (M&As) fell by 15% and newly announced cross-border project finance deals – an important source of investment in infrastructure – declined by 25%.

Developed economies saw the biggest fall, with FDI reaching an estimated $98 billion in the first half (H1) of 2020 – a decline of 75% compared with 2019 – while FDI flows to developing economies decreased by 16%, which was less than expected.

At a media briefing, James Zhan, Director of the UNCTAD Division on Investment and Enterprise, said that the outlook for FDI remains highly uncertain depending on the duration of the health crisis and the effectiveness of the policy response to mitigate the economic effects of the pandemic. Geopolitical risks also continue to add to the uncertainty, he said.

However, Zhan said that the international production system will continue to play an important role in economic growth and development despite the drastic decline in global FDI flows during the crisis.

Asked about the possibility of supply chains being relocated from China to other countries in light of the current health crisis, Zhan said that he expects this to happen over a longer period of time. In the short term, at this stage, companies are focusing on crisis management rather than longer-term restructuring of their global value chains; as a result, reshoring or restructuring is not happening massively at the moment.

"At this stage, we see East and South-East Asia leading the recovery of the global economy because the situation there stabilized first and at an early stage," he said. "So, the world still depends on the global value chains that are mainly located in East and South-East Asia at this stage."

Zhan also said East and South-East Asia is still an attractive location not only as a manufacturing bench for the world but also for its market.

FDI flows to developed economies

According to the "Investment Trends Monitor" report, global FDI flows (excluding Caribbean offshore financial

centres) in the first half of 2020 were under severe pressure due to the COVID-19 pandemic. They reached an estimated $399 billion, 49% less than in 2019, as lockdowns around the world forced companies to delay existing investment projects and to postpone non-essential investment to preserve cash buffers.

The decline was more pronounced in developed economies, where flows fell to $98 billion – a value last seen in 1994, UNCTAD said, adding that FDI flows into Europe were negative and they fell sharply in North America.

It noted that among major FDI recipients in 2019, flows declined most strongly in Italy, the United States, Brazil and Australia.

UNCTAD attributed the low level of FDI flows to developed economies mainly to sharply negative FDI in countries with significant conduit flows, such as Switzerland and the Netherlands, and the decrease of FDI in the United States.

For the first time ever, flows to Europe in 2020 H1 turned negative to -$7 billion (from $202 billion). Among major forms of FDI, announced greenfield investment project values and cross-border project finance deals dropped by 17% while cross-border M&As fell by 5%.

FDI flows to the EU-27 (without the United Kingdom) fell by 29% to $133 billion from $186 billion. Most countries saw their FDI decline, but the negative trend was worsened by a few economies that experienced strong volatility. Flows to the Netherlands fell to -$86 billion in 2020 H1 due to large divestments in equity (-$70 billion) and negative intra-company loans (-$57 billion).

Despite the crisis caused by the pandemic, a few countries recorded rising FDI flows. FDI flows to Ireland reached $75 billion with a jump of $65 billion in equity in the second quarter of 2020, with the increase being driven by sizeable transactions, financial flows and corporate restructurings, while FDI to Germany rose by 15% to $21 billion.

In the rest of Europe, FDI flows to the United Kingdom were -$30 billion, mainly due to large negative intra-company loans. In addition, there were several divestments; for example, Swiss Re (Switzerland) divested its ReAssure Group to Phoenix Group Holding for $4.2 billion. In Switzerland, FDI turned sharply negative to -$98 billion (from -$11 billion).

FDI flows to North America fell by 56% to $68 billion, with project finance deals declining by 34%, cross-border M&As by 32% and greenfield investment projects by 25%. FDI to the United States more than halved (-61%) to $51 billion. Investments in the United States by EU MNEs declined by 53% and MNEs from developing economies reduced their investment from $31 billion to -$2 billion. Cross-border M&A sales of United States assets to foreign investors fell by 30%.

Inflows to several other developed economies declined as well, including in Australia (-40% to $11 billion) and New Zealand (-55% to $1.2 billion), said UNCTAD. The decline in FDI in Australia was due to a 64% drop in cross-border M&As. On the other hand, flows to Japan increased by 6% and those to Israel by 74% to $16 billion.

FDI flows to developing economies

UNCTAD said that developing economies saw their FDI flows decrease by 16%. While the value of announced greenfield projects suffered a 49% decline and the number of cross-border project finance deals fell by 25%, cross-border M&As rose by 12%.

The overall decline was spread across all regions: Africa (-28%), Latin America and the Caribbean (-25%) and developing Asia (-12%).

The contraction in FDI in developing countries has so far been less severe than in developed economies; FDI in developing economies contains more greenfield investments and project finance, which tend to be more stable, said UNCTAD.

FDI in developing Asia fell by 12% in the first half of 2020 to $217 billion. Despite suffering the brunt of the initial impact of the pandemic and the effects of the early supply chain shocks on global value chain investment, Asia shows the lowest decline in investment among developing regions.

The relatively successful containment of the pandemic in East Asia is reflected in continued investment activity in the region, UNCTAD said. FDI in East Asia remained stable at $125 billion, in large part due to the effect of a 22% rise in flows (including conduit flows) to Hong Kong, China from the anomalously low level of FDI in the previous year.

FDI flows to China proved relatively resilient. In the first half of 2020, flows to China reached $76 billion, a 4% decline. The decline – lower than expected – was cushioned by an 84% rise in the value of M&A transactions, mostly in information services and e-commerce industries. "Government investment facilitation measures, which focused on restoration and continuation of previously announced greenfield investment projects, also helped to stabilize investment activities," UNCTAD added.

FDI in the Republic of Korea fell by 34% to $3 billion with a strong decline in cross-border M&A sales and a 37% fall in announced greenfield investment projects.

FDI in South-East Asia contracted by 20% in the first half of 2020 to $62 billion due to a significant fall in flows to Singapore (-28% to $33 billion), Indonesia (-24% to $9.1 billion) and Vietnam (-16% to $6.8 billion), the three largest recipients in the region. There were a few exceptions, with FDI in the Philippines rising by 20% to $3 billion and flows to Thailand more than doubling to $4.8 billion from a low level in 2019. M&A deals in agriculture and energy in these two countries played a role in sustaining inflows. However, overall cross-border M&As in South-East Asia decreased by 44% because of a significant fall in activity in Singapore. Announced greenfield investment dropped by 36%, with services and manufacturing suffering the most.

FDI in South Asia fell 31% to $20 billion in the first half of 2020. India, the largest FDI recipient in the region, saw FDI contracting by 33% to $17 billion as the country struggles with COVID-19 containment. However, investment growth in India's digital economy continued, especially through cross-border M&A sales, which doubled in value.

In other South Asian economies, where investments are largely tied to export-oriented apparel manufacturing, greenfield investments have taken a severe hit due to activity stoppages and contracting global demand. Announced greenfield projects in Bangladesh fell by 78% and in Sri Lanka by 97%.

FDI flows to West Asia declined by a third in the first half of 2020 to an estimated $9.3 billion, amid worsening GDP growth projections and the shock to oil prices, said UNCTAD. "Steady investment flows in a few countries and some noteworthy projects mitigated against an even steeper downturn." For example, inflows to Saudi Arabia and Jordan defied the broader trend, with investment increasing by 12% to $2.6 billion and by 17% to $0.4 billion, respectively. Conversely, inflows to Turkey

declined by 32% to $2.9 billion.

FDI in Latin America and the Caribbean fell by 25% in the first half of 2020 to an estimated $62 billion. While the first quarter was relatively unaffected by the COVID-induced economic crisis, flows plummeted in the second quarter, leading to declines in most of the major economies with the exception of Mexico and Chile.

In South America, flows to Brazil almost halved, to $18 billion, as the privatization programme launched last year stalled. "Flows are expected to recover moderately in the second half of the year as asset sales are resumed and a new infrastructure plan is rolled out." Flows to Argentina, Colombia and Peru fell by 40%, 34% and 72%, respectively. In Argentina, the health crisis compounded an already difficult economic situation with a sovereign debt default in May. In Peru, the suspension of mining projects led to a sharp decrease in FDI flows to $1.3 billion. In Chile, flows increased by 67% to $9.5 billion, driven by investments in the first quarter in transport, manufacturing and trade industries.

Flows to Central America were flat at $23 billion. FDI to Mexico increased by 5% to $18 billion, with more than half in the form of reinvested earnings, said UNCTAD. Flows to the manufacturing sector remained stable: losses in the automotive industry (mostly auto parts) were offset by increases in the electronics and machinery industries. In Costa Rica, FDI flows decreased by 41%, with falling inflows to the tourism industry (-70%) and into special economic zones (-45%).

In the Caribbean, flows fell by 27% to $1.4 billion, significantly hit by reduced investment in the tourism industry. In the Dominican Republic, they fell by 20% as investments in the mining, telecom and power industries contracted sharply.

FDI inflows to Africa declined by 28% to $16 billion in the first half of 2020. Greenfield project announcements fell by 66% and cross-border M&As by 44%. Natural resource-based economies in Africa are being hit the hardest.

In North Africa, inflows to Egypt declined by 57% to an estimated $1.9 billion in 2020 H1. Total FDI inflows to North Africa decreased by 44% to $3.8 billion in the first half of the year. "Against the tide, FDI flows to Morocco increased by 6% to $0.8 billion, due to a relatively diverse investment profile."

FDI inflows to Sub-Saharan Africa decreased by 21% to an estimated $12 billion, said UNCTAD. Inflows to Nigeria fell by 29% to $1.2 billion as the implementation of ongoing projects slowed down due to closures of sites in the oil and gas industry. Inflows to Ethiopia were relatively stable, declining by only 12% to $1.1 billion, with China continuing to be the biggest source of FDI to Ethiopia, accounting for a quarter of newly approved projects in 2020. FDI to Mozambique decreased by 27% to $0.8 billion as the implementation of offshore gas projects slowed down due to the pandemic. Bucking the trend, FDI flows to South Africa increased by 24% to $2.9 billion. However, this increase was driven largely by intra-company transfers of foreign companies to their subsidiaries in the country rather than greenfield investment projects.

Announced greenfield projects in the first eight months of 2020 declined 37%, with the largest decline taking place in developing economies.

In the first half of 2020, FDI flows to the transition economies fell sharply – by 81%, to an estimated $5.4 billion. They plummeted in the Russian Federation, the largest economy in the region: from $16 billion in 2019 to -$1.2 billion. The decrease in FDI was more limited in Serbia (-24%). In contrast, Kazakhstan saw a 19% increase, with growth of FDI in construction and trade compensating for a decline in flows in oil and gas.

Greenfield investment announcements in the region fell by 58%. In larger recipients of greenfield investment such as Kazakhstan (-86%), the Russian Federation (-68%) and Serbia (-72%), the decline was even stronger, indicating a major slowdown in future investment intentions. Cross-border M&As targeting the region increased by 84%, but from a very small base. The increase was mostly due to corporate restructurings in the Russian Federation.

Cross-border M&As and greenfield investments

According to UNCTAD, cross-border M&A sales reached $319 billion in the first three quarters of 2020 – a decrease of 15% compared with 2019.

In developed countries, where they are a significant part of total FDI, they fell by 21%, mostly in North America, while in developing economies, cross-border M&As rose by 12%. The decrease of sales in Latin America and the Caribbean (-73%) and Africa (-44%) was more than offset by the 60% increase in Asia.

Cross-border M&A sales dropped by 76% in the primary sector (mainly in mining, quarrying and petroleum) and by 27% in manufacturing. Sales of assets in digital-related industries rose significantly (mainly in manufacturing of computer, electronic, optical products and electrical equipment and information and technology). In Europe, the value of acquisitions in the digital sector grew strongly, with large acquisitions in the United Kingdom.

At the global level, M&A deal values in the pharmaceutical industry fell by 46%, but pharma remained the second largest M&A industry due to deals in North America, said UNCTAD. An estimated $17 billion worth of acquisitions was made by Europe's largest pharmaceutical companies, such as Novartis (Switzerland), Sanofi (France), UCB (Belgium) and Roche (Switzerland), in the United States.

Announced greenfield projects reached $358 billion in the first eight months of 2020 – a decline of 37% compared with 2019, with the largest decline taking place in developing economies (49%), mainly in Africa and Latin America and the Caribbean.

The largest fall was registered in manufacturing (-49%), especially in coke and petroleum products (-89%), reflecting the oil price slump, said UNCTAD. "Announced greenfield projects fell by 33% in the primary sector and 25% in services. Chemicals (+5%) and utilities (+1%) were more resilient."

According to UNCTAD, the number of announced cross-border project finance deals fell by 25% from the 2019 monthly average. The strongest decline was registered in developing and transition

economies, with project finance deals in Africa falling by 49%.

Full-year outlook

According to UNCTAD, prospects for FDI for the full year remain in line with earlier projections of a 30-40% decrease. The rate of decline in developed economies is likely to flatten as some investment activity appears to be picking up in the third quarter. Flows to developing economies are expected to stabilize, with East Asia showing signs of an impending recovery.

However, UNCTAD said that projections for 2020 remain laden with uncertainty. "With a second wave of the pandemic in some developed economies undermining efforts to return to normal, the near 50% decline in 2020 H1 could persist longer," it added.

Despite the drastic decline, FDI remains the largest source of external financing for developing economies as a group, although official development assistance (ODA) and remittances play a relatively greater role in the least-developed countries (LDCs).

"The overall picture of external financial flows is especially important for developing countries facing external payments problems, which may be aggravated by a prolonged downturn in FDI inflows," said UNCTAD. *(SUNS9221)*

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Battles in the WTO
Negotiations and Outcomes of the WTO Ministerial Conferences

By Martin Khor

The World Trade Organisation has been an extremely controversial and divided organisation ever since its establishment in 1995. The big battles are most evident at its highest governing body, the Ministerial Conference, where the Trade Ministers of member states convene to chart the WTO's course.

This book is a compilation of contemporaneous reports and analyses of what unfolded at each Ministerial, as well as a few "mini-Ministerials", that took place from the WTO's inception up to 2017. As these articles reveal, the Ministerials have been the stage on which battles over the future direction of the WTO are most prominently played out. These clashes have mainly pitted developed member states pushing to expand the WTO's ambit into new subject areas, against many developing countries which call instead for redressing imbalances in the existing set of WTO rules.

This book also shines a light on the murky decision-making methods often employed during Ministerials, where agreements are sought to be hammered out by a select few delegations behind closed doors before being foisted on the rest of the membership. Such exclusionary processes, coupled with the crucial substantive issues at stake, have led to dramatic outcomes in many a Ministerial.

The ringside accounts of Ministerial battles collected here offer important insights into the contested dynamics of the WTO and the multilateral trading system in general.

MARTIN KHOR *(1951-2020) was Adviser to the Third World Network. He was formerly Executive Director of the South Centre (2009 to 2018). He was the author of several books on trade, development and the environment, including Globalization and the South. He followed the negotiations in the WTO for many years, including at most of the Ministerial Conferences.*

Third World ECONOMICS No. 708, 1-15 October 2020

Finance COVID-19 relief and recovery, not debt buybacks

Scarce financial resources would be better deployed funding pandemic relief and recovery instead of weak debt restructuring measures, suggest *Anis Chowdhury* and *Jomo Kwame Sundaram*.

In July, the UN Secretary-General warned that a "series of countries in insolvency might trigger a global depression". Earlier, the United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund (IMF) had called for a $2.5 trillion coronavirus crisis package for developing countries.

In the face of the world's worst economic contraction since the Great Depression, a sense of urgency has now spread to most national capitals and the Washington-based Bretton Woods institutions. Unless urgently addressed, the massive economic contractions due to the COVID-19 pandemic and policy responses to contain contagion threaten to become depressions.

Nevertheless, many long preoccupied with developing countries' debt burdens and excessive debt insist on using scarce fiscal resources, including donor assistance, to reduce government debt, instead of strengthening fiscal measures for adequate and appropriate relief and recovery measures. Most debt restructuring measures do not address countries' currently more urgent need to finance relief and recovery packages.

In the new circumstances, the debt preoccupation, perhaps appropriate previously, has become a problematic distraction, diminishing the "fiscal space" for addressing contagion and its consequences.

Buybacks no solution

One problematic debt distraction is the renewed call for debt buybacks from private creditors, through an IMF-managed Brady Plan-like multilateral bond buyback facility funded by a global consortium of countries.

The historical evidence is clear that bond buybacks are no panacea and neither an equitable nor efficient way to reduce sovereign debt.

The contemporary situation is quite different from the one three decades ago when US Treasury Secretary Nicholas Brady's plan successfully cut losses for the US commercial banks responsible for most debt to Latin American and other developing-country governments. Hence, prospects for a comprehensive arrangement involving all creditors are far more remote now.

Unsurprisingly, debt buybacks have been rare since the mid-1990s. Private bond markets have changed significantly from what they were during the Brady era when there was last a comparable effort involving many debtor countries. Importantly, the new creditors largely consist of pension and mutual funds, insurance companies, investment firms and sophisticated individual investors.

Also, today's creditors have less incentive to participate in sovereign debt restructurings. Many of today's creditors are now represented by powerful lobbies, most significantly, the International Institute of Finance (IIF). Unlike before, when their efforts focused on OECD developed economies, the IIF now actively works directly with developing-country finance ministers and central bank governors.

But the debt buyback proposal, to be underwritten by a multilateral donor consortium, can inadvertently encourage hard bargaining by powerful creditors who know that money is available, while retaining the option of threatening litigation. Hence, resulting buybacks are likely to cost more. The evidence shows that a country's secondary market debt price is higher when it has a buyback programme than otherwise.

Such an approach can also encourage trading in risky sovereign bonds promising higher returns, inadvertently sowing the seeds for another debt crisis. Private investment funds are more likely to buy such bonds if there is a higher likelihood of selling them off, while still making money from the high interest rates, even when the bonds are sold at large discounts.

The proposal's voluntary feature also creates incentives for creditors to "free-ride" by "holding out", thus undermining the likelihood of success. If the scheme is expected to effectively restore creditworthiness, then each existing creditor would hold on to the original claims, expecting market value to rise as new creditors provide relief.

Maintaining a good credit rating undoubtedly enables access to international funds at relatively lower interest rates. But low-income countries typically have poor access to international capital markets, and only get access by paying high risk premia, due to poor credit ratings. Compared with near-zero interest rates in major OECD economies, African governments pay 5-16% on 10-year bonds, while Kenya, Zambia and others pay more. Borrowing costs for developing countries issuing Eurobonds more than doubled due to high interest rates.

Also, many if not most contemporary creditors are not primarily involved in lending money. They are therefore unlikely to respond to government requests for new loans needed to grow out of a debt crisis.

New obstacles thus include the greater variety of powerful creditors, the unintended incentives for free-riding inherent in voluntary debt reduction, problematic precedents as well as perverse incentives for both governments and bondholders.

Perhaps most importantly, debt reduction by purely "voluntary" means – like buybacks, exit bonds and debt-equity swaps – is unlikely to be adequate to the enormity of the problem.

Successful buybacks?

Only banks definitely gained from the Brady deals. Benefits were unclear for most debtors other than Mexico and Argentina, and particularly ineffective for Uruguay and the Philippines, where gains were paltry, if not negative. Positive effects for economic growth were very small, as most buybacks failed to improve either market confidence in or the creditworthiness of debtor countries.

Hence, even if private creditors participate, there is no guarantee that debtor countries will benefit significantly at the end of the long and complicated processes envisaged.

The 2012 Greek bond buybacks, backed by the European Commission, European Central Bank and IMF "troika", effectively bailed out the mostly French and German banks owed money by Greece. Celebrated as a success, they neither restored Greece's growth nor reduced its debt burden.

While bond buybacks can always be a debt restructuring option for consideration, Ecuador's in 2008-09 are probably the only one regarded as favourable to the debtor country. Wall Street observers suggest that Argentina's recent initiative may also have a positive outcome. Also, after successfully restructuring its commercial debt, the country is now better able to negotiate with its official creditors, particularly the IMF.

These "successes" have been exceptional, led by the countries themselves and ultimately settled on their terms, taking advantage of opportunities presented by global crises for comprehensive national debt restructuring. Importantly, neither creditor consortia nor multilateral financial institutions were involved in coordinating or underwriting both restructurings, and hence could not impose onerous policy conditionalities.

Thus, when able to take advantage of favourable conditions for negotiating strategic buybacks, debtor countries may be better able to benefit from them.

Urgent financing needed

Despite her earlier reputation as a "debt hawk", new World Bank Chief Economist Carmen Reinhart recognizes the gravity of the situation and recently advised countries to borrow more: "First fight the war, then figure out how to pay for it."

Hence, in these COVID-19 times, donor money would be better utilized to finance relief and recovery, rather than debt buybacks.

Multilateral development finance institutions should resume their traditional role of mobilizing funds at minimal cost to finance development, or currently, relief and recovery, by efficiently intermediating on behalf of developing countries. They can borrow at the best available market rates to lend to developing countries which otherwise would have to borrow on their own at more onerous rates. *(IPS)*

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

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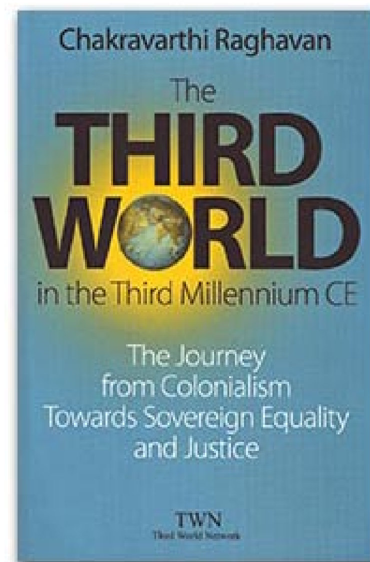

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Third World ECONOMICS No. 708, 1-15 October 2020

The urgency of fiscal justice

The International Monetary Fund (IMF) is pushing its pandemic-hit borrower countries to adopt fiscal consolidation policies down the line – a fresh wave of austerity that could leave a trail of socioeconomic ruin in its wake.

by Bhumika Muchhala

The Annual Meetings of the World Bank and International Monetary Fund (IMF) that just concluded (12-18 October) confirm the fear expressed by many since the onset of the COVID-19 pandemic that another wave of austerity measures will soon sweep across developing countries.

By 20 September, the IMF had approved loans to 81 countries to combat the health and economic crises induced by COVID-19. In the short term, the institution's emergency financing packages support the intent of borrowing countries to use funds to meet urgent health and social protection needs, including relief for vulnerable households.

The Fund's flagship *World Economic Outlook* report released in October calls for policies that "guide economies to paths of stronger, equitable, and resilient growth," including investments in "health, education, and high-return infrastructure projects that also help move the economy to lower carbon dependence" and research spending in technology and innovation.[1]

However, within the fine print of loan and emergency financing documents, the institution's recurring policy recommendation is for pandemic-related fiscal measures to be targeted, temporary and reversed upon cessation of the pandemic. According to research conducted by Oxfam International, fiscal consolidation measures appear in 84% of loan agreements across 67 countries as early as 2021.[2] The European Network on Debt and Development shows that by 2023, public budget cuts and regressive tax measures, such as value-added taxes, are to be implemented across 80 countries. More than half of the projected measures, equivalent to 2% of GDP, will take place in 2021.[3]

The consequences are grave. Many developing countries are in danger of facing "a lost decade"[4] as their pathways to achieving the Sustainable Development Goals (SDGs) and Paris Agreement on climate change targets are effectively derailed.

In the absence of scaled-up, coordinated and multilateral solutions such as grant financing, liquidity, debt relief and a sovereign debt workout mechanism, for example, the austerity mandate is once again being enforced in order to generate financial resources to meet debt repayments and stabilize debt levels.

Double standards for South and North

While low- and middle-income countries face austerity measures by early 2021, a very different directive is offered to developed countries. According to the Fiscal Affairs Department of the IMF, most "advanced economies that can borrow freely will not need to plan for austerity to restore the health of their public finances."[5]

Unhindered access to financial markets and near-zero interest rates available to developed countries means that they have the exclusive privilege of escaping the fate of raising taxes and cutting public financing for public goods.

In contrast, the poorest countries in the world confront the highest costs of borrowing. Interest rates for African countries range between 5% and 16% on 10-year government bonds.[6] For sub-Saharan African economies, interest repayments constitute the highest, and fastest-growing, expenditure item in their public budgets.

While the Fund justifies these two opposite sets of policy advice through the "binding financial constraints"[7] that define developing countries' limited capacity to borrow, no inquiry is made into the structural inequities that define a state's "capacity" to borrow.

High debt levels in developing countries stem from a historical legacy of power inequalities among nations, resulting in South-to-North resource flows through tax evasion, for example, and thwarted productive capacities and domestic revenue potential, which drive the need to borrow externally.

The past has repeatedly demonstrated the cost of maintaining debt sustainability in the eyes of official and private lenders and creditors: austerity measures will be paid for by the most vulnerable across developing countries, exacerbating inequalities as well as exclusion and discrimination, on all scales of income, gender, race, caste, disability and sexuality.

In response, over 500 organizations and individuals have signed a petition calling on the IMF to immediately stop advising austerity measures to developing countries, and instead advocate policies that advance human rights, sustainable development, climate justice, and gender and income equality. The petition emphasizes that fiscal-consolidation-driven austerity will undermine the achievement of economic and social rights while deepening poverty in a context where the UN estimates 70 to 100 million people will be pushed into extreme poverty.[8]

Empirical data on the impact of fiscal consolidation measures,[9] as well as research by the IMF's Independent Evaluation Office on the Fund's response to the financial and economic crisis,[10] confirm that fiscal consolidation has led to reductions in health and education investments; losses of hard-earned pensions and social protections; public wage freezes and layoffs affecting public sector employees such as teachers, nurses, doctors and public civilians who comprise a large portion of the public wage bill in developing countries; increased unpaid care work; and greater consumption taxes – all of which disproportionately affect the poor and women.

Normalization of an ideology

Over the last four decades, fiscal austerity, or consolidation, has become normalized as well as internalized by many developing

as well as developed countries. The singular compulsion to austerity is in part rooted in the neoclassical economic theory that fiscal credibility and macroeconomic stability is achieved by preserving the expenditure ceiling rule and reducing debt levels.

In particular, the predilection to view the macroeconomy through the methodology of general equilibrium[11] entails an analytical commitment to austerity policy by presupposing macro-stability. The prioritization of macro-stability through the primary channel of reducing debt levels is essentially a signal to markets and lenders that debt and deficits will not obstruct private sector interests to avoid risks and losses.

Economists who work within the general equilibrium framework generally do not engage with a broader plurality of economic models and theories that might contest or opt out of the austerity bias.[12] Due to the hegemony of the neoclassical form of economic knowledge over the past several decades, the economics discipline has not evolved or diversified the accepted and acknowledged basis of economic methodology and analysis.

Empirical evidence illustrating how austerity has neither restored income growth nor reduced unemployment has mounted over the years, including studies by scholars who have detailed how the economic methodology in support of austerity is flawed.[13]

Why, then, does austerity continue to "dominate the economic thought, both practical and theoretical, of the governing and academic classes of this generation, as it has for a hundred years past", as John Maynard Keynes stated in 1936?[14] It has been 84 years since Keynes asked this question, and austerity's compulsion has yet to fade. In consideration of the argument that facts never disconfirm a powerful ideology, austerity can be considered a virulent idea inflicting systematic harms.

The right to development requires bold multilateralism

The human toll of the pandemic demands that the centrality of public financing for public systems, such as healthcare, can no longer be undermined or ignored. The international community can no longer look the other way when the state protects creditors and investors at the expense of peoples' human, economic, social and cultural rights. Without an urgency of multilateral action, the pandemic endangers years, if not decades, of hard-earned progress in reducing poverty and expanding economic sectors and employment across the developing world.

As the 2020 *Trade and Development Report* by the United Nations Conference on Trade and Development (UNCTAD)[15] illustrates, active government policies to reduce income inequality are required, and for many developing countries, this will require effective multilateralism. Such policies should play multiple roles of lowering carbon emissions, establishing large public investment projects to generate jobs and accelerate the transition to a low-carbon energy-efficient economy as well as enacting structural reforms to usher forth new patterns of production and consumption.

This will require a scale and depth of international solidarity that finds resonance in the 1986 Declaration on the Right to Development.[16] The centrality of the right to development is precisely that it promotes an enabling international environment that ensures equality of opportunity for all in access to basic resources, education, health services, food, housing, employment and the fair distribution of income. Economic and social reforms are guided by the imperative of eradicating all social injustices.

Six ingredients to avert a lost decade

First, there is a need for expanding the possibility horizon and official recognition of *countercyclical fiscal stimulus policies* as the most effective and equitable means to stimulate economic recovery, job creation and equity-enhancing redistribution through public transfers. An expansionary fiscal policy toolkit includes, for example, establishing universal social protection floors, extending coverage of social security, including for informal sector workers, progressive taxation, tapping into foreign exchange reserves for some middle-income developing countries and so on. Countries that use fiscal policy tools for economic recovery should not experience adverse impacts in access to capital markets, terms of borrowing, debt sustainability or credit ratings.

Second, in order to meet the need for immediate liquidity in developing countries, a new and special issuance of *Special Drawing Rights* needs to be followed through. Scaling up the creation of grants and other highly concessional financing are also necessary.

Third, a formal *sovereign debt workout mechanism* grounded in an international legal framework has been considered a missing link in the international financial architecture. Systematic support for states to cancel or restructure their debts in order to prioritize investments in quality public services is needed. Debt restructuring should be based on debt sustainability assessments that consider fulfilment of human rights obligations, SDGs and climate financing.

Fourth, a UN Tax Convention can address tax havens, tax abuse by multinational corporations and other illicit financial flows through a universal and intergovernmental process. *Progressive tax measures*, such as raising tax rates for systemically important global banks, large firms and the wealthy, can raise additional financial resources to address the economic fallout of the pandemic and are effective channels for human-rights-based revenue mobilization strategies.

Fifth, *capital controls* should be given their legitimate place in any policy regime to curtail surges in capital outflows, to reduce illiquidity driven by sell-offs in developing-country markets and to arrest declines in currency and asset prices.

Sixth, the use of ex-ante and ex-post participatory *human rights impact assessments*, with data disaggregated by gender and social groups, is essential to ensuring economic equity relevant to local contexts, as are transparent, participatory and gender-responsive budgeting processes.

Global interdependency and historical responsibility

The neoliberal variant of capitalism[17] is well known for being founded from an individualistic premise. Distributive justice,[18] equity among nations and human rights, however, require a collective premise, where solidarity is not construed merely as altruism but rather as moral responsibility and awareness of global interdependencies.

Economic recovery for any one nation is unsustainable. Uneven recovery will create difficulties in reviving global trade flows. Debt crises in regions that are already in political and civil conflict, for example, can create upheaval such as displacement

and migration that can hurt other countries.

Ultimately, unilateralism and protectionism are antithetical to a genuine recovery from a pandemic-induced global recession.

The countries and regions possessing the financial and material resources to pursue fiscal stimulus for health and economic recovery owe their policy space, in large part, to the legacy of several centuries of colonialism: the great transfers of wealth,[19] extraction of natural resources[20] and use of cheap or free labour from the colonies to the metropoles. This is not just a historical travesty; this wealth transfer diffused capital and resources across Europe, North America and other settler colonies, creating the very conditions for industrialization and economic wealth.[21]

Today, it is incumbent that the principles of historical responsibility and interdependency of recovery guide the actors of economic power to support the health and economic recovery of the most vulnerable regions of the Global South.

The counterfactual is a lost decade for the vast majority of the human race.

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Notes

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