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Revised proposal seeks to spur progress in IP waiver talks

Advocates of suspending intellectual property (IP) protections in order to boost the supply of vaccines and other COVID-19 medical products have tabled a revised text of their proposal with a view to driving the WTO negotiations on an IP waiver forward.

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THIRD WORLD ECONOMICS
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Revised TRIPS waiver proposal bolsters demand for text-based talks at WTO

Proponents of a WTO waiver of COVID-19-related intellectual property protections have put forward a revised proposal aimed at kicking the negotiations into high gear.

by D. Ravi Kanth

GENEVA: The 63 co-sponsors of the TRIPS waiver proposal have brought about a fundamental shift towards text-based negotiations at the WTO with their revised proposal that calls for an early decision on a "proportionate legal measure for clearing IP [intellectual property] barriers for ramping up the production of COVID-19 vaccines, therapeutics, and diagnostics".

At an informal meeting of the WTO Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS) held virtually on 31 May, the 63 co-sponsors (Jordan being the latest WTO member to join as a co-sponsor) sought to bolster their demand for text-based negotiations based on their revised proposal without any delay, said several people after participating in the discussions.

Significantly, the United States, which has now endorsed the need for a waiver, New Zealand, China and Ukraine among others stated unequivocally that they are ready to participate in text-based negotiations anchored on the revised proposal, which was submitted on 21 May.

Although no member at the meeting openly opposed text-based negotiations on the basis of the revised proposal circulated by the 63 developing and least-developed countries, a handful of countries continued to raise extraneous issues that have little bearing on the waiver proposal. Nevertheless, they cautiously welcomed the revised proposal.

In what seems to be an attempt to confound the negotiations on the TRIPS waiver, the European Union is apparently floating a proposal concerning compulsory licensing provisions for patents along with ideas for ramping up production of vaccines, said people familiar with the development.

The WTO Director-General Ngozi Okonjo-Iweala has been appraised of the EU proposal, as she has indicated that Brussels is considering a proposal that could be tabled soon.

"Necessary and proportionate" measure

During the 31 May meeting, South Africa, the original co-sponsor of the waiver proposal along with India, said the waiver has now been backed by more than 400 civil society groups, the World Health Organization, the African Commission on Human and Peoples' Rights, the Joint United Nations Programme on HIV/AIDS (UNAIDS), thousands of parliamentarians across countries, and more than 170 former heads of government and Nobel laureates.

Elucidating on the revised waiver proposal, South African Ambassador to the WTO Xolelwa Mlumbi-Peter said "the waiver is a necessary and proportionate legal measure for clarifying intellectual property barriers in a direct, consistent, and efficient fashion, enabling the freedom to operate for more companies to produce COVID-19 vaccines and other health technologies without infringing the IP rights and the attendant threat of litigation."

The waiver, she said, "acts as an important political, moral, and economic lever towards encouraging solutions aimed at global equitable access to vaccines, diagnostics, and therapeutics, which is in the wider interest of the global public".

She highlighted the gross inequity between the vaccines available to people in the developed world on the one side, and the developing countries on the other. She quoted her President Cyril Ramaphosa as saying that "vaccines are flooding into upper-income countries but trickling into Africa. It also undermines the global effort to defeat this coronavirus: for us as long as the virus continues to spread in one part of the world, it remains a threat to the whole world."

The South African envoy underscored the urgent need for the WTO to act now "to arrest the rising human toll and economic strain from the COVID-19 pandemic."

She called for "global solidarity" for ramping up production of vaccines, therapeutics and diagnostics for effectively dealing with the SARS-CoV-2 virus that is mutating in various countries. She said it is important to "leverage the under-utilized manufacturing capacity in developing countries."

Sustainable global economic recovery is possible only when countries eradicate the COVID-19 disease, she said, emphasizing that "ending the pandemic in a timely manner is a global public good and this should be the overarching priority for the WTO."

Mlumbi-Peter explained that the revised proposal includes three amendments in the preamble, as compared with the first proposal circulated in October 2020. The revised preambular text reflects the concern over continued mutations which make the virus more transmissible, the global need for access as well as the importance of diversifying production and supply, and recognition of the importance of preserving incentives for research and innovation.

The revised proposal also further explains and streamlines the overall goals underlying the waiver, following some complaints that the original proposal was too broad.

It focuses on "health products and technologies" for the prevention, treatment and containment of COVID-19, Mlumbi-Peter said.

The proposal, she said, "is motivated by the need for rapid scaling up and diversification of supply options to address the timely availability and affordability of the required products to prevent, treat and contain COVID-19 for all countries in need."

Further, the waiver recognizes that "vaccines are necessary but not sufficient to respond to the pandemic". She emphasized that along with the development of vaccines, therapeutics – such as remdesivir, bamlanivimab, casirivimab plus imdevimab – are equally important. Also, the proposal calls for access to personal protective equipment and diagnostic tests.

The revised waiver proposal calls for suspending the implementation of key provisions in the TRIPS Agreement relating to copyrights, industrial designs (transfer of technology and knowhow), patents, and protection of undisclosed information (trade secrets) for at least three years.

After three years, the WTO General Council "shall … review the existence of the exceptional circumstances justifying the waiver, and if such circumstances cease to exist, the General Council shall determine the date of termination of the waiver", according to the proposal.

The waiver shall be reviewed by the General Council one year after it comes into force.

Mlumbi-Peter provided figures of huge gaps in the production of vaccines, saying that in 2020 only 4% of the projected vaccine production was delivered. She said some reports have suggested that it may take up to five to seven years for global vaccination to be realized.

Further, the duration of the waiver "has to be practical for manufacturing to be feasible and viable," she said, stating that "the complexities and uncertainties related to the pandemic suggest the need for a practical and flexible duration."

She said that the "co-sponsors would like to call on all the WTO members to support the text-based negotiations," adding that it is only at the negotiating table that "we all will be able to engage in good-faith, solution-oriented discussion that will result in a balanced outcome that addresses the concerns of all."

She assured members that "the co-sponsors will engage constructively and will remain flexible in working towards an outcome that will truly boost and diversify production across the world."

"A sustainable solution to this pandemic", she said, "necessitates sharing of new COVID-19 technologies" with manufacturers and producers, "accompanied by knowhow transfer programmes to ensure the rapid uptake of quality high volume production."

Eliminating IP barriers

In its intervention at the TRIPS Council meeting, India said that the failure to act on the waiver proposal has "cost us 2 million more lives."

India's Ambassador Brajendra Navnit drew attention to the International Monetary Fund (IMF)'s call for $50 billion by industrialized countries for global vaccination efforts that could save the global economy to the tune of $9 trillion.

He said the huge gap between the demand and the production of vaccines can only be bridged by the elimination of IP barriers to pave the way for increased manufacture.

He addressed the argument by "some sceptics" that it is not patents which are holding back the scaling up of production, but the scarcity of necessary raw material. He said that "once the IP barriers are eliminated and manufacturing of vaccines, therapeutics and diagnostics for COVID is scaled up, increased demand for their raw materials itself will create favourable market conditions for and adequate supply of their raw materials."

He pointed as an example to "accelerated production of lipids by MilliporeSigma, one of the few companies manufacturing lipids, a component of mRNA-based vaccines and therapeutics, to fill in the increased demand."

According to the Indian trade envoy, "the opposition to the waiver on the grounds that it would not help augment production is also not supported by past experiences, such as scaling up of production of penicillin after World War II that could be achieved by sharing of scientific information as well as mould cultures by Oxford scientists with US officials, [and] more recently, production of generic and affordable ARV [antiretroviral] medication during the peak of HIV/AIDS."

Navnit assured members that the waiver proposal "is not in conflict with other endeavours undertaken across the globe or in the WTO." Without explicitly mentioning the WTO Director-General's proposed "third way" approach, he said that the co-sponsors "are not obstructing any of the ways whether the first way, the third way, fourth or fifth way which we may see in coming weeks or months."

While the co-sponsors recognize that IP rights are not the only barrier to augmenting manufacturing and addressing supply-side constraints, they reckon that IP rights are the biggest barrier, he said.

He said that if the WTO does not deliver during the pandemic on the issues and agreements for which it bears responsibility, then it would be a grave mistake.

The TRIPS waiver, he said, is "a necessary, proportionate and temporary legal measure for removing IP barriers and paving the way for more companies to produce COVID-19 vaccines, therapeutics or diagnostics by providing them freedom to, without the fear of infringement of IP rights or the threat of litigation."

Basis for text-based negotiations

Mauritius said the revised waiver proposal provides the necessary flexibility in terms of duration and necessary coverage. "As such, it provides a solid basis, [and] gives us the commencement of text-based negotiations," Mauritius said. "Since time is of the essence … we would request that the discussions on text start early and be accelerated."

On behalf of the African Group of countries, Tanzania said "like other continents, Africa is grappling to contain the pandemic since its outbreak from early 2020. The prevention, treatment and containment of COVID-19 remains a top priority for governments today."

It offered a graphic account of how people in Africa are being affected without vaccines, saying that "numerous stakeholders and key groups of people across the globe have acknowledged the current production and distribution set-up as contributing to the low pace of vaccination, which delays the achievement of global health in completing herd immunity of 60%."

The African Group has consistently pointed out that "the proposed waiver will contribute to the scaling up of production and distribution of vaccines across the globe," Tanzania said, adding that the revised proposal "forms a good anchoring negotiation text, as it contains the needed clarity on the envisioned waiver."

It reiterated "the longstanding call" for the commencement of text-based negotiations, saying that a prolonged philosophical debate at the TRIPS Council of questions and answers will not realize the contribution of the WTO to meeting the COVID-19 challenges.

The African Group, said Tanzania, would "like to thank all members who are supporting the proposal to have a waiver, including those who have announced themselves not to stand in the way, towards advancing the discussion that will lead to the conclusion of these negotiations."

Many other countries – Pakistan, Mozambique, Bangladesh, Bolivia, Egypt, Nepal, Fiji, Cabo Verde, Paraguay, Indonesia, Jordan, Zimbabwe, Chad, Vanuatu and Kenya – called for initiating text-based negotiations on the TRIPS waiver.

The US, which has endorsed the need for text-based negotiations, said "the top priority of the Biden-Harris Administration is saving lives and ending the pandemic in the United States and around the world."

"The administration's aim is to get as many safe and effective vaccines to as many people as fast as possible," the US delegate said, adding that "this is a global health crisis and the extraordinary circumstances of the COVID-19 pandemic call for extraordinary measures."

The US said it hopes that "our openness to engaging in a text-based discussion with any proposal that could address the immediate need for increased vaccine production and distribution, will encourage others to step forward with something that they can say yes to."

The US said it is "closely analyzing" the revised waiver proposal and will provide comments in due course in future meetings. "In the meantime, we continue to urge all members to act with urgency."

China said the revised text circulated by the proponents limits the scope of the proposed waiver by focusing on health products and technologies for COVID-19 prevention, treatment and containment and by establishing a concrete duration. It said that it is closely evaluating the new text which, in its view, provides a basis for text-based discussions.

Emphasizing that Beijing supports a TRIPS waiver for COVID-19 vaccines, the Chinese delegate said it has been eight months since a waiver text was initially proposed last October, so it is time to move to the next stage.

New Zealand, one of the first developed countries to support the waiver, said that it is an important part of the collective efforts to address the human catastrophe caused by the pandemic.

Ukraine said that it supports text-based negotiations in order to achieve the common goal of ensuring timely universal access to vaccines and other health products needed to fight the COVID-19 pandemic.

Argentina reiterated its "support to the documents and reaffirms its conviction that COVID-19 vaccines should be deemed to be global public goods, to which all people have fair access."

Argentina "suffered almost a year and a half of this pandemic and regrettably the conditions have not improved." It said that "the situation is particularly critical for many developing countries, and the production and distribution of vaccines has been very unequal across the length and breadth of the planet."

"In view of the magnitude of the current health crisis," Argentina said, "there is a need on an immediate basis, and in a complementary fashion, to take into account any proposals that might be aimed at guaranteeing fair access, whilst also promoting transparent transfer of technology, with increased local production and timely distribution of vaccines globally."

Cautious response

Countries that have opposed the waiver until now have cautiously welcomed the revised proposal.

South Korea said the revised proposal is too broad and creates uncertainties, including unintended consequences, when applied to patents, copyrights, industrial designs and protection of undisclosed information in relation to health products and technology, including diagnostics, therapeutics and vaccines. It said that the proposed waiver would continue practically indefinitely, not leaving much room for incentives for research and innovation in the future.

The EU, which appears to have embraced the WTO Director-General's "third way" approach, said the immediate urgent goal should continue to be ramping up production to share vaccines wider and faster, and ensuring equitable access to low- and middle-income countries at affordable prices.

It highlighted lifting export restrictions for vaccine ingredients and other inputs, using to the maximum the existing production capacity, and refitting those facilities that can be easily adapted to produce more vaccines.

Switzerland, one of the strongest opponents of the waiver, said it is ready to examine any proposal that contributes effectively towards the objective of expanding production of COVID-19 vaccines and health technologies and facilitating equitable access. It called for a holistic approach consisting of strengthening supply chains, intensifying industry partnerships, and efficient transfer of technology and knowhow through voluntary licensing agreements to speedily scale up manufacturing output. It said members should consider ways to facilitate the use of existing flexibilities under the TRIPS Agreement.

In statements of varying emphasis, the United Kingdom, Australia, Japan, Singapore, Brazil, Chinese Taipei and Norway suggested that they are ready to consider the proposal along with other proposals that are expected to be tabled soon.

The UK referred to the recent agreement of the trade ministers of the Group of Seven leading industrial countries that echoed the Director-General's "third way" approach, while remaining silent on the waiver.

Japan said it is ready to participate constructively in this discussion. It said that the revised proposal is a positive development as it gives a new momentum to the discussion, together with further upcoming proposals such as the one announced by the EU.

Australia said that it remains open to all proposals supporting the increased production of COVID-19 vaccines, including proposals for a TRIPS waiver.

Several other countries welcomed the revised proposal and voiced commitment to studying it seriously in order to have further clarification about the scope and operationalization of the waiver.

In short, the proposal's co-sponsors appear to have succeeded in galvanizing the waiver negotiations towards the higher level of text-based negotiations, said people familiar with the development. *(SUNS9358)*

LDCs urged to drop "post-graduation" element under TRIPS Art. 66.1

Major developed countries are seeking to whittle a proposed extension of the grace period accorded to the poorest countries before they have to implement obligations under the TRIPS Agreement.

by D. Ravi Kanth

WASHINGTON: The chair of the WTO's TRIPS Council has, apparently in line with the position of five major developed countries, reportedly conveyed to the least-developed countries (LDCs) to drop the "post-graduation" element in their proposal for extending the transition period for LDCs under Article 66.1 of the TRIPS Agreement, said people familiar with the development.

At a small-group meeting held on 18 May, the United States, the European Union, the United Kingdom, Switzerland and Japan called, in varying degrees of emphasis, for the LDCs to remove the demand for a "post-graduation" element in their extension proposal submitted last October.

The TRIPS Council chair, Ambassador Dagfinn Sorli from Norway, who convened the small-group meeting and later spoke separately to the LDCs, apparently conveyed to the LDCs that they have to follow suit, said people familiar with the development.

In October, Chad, on behalf of the LDC Group in the WTO, had submitted a request seeking an extension of the LDCs' transition period for implementing the TRIPS Agreement – which is set to expire on 1 July 2021 – for as long as a country remains an LDC, and an additional period of 12 years after a country graduates from its LDC status, in order to ensure smooth transition.

Article 66.1 of the TRIPS Agreement accorded LDCs an initial 10-year transition period, with an automatic right of further extensions that exempt LDCs from implementing most of the obligations under the agreement. This is in view of the special needs and requirements of the LDCs, including their economic, financial and administrative constraints and their need for flexibility to create a viable technological base.

Adoption of the LDCs' request should have been fairly straightforward as Article 66.1 explicitly states that, "upon duly motivated request by a least-developed country Member", the TRIPS Council "shall" accord extensions of the transition period.

The LDC transition period has been extended twice before. However, each time LDCs' full demands were not met, with developed countries only willing to give impractically short extensions and, even then, after strenuous negotiations. The last extension of the transition period, granted in 2013, is now set to expire at the end of June.

The LDCs' current request for extension was discussed at two formal sessions of the TRIPS Council in October 2020 and in March 2021. In these sessions, the request received strong support from the developing countries, including the African Group and the African, Caribbean and Pacific (ACP) Group. In contrast, the support from developed countries was rather lukewarm, with a few developed countries requesting more discussion on the modality and length of the extension.

Following the five developed countries' insistence at the 18 May small-group meeting that the "post-graduation" element of the LDC proposal be dropped, the LDCs have conveyed to the TRIPS Council chair their frustration as the five have not proposed any specific length for the extension of the transition period while creating pressure on the LDCs to change their position without any valid reason, said people who asked not to be quoted.

According to LDC officials, they had assessed their needs and accordingly submitted their duly motivated request at the TRIPS Council. Now if some members wish to oppose this proposal, they should do so with reasons and an alternative proposal, the officials said.

Backing for LDC request

Beyond the WTO, the LDC request has garnered extensive support.

Addressing the TRIPS Council in October 2020, the World Health Organization (WHO) said that universal health coverage is a priority for WHO and part of the Sustainable Development Goals (SDGs), and that "[t]he challenges that remain for LDCs in terms of achieving development goals and structural transformation, in addition to their high degree of vulnerability in the current pandemic, not only with COVID-19, but as well as for other diseases, oblige WHO to make a statement today in support of the current request from LDCs for an extension of the Transition Period under Article 66.1 of the TRIPS Agreement".

WHO stressed that an extension of the transition period would facilitate LDCs' access to essential treatments and build up viable technology bases and manufacturing capacities in the countries. It added that an extension was "critical" for the achievement of SDG 3 related to health and would, during the COVID-19 pandemic, facilitate reduction in disparities regarding diagnosis and treatments for the disease.

On 22 April, close to 50 distinguished experts and academics wrote a letter to the US Trade Representative and the EU Trade Commissioner urging them to support the LDCs' request. The signatories included Kevin Gallagher, Professor, Frederick S. Pardee School of Global Studies, Boston University; Joseph Stiglitz, Nobel laureate and Professor at Columbia University; Mariana Mazzucato, Professor, University College London; Jose Antonio Ocampo, Professor, Columbia University; Ha-Joon Chang, Reader in the Political Economy of Development, University of Cambridge; Sharan Burrow, General Secretary, International Trade Union Confederation; and Dan Gay, Advisor, United Nations and Advisor, Organisation for Economic Co-operation and Development (OECD).

The letter argued that "[s]hort extensions granted to date have proven to be ill-considered and unrealistic, requiring LDCs to repeatedly seek extensions from the TRIPS Council. They are also impractical given that LDCs require development of their own industrial policy and a viable technological base to overcome capacity constraints, all of which requires a long-term strategy."

"Further, even as LDCs graduate from the LDC category, these challenges persist. This flexibility is also vital for countries to be able to respond effectively to emerging global challenges, including the pandemic and the ongoing climate crisis, and to uphold the rights of their people. In recognition of this situation, United Nations General Assembly resolutions have called on WTO Members to consider extending the existing special and differential treatment measures and exemptions available to LDCs to graduated LDC Members."

"Any attempt to refuse or weaken the LDCs' request will be unconscionable given the social and economic hardship already facing LDCs."

The letter highlighted the pandemic's "severely destructive impact on the economic prospects and long-term development of LDCs, which forecloses a sustainable strategy to meet TRIPS obligations".

It added that "[w]hile advanced economies have benefited from historically low interest rates to fund response packages, sources of income for LDCs have dried up with remittances plummeting, global supply chains collapsing and tourism halted" and that "[t]he G20 offered a postponement of bilateral debt payments due from LDCs, but this fell far short of the fiscal space necessary to combat the virus and protect lives with no similar treatment for private or multilateral debt".

"To put the inequality of the economic crisis in perspective, the global stimulus response has amounted to more than $13 trillion, but less than 1 percent of this has been made available to lower income countries," the letter stressed.

The letter called on WTO members to honour their obligation under Article 66.1 and cautioned that "[a]ny attempt to refuse or weaken the LDCs' request will be unconscionable given the social and economic hardship already facing LDCs. Adopting the LDC decision in its entirety is crucial to uphold the credibility of the WTO as an institution that can benefit the poorest and most vulnerable segment of the international community."

Similarly, in January, more than 100 national, regional and international civil society organizations from around the world wrote to WTO members emphasizing that the "LDCs' request is fully justified".

On 30 April, COMMUNIA, Education International, the Electronic Information for Libraries, the International Federation of Library Associations and Institutions and Wikimedia Deutschland wrote to the European Commission calling on the EU to fully support the LDC request.

The letter stressed that "governments in LDCs need maximum policy space in domestic implementation, without fear of sanction, to craft copyright flexibilities appropriate for local needs and development priorities. In doing so, they are better able to support education, literacy, innovation and cultural participation, contributing to economic development and greater potential growth. Unless this potential growth is achieved, the chances of an LDC being able to benefit from TRIPS standards, once implemented, are greatly reduced".

The signatories added that "[m]ere graduation from LDC status does not resolve development challenges overnight. LDCs will continue to grapple with the most pressing challenges they faced prior to graduation as it takes time to overcome capacity constraints, develop robust education systems, and nurture viable technological bases to compete in global markets. As such, we strongly support the recommendation that countries continue to benefit from the exemption for twelve years after graduation from LDC status". *(SUNS9350/9346)*

***Sangeeta Shashikant** contributed to this article.*

Developing countries express grave concern over latest fisheries subsidies text

The latest revision of draft WTO disciplines on curbing harmful fisheries subsidies lets major subsidizers off the hook while diluting preferential provisions for developing countries, charge critics.

by D. Ravi Kanth

WASHINGTON: The chair of the fisheries subsidies negotiations in the WTO is facing rough waters due to the formulations in his revised draft text, as many members remain diametrically opposed on various issues, said people familiar with the development.

The chair, Ambassador Santiago Wills from Colombia, issued the revised text in his own capacity on 11 May and subsequently took recourse to an opaque process involving so-called "confessionals" in which each WTO member was asked to indicate three major issues that they could not agree with.

In what appears to be a chair-conducted negotiating process instead of allowing members to negotiate the final disciplines through a bottom-up process, the chair appears to have run into rough waters during the confessionals, as several developing countries made it known in varying degrees of emphasis that it is difficult for them to accept his text as a basis for further negotiations, said people who asked not to be identified.

Ahead of a proposed trade ministerial meeting on fisheries subsidies to be convened by the WTO Director-General Ngozi Okonjo-Iweala on 15 July, developing countries seem alarmed that the text effectively maintains the status quo in the subsidies with special carve-outs and flexibilities for distant water fishing nations, said people who are familiar with the confessionals.

The text appears to stand out starkly in favour of the big subsidizers – who had engaged all along in industrial-scale fishing and had caused overcapacity and overfishing (OC&OF) – with a special carve-out from the proposed disciplines in the OC&OF pillar.

Despite the demand from many developing and least-developed countries for eliminating this provision exempting the big subsidizers from OC&OF prohibitions, the chair enabled the exemption on the grounds of "sustainability-based flexibility", said people familiar with the development.

In sharp contrast, the developing countries, which have not caused OC&OF or overfished stocks, are being punished with extreme dilution of their special and differential treatment (SDT) under the revised draft text in all three pillars, viz., OC&OF, overfished stocks, and illegal, unreported and unregulated (IUU) fishing, said people who asked not to be quoted.

SDG mandate

During the confessionals, several developing countries appear to have told the chair that the text fails to adequately address the mandate set out in the United Nations Sustainable Development Goal (SDG) 14.6, which is also amplified in the WTO's 2017 Buenos Aires ministerial declaration, said a person familiar with the consultations.

SDG 14.6 proposes that by 2020, WTO members must "prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, and eliminate subsidies that contribute to illegal, unreported and unregulated fishing, and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the WTO fisheries subsidies negotiation."

The developing countries relayed several concerns centring on the chair's formulations for the three pillars.

In the OC&OF pillar, the concerns conveyed to the chair include that the text enables large-scale subsidizers to continue with their industrial-scale fishing fleets in high seas as per paragraph 5.1.1 of the revised draft. It effectively paves the way for preserving the status quo.

Paragraph 5.1.1 states that "a subsidy is not inconsistent with Article 5.1 [which contains all the provisions on prohibitions in the OC&OF pillar] if the subsidizing Member demonstrates that measures are implemented to maintain the stock or stocks in the relevant fishery or fisheries at a biologically sustainable level."

The developing countries are understood to have also raised serious concerns over the denial of "appropriate and effective" special and differential treatment as per SDG 14.6.

Instead, the chair has chosen to severely narrow the scope and application of SDT in all three pillars. The chair seems to have unilaterally decided a duration for SDT of two years for IUU fishing and overfished stocks, and seven years for OC&OF, without explaining how he arrived at these duration periods.

The chair's text, according to several developing countries, also contains extremely onerous notification requirements, imposing the burden of providing information that is directly related to subsidies and thereby appearing to turn the WTO into a fisheries management organization.

The text also contains several controversial proposals which have not been previously discussed/negotiated. They include Article 3.5 on port state members and Article 8 on notifications and transparency.

In contrast, the chair has not included several proposals from developing countries, particularly on SDT, as the text's SDT provisions do not seem to be based on any submitted language from any member, said people who asked not to be quoted.

Despite the WTO's Trade Negotiations Committee having decided on 4 February that "chairpersons should reflect consensus, or where this is not possible, different positions on issues," the chair's text appears to have decided the language unilaterally, people said. *(SUNS9353/9346)*

Dim prospects for outcome on farm subsidies at MC12

WTO member states remain far apart on how to deal with the contentious issue of agricultural subsidies.

by D. Ravi Kanth

WASHINGTON: Members have offered sharply divergent views and conflicting narratives on what needs to be addressed in the unfinished Doha farm trade negotiations on trade-distorting domestic support at the WTO's 12th Ministerial Conference (MC12) to be held in Geneva end-November, said people familiar with the development.

At a virtual meeting of the Doha negotiating body on agriculture on 26 May, several papers were circulated with little clarity about the way forward.

The papers included: (1) a joint proposal by the Cairns Group and the African Group on addressing domestic support; (2) Costa Rica's paper on the proportionality-based methodology on reducing domestic support; (3) Canada's proposal on "transparency issues in domestic support notifications"; and (4) a framework for negotiations on market access.

The joint proposal by the Cairns Group of agricultural exporter countries and the African Group sought to address "trade and production domestic support in agriculture", emphasizing that the "ministerial decision must be of sufficient ambition and specificity to enable meaningful reform of trade and production domestic support".

George Mina, Ambassador to the WTO for Australia, a Cairns Group member, claimed that the joint proposal signifies a common resolve for "ambitious, concrete and equitable" agriculture reform in the context of the COVID-19 pandemic.

Yet, given the opposition of many African countries to any negotiations that could undermine the "development box" in Article 6.2 of the WTO's Agreement on Agriculture and the *de minimis* subsidies, the joint paper, when it goes into the substantive elements, will get bogged down in differences, said a negotiator from an African country, who suggested that the two groups can only work towards a low-ambition outcome.

Article 6.2 of the Agreement on Agriculture states: "In accordance with the Mid-Term Review Agreement that government measures of assistance, whether direct or indirect, to encourage agricultural and rural development are an integral part of the development programmes of developing countries, investment subsidies which are generally available to agriculture in developing country Members and agricultural input subsidies generally available to low-income or resource-poor producers in developing country Members shall be exempt from domestic support reduction commitments that would otherwise be applicable to such measures, as shall domestic support to producers in developing country Members to encourage diversification from growing illicit narcotic crops. Domestic support meeting the criteria of this paragraph shall not be required to be included in a Member's calculation of its Current Total AMS [Aggregate Measurement of Support, which signifies the most trade-distorting subsidies]."

Despite the considerable hype attached to the joint paper by the Cairns Group and the African Group, the prospects for an agreeable outcome still remain distant, the African negotiator said.

While a lot of concerns have been raised about disciplining Article 6.2 and *de minimis* support [under which all developing countries are allowed less than 10% of the value of the product under consideration (specific aid) or of total agricultural production (non-specific aid) to be excluded from the current AMS], the developed countries appear to have brushed aside the call for eliminating/reducing the most trade-distorting subsidies in the Amber Box.

Also at the 26 May meeting, the G-33 developing-country coalition led by Indonesia said that members should focus only on mandated issues such as public stockholding programmes for food security and the special safeguard mechanism. The G-33 asked its counterparts not to "reinvent the wheel" or divert attention to non-mandated issues.

The United States made a brief statement underscoring the need for more analytical and research papers.

The US, which was the first to target Article 6.2 and *de minimis* support through its then ambassador to the WTO Michael Punke about six years ago, welcomed all new submissions as a good approach to grasping new trends in global trade. "Members must consider all the policy measures that are affecting markets and producers' decisions in order to have a meaningful and effective result," the US delegate said.

China pointed to what it said were several flaws in the new submissions made by the Cairns Group members such as (a) ignoring the fact that the AMS entitlement covers the most trade-distorting subsidies, (b) failure to understand the nature of the subsidies provided by developing members, and (c) ignoring the per capita subsidies provided by the developed countries.

Nigeria, which is now coordinating the African Group on agriculture-related issues, Jamaica, which is the coordinator of the African, Caribbean and Pacific (ACP) Group, and South Africa stressed that an outcome on domestic support should lead to the elimination of the AMS.

India said Article 6.2 provides policy space for developing countries, adding that while several developing countries did not use Article 6.2 subsidies before, it does not mean they will never use them.

Given the sharp divide on several issues such as Article 6.2, attempts to reduce the *de minimis* support, and failure to address the structural inequities built into the Agreement on Agriculture, the prospects for any credible outcome appear somewhat bleak, said people who asked not to be quoted.

It appears, they said, that the US and the EU do not want to agree on a permanent solution for public stockholding programmes for food security at MC12 and instead are trying hard for an outcome on transparency and compliance-related issues. *(SUNS9355)*

World trade rebounds in first quarter of 2021, says UNCTAD

The first three months of 2021 saw a recovery in international trade flows, with continued growth expected through the year, says a UN economic body, although uncertainty over trade patterns remains.

by Kanaga Raja

GENEVA: The value of global trade in goods and services grew by 4% quarter-over-quarter and by 10% year-over-year in the first quarter of 2021, the United Nations Conference on Trade and Development (UNCTAD) has said.

In its latest Global Trade Update report, released on 19 May, UNCTAD said that the rebound in trade in the first quarter (Q1) was driven by the strong export performance of the East Asian economies. According to UNCTAD, global trade is expected to further rebound in the second quarter.

Overall, for 2021, global trade is projected to grow by 16%, but the outlook remains uncertain, it said.

According to UNCTAD, amid economic disruptions from COVID-19, on the whole, global trade held up relatively well in 2020. Much of the trade resilience was due to East Asian economies, whose early success in pandemic mitigation allowed them to rebound faster and to capitalize on booming global demand for COVID-19-related products.

The positive trends from the last few months of 2020 grew stronger in early 2021, UNCTAD said. In Q1 2021, the value of global trade in goods and services grew by about 4% quarter-over-quarter and by about 10% year-over-year. Importantly, global trade in Q1 2021 was higher than pre-crisis levels, with an increase of about 3% relative to Q1 2019. The trade rebound of Q1 2021 continues to be driven by the strong export performance of East Asian economies.

In Q1 2021, said UNCTAD, the value of trade in goods was higher than pre-pandemic levels, but trade in services remained substantially below averages. Furthermore, during Q1 2021, global trade in COVID-19-related products remained strong.

Looking forward, UNCTAD said that trade is expected to continue growing into 2021. "Trade growth is expected to remain stronger for East Asia and developed countries, while still lagging for many other countries."

The value of global trade in goods and services is forecast to reach $6.6 trillion in Q2 2021, equivalent to a year-over-year increase of about 31% relative to the lowest point of 2020 and of about 3% relative to the pre-pandemic levels of 2019, said UNCTAD.

Trade growth is expected to remain strong in the second half of 2021, it added. The overall forecast for 2021 indicates an increase of about 16% from the lowest point of 2020 (19% for goods and 8% for services).

The positive outlook for 2021, said UNCTAD, remains largely dependent on subsiding COVID-19 pandemic restrictions. "Nevertheless, the fiscal stimulus packages, particularly in developed countries, are expected to strongly support the global trade recovery throughout 2021," it said. "The value of global trade should also rise due to positive trends across commodity prices. Still, there is uncertainty about how trade patterns will be shaped throughout this period."

Factors affecting trade

The UNCTAD report drew attention to several important factors that will characterize global trade during 2021: uneven economic recovery; re-shoring and near-shoring trends; government interventions and policies affecting international trade; macroeconomic instability brought by higher levels of debt; and lasting changes in consumer spending.

Some economies are poised to rebound stronger and faster than others, with the economies of China and the United States in particular expected to be the main drivers of global growth during 2021. "This should also have positive effects on countries whose trade is relatively more integrated with them (e.g. East Asian countries, Canada and Mexico)."

On the other hand, UNCTAD said, COVID-19 is expected to continue disrupting the economies and trade of many developing countries, at least throughout 2021.

The report noted that the pandemic has introduced a substantial uncertainty into the operations of many global value chains, providing incentives to scale down segmentation and shift production closer to consumers.

It said the continued development and implementation of regional trade agreements (e.g., Regional Comprehensive Economic Partnership and African Continental Free Trade Area) and the ongoing trade tensions between the major economies could also contribute to changes in production patterns of global value chains. "Moreover, enduring container shortages and increasing freight rates could provide further impetus for re-shoring and near-shoring trends."

According to UNCTAD, governments are expected to use a wide range of policies as part of their post-pandemic recovery plans. Considering the ongoing diplomatic frictions among some of the major economies and the current difficulties within the multilateral trading system, there is the risk that some of these policies may be trade-restrictive.

The UNCTAD report said that efforts towards a more socially and environmentally sustainable recovery process could also affect the established patterns of global trade. For example, policies aimed at tackling carbon leakages through price adjustments for imports are deemed to have an effect on international trade flows.

UNCTAD also pointed out that the additional borrowing of governments to sustain their economies during the COVID-19 crisis could result in financial instability. "Even without a full-fledged global debt crisis, rising debt and obligations on its servicing could bring instability." Any rise in interest rates would put pressure on both national and private borrowing, with negative repercussions on investments and international trade flows, especially for developing countries whose fiscal policy space is more limited.

UNCTAD further noted that consumer behaviour has substantially changed during COVID-19. It said that demand increased in some sectors (e.g., healthcare products, digital services, communication and home office equipment) and declined in some others (e.g., transportation equipment, international travel and hospitality services). "Some of these changes may be enduring, [and] if so, they will be influencing the demand for foreign goods and services," it said.

Trade trends in Q1 2021

According to the UNCTAD report, with a few exceptions, trade in major economies recovered from the fall of 2020. However, the large increases are due to the low base for 2020 and trade in many of the major economies was still below 2019 averages. The trend of a stronger recovery for goods relative to services is common to all major economies, UNCTAD noted.

China, India, and South Africa have fared relatively better than other major economies during Q1 2021. "China's exports, in particular, registered a strong increase not only from 2020 averages but also in relation to pre-pandemic levels." On the other hand, exports from the Russian Federation remained well below 2019 averages.

Overall, trade continues to rebound more strongly for developing countries relative to developed countries, said UNCTAD. In Q1 2021, the value of merchandise imports and exports of developing countries was substantially higher compared with Q1 2020 and also with Q1 2019 (by about 16%). However, the trade recovery for developing countries becomes much more muted when East Asian economies are excluded, and disappears when only exports are considered.

The importance of East Asian economies in explaining the recovery in the trade of developing countries is even more marked when considering trade among developing countries (South-South trade), said UNCTAD. When excluding trade of East Asian developing economies, South-South trade slightly declined in Q1 2021.

The UNCTAD report pointed to varying trade patterns across geographic regions in Q1 2021. It said that while imports grew for all the regions, the export rebound was largely confined to East Asian and Pacific economies. The value of exports remained below averages for the Economies in Transition, the Middle East, South Asia and Africa. Although South America's exports increased relative to Q1 2020, they remained below 2019 averages.

UNCTAD also said that during Q1 2021, trade continued to rebound not only in sectors related to COVID-19 (e.g., pharmaceuticals, communication and office equipment) but also increased for most other sectors, such as minerals and agri-food. In contrast, the energy sector continues to lag behind and international trade in transport equipment remains well below averages, it added. *(SUNS9349)*

Impact of COVID-19 far more damaging to SIDS, says UNCTAD

The economies of small island developing states, which are highly dependent on maritime transport, have been adversely affected by disruptions in shipping connections due to the coronavirus pandemic, according to UNCTAD.

by Kanaga Raja

GENEVA: While the COVID-19 pandemic may have had less noticeable impacts on small island developing states (SIDS), their impacts may be longer-lasting and more critical, according to the United Nations Conference on Trade and Development (UNCTAD).

In its latest Policy Brief (No. 85), released on 3 May, UNCTAD said that the pandemic has exacerbated the unique and overwhelming challenges in the SIDS related to connectivity; a high level of dependence on external trade; remoteness and prohibitive transport costs; food security; infrastructure gaps; resilience; sustainability; and access to finance.

As maritime transport is the lifeline of SIDS, supporting economic performance, trade and productive sectors, such as tourism and fisheries, related impacts in these states are expected to be wider and potentially far more damaging than in other states, in particular as multiple crises or shocks could occur at the same time, it added.

"Many States could experience associated impacts from the pandemic for years to come if appropriate action is not taken to support and sustain them," said UNCTAD.

According to the Policy Brief, the position of a country in liner shipping networks has far-reaching implications for trade. For example, the lack of a direct maritime connection is associated with an estimated drop in export value of between 42% and 55%.

According to UNCTAD, SIDS are marginalized in international liner shipping networks, with low liner shipping connectivity levels. Among the 50 least connected economies globally, 37 are SIDS, with only Bahamas, Jamaica and Mauritius having grown as hubs. "Most SIDS have been facing low connectivity for more than a decade, although the world average has improved during this period," said UNCTAD.

During the pandemic, SIDS have been particularly affected by reductions in deployed ship carrying capacity and in the number of direct calls. "In these States, one missed ship call might have critical impacts on economies and local communities, as they depend heavily on maritime transport for much of their imports, including for the provision of essential goods."

It is crucial that the liner shipping connectivity of SIDS, which is already relatively low, should not be further reduced, said UNCTAD.

As for port calls, UNCTAD noted that the impact of COVID-19 on SIDS has increased since week 11 of 2020, that is, at the same time as the declaration of a pandemic by the World Health Organization.

In the first quarter of 2020, the decline had been limited to a rate of 1.7%, but in the second quarter, the number of ship calls decreased rapidly, with an intensified impact between week 21 and week 24. As a result, SIDS were among the countries affected the most in the second quarter, recording a drop of 20% in the number of port calls compared with the second quarter of 2019, said UNCTAD.

It added that a disruption of the type and scale of the COVID-19 pandemic does not bode well for SIDS that are already marginalized in the main shipping networks.

UNCTAD said that many of these states have introduced pandemic-related measures that also affect ship arrivals including, on occasion, the closure of ports, inter-island transport restrictions, and varying periods of quarantine and access permitted based on a ship's port of departure and length of time at sea.

According to the Policy Brief, the strategy of shipping lines in adjusting supply capacity to lower levels of demand resulted in temporary suspensions or blank sailings. However, when connectivity is already low, the diversion of ships or cancellation of services, as observed during the pandemic, can be a major cause of concern given the related implications for SIDS. "These States are heavily dependent on imports, which are almost exclusively carried on board ships, in order to meet almost all of their consumption needs, including of pharmaceuticals and medical equipment required to mitigate the pandemic."

For example, UNCTAD said, in the first half of 2020, several SIDS in the Pacific region experienced shortages of foodstuffs and fresh food, such as certain islands in Kiribati, which experienced shortages of foodstuffs due to interrupted shipping services.

In addition to disruptions in supply chains, shipping surcharges by carriers led to an increase in freight rates for SIDS.

To counter this, UNCTAD said, several states in the Pacific increased self-sufficiency with regard to food and the use of barter systems, highlighting the importance of promoting domestic and regional trade and developing domestic inter-regional shipping connections to facilitate trade and build resilience.

Sustainable shipping

Because of their geographical, topographical and climate-related features, SIDS are inherently vulnerable to multiple shocks that sometimes occur simultaneously, UNCTAD added. The pandemic has led to a new setback for SIDS in the Pacific that were already experiencing climate-change-related and extreme weather events, such as severe tropical Cyclone Harold in April 2020, which caused widespread destruction and loss of life in Fiji, Solomon Islands, Tonga and Vanuatu.

The Policy Brief cited the Permanent Representative of Barbados to the United Nations Office and other international organizations in Geneva as stating, at the launch of UNCTAD's *Review of Maritime Transport 2020* report, that: "In the Caribbean, over the past three to four years, [many countries have experienced] category 4 and category 5 hurricanes. In a situation like that, where most of our food is [imported], when there is a set of hurricanes or even one hurricane, there is a pause or a stop in the transport of critical food to our economies as a result of the disruption caused by the hurricanes. Therefore, you see the very real impact of climate change relative to the transport sector."

According to UNCTAD, promoting sustainable shipping that enables access to reliable and cost-effective maritime transport is a key priority in many SIDS. It said building the sustainability of maritime transport networks that service these states will help to address some of the challenges faced in these economies, including a high level of dependency on fossil fuel imports, given national budgets that may already be constrained, as well as heightened environmental and climate-change-related vulnerabilities.

UNCTAD noted that several SIDS have embarked on ambitious national and regional sustainability strategies to develop low-carbon coastal maritime transportation systems. For example, the Pacific Blue Shipping Partnership is a country-driven initiative for large-scale blended finance investments to catalyze a multi-country transition to sustainable, resilient and low-carbon shipping, it said. "SIDS are also actively participating in ongoing deliberations at the International Maritime Organization on the reduction of total annual greenhouse gas emissions in shipping, to contribute their perspectives and help to shape the future regulatory regime."

However, SIDS have limited resources to improve and adequately develop the necessary sustainable and resilient infrastructure and shipping services, UNCTAD cautioned. "The potentially severe economic impacts of the pandemic could further undermine the ability to finance the sector," it said, underlining that coordinated policy action, including at the global level, is required to support SIDS in this regard.

In addition, increasing environmental concerns have an impact on SIDS as suppliers of maritime transport services. Several states, such as Antigua and Barbuda, Bahamas and the Marshall Islands, are among the top 25 leading flags of registration. Certification schemes and rankings to compare flag-state performance demonstrate the increased importance of environmental considerations in the competitiveness and trustworthiness of ship registries, said UNCTAD. "In this changing competitive context, flag States are increasingly expected to accomplish due diligence with regard to environmental compliance and enforcement."

They could play an increasingly important role in the future governance of shipping decarbonization, validating whether a ship is in compliance with rules under the International Maritime Organization, said UNCTAD.

"Building capacity in SIDS to effectively monitor and enforce compliance with standards and regulations and their implementation is key," it added.

Policy implications

According to the Policy Brief, resilience can be defined as the ability to recover from setbacks, adapt well to change and keep going in the face of adversity. From this perspective, building a stronger maritime sector that can absorb shocks in future and enable SIDS and their economies to recover, thrive and grow requires stronger international and inter-organizational dialogue, cooperation and support, as well as addressing important financial, technological and capacity-related gaps, said UNCTAD.

It added that when disruptions occur, it is important to ensure that the liner shipping connectivity of SIDS is not further undermined.

According to the Policy Brief, policymakers can help improve the situation by:

- Promoting sustainable domestic and inter-regional shipping solutions capitalizing on small-scale inter-island regional trade opportunities.
- Ensuring linkages between domestic, regional and international networks.
- Organizing the transport service market through equipment and information-sharing, freight-pooling and transnational cooperation among transport service providers.
- Streamlining, simplifying and digitalizing trade and cargo-related processes to help reduce the cost of regional and international transport and trade and enable trade continuity in a safer manner.
- Adopting and investing in supportive technology across ports, transit systems and customs administrations.

The inherent vulnerabilities in SIDS put them at the forefront of shocks and disruptions, including from pandemics and climate change, said UNCTAD. "Enhancing their preparedness and risk assessment, mitigation and adaptation capabilities with regard to pandemics and climate change-related impacts and other shocks is key for resilience and recovery."

UNCTAD said that SIDS are also custodians of large marine spaces, adding that development in such states is therefore inseparable from the sustainable use and management of marine resources. "Promoting sustainable maritime transport patterns enables diversification towards economic activities that will have less of an impact on ecosystems and reduce the heavy reliance on fossil fuels, while sustaining livelihoods and stimulating job creation."

According to the Policy Brief, this entails policies to:

- Accelerate adequate support for sustainable and climate-proof transport infrastructure and the decarbonization of shipping.
- Build capacities to promote efficient and sustainable shipping services and strategies.
- Enhance data collection capabilities, including in connection with reporting on the fuel oil consumption of ships registered under the flags of SIDS and leveraging automatic identification systems.
- Accelerate the uptake of clean technology and mitigate the risks associated with technology transitions.

According to UNCTAD, a transition to resilient and sustainable maritime transport in SIDS requires substantial investment. For example, the transition to sustainable, resilient and decarbonized maritime transport in states in the Pacific requires at least $500 million, it said. *(SUNS9352)*

Third World ECONOMICS No. 723, 16-31 May 2021

To beat COVID, beat HIV and beat inequality, find the money

Winnie Byanyima underlines the urgency of raising sufficient funds to finance recovery from the COVID-19 crisis and rebuild a fairer world in its wake.

In this time of intersecting crises – the COVID crisis, the HIV crisis, the inequality crisis and more – progress on all these crises is being blocked by another crisis: finance.

Right now, most of the world's countries are facing brutal financial constraints, during a raging pandemic and during the biggest crisis since World War II. The majority of countries look set to slash investment in essential public services. Such austerity would be literally fatal.

As world leaders exchange proposals for joint financial action for recovery in the buildup to the series of G7 and G20 meetings fast approaching, they need to break free from the discredited and damaging financing model that is choking social and economic recovery.

It's important to acknowledge, of course, the vital initial steps towards recovery that world leaders, including the G20 finance ministers, and the IMF council, have taken, including at the recent Spring Meetings of the World Bank and IMF. But the scale of the financial measures taken is dwarfed by the scale of need.

Put simply, if leaders do not go much further, fast, to find and allocate the finances required, the effects will include the return of levels of deprivation that we had thought we had defeated, and spiralling social and political catastrophe.

To be clear, this is not a counsel of despair, but a call to leaders to make a wiser choice, and to the public to press them to do so. The really good news is this: if the will is there, we can find the money.

On debt, leaders have agreed to extend the Debt Suspension Initiative; but they have done so only until the end of this year, and private creditors have again been merely invited to collaborate. As a result, repayments over $30 billion are set to flow from the poorest nations to banks, investment funds, governments and multilateral banks in 2021. Only the IMF among those has announced debt relief to 28 countries.

Cancelling debt repayments of the poorest nations is essential, and vulnerable middle-income countries need approaches that allow for cancellation too. No debt service payments should be made or asked for until the investments necessary for achieving the UN Sustainable Development Goal on health are secured.

Indebted poor countries must not be pushed into new debts to pay for vaccine imports, but should rather be allowed to produce their own at much lower cost.

The very welcome statements from key leaders on a patent waiver need to be turned into a formal decision urgently, reinforced by technology sharing by companies through the World Health Organization.

On aid by traditional donors, OECD figures report a small increase overall of barely $10 billion, a drop in the ocean compared with the $17 trillion that rich countries have used to support themselves. No agreement has been reached on expanding official development assistance (ODA) now when it is most needed. All developed countries should honour the pledge of allocating at least 0.7% of their gross national income as ODA. A pandemic is the most damaging time to back away. Emerging countries with a strong financial capacity must step up too with their own upgraded contributions.

On Special Drawing Rights (SDRs), the IMF currency, a historical issuance of the equivalent of $650 billion has been reached. But only 3.3% of those resources, $22 billion, are set to flow to Sub-Saharan Africa, the region most in need. Indeed, the amounts that low-income countries are set to receive through the SDR issuance are smaller than the un-suspended external debt repayments scheduled for 2021.

There is an active discussion about rich countries reallocating perhaps 10% or so of their own share of SDRs. But a strong case has been made that rich countries should reallocate the majority of their own SDRs to low- and low-middle-income countries.

That would indeed represent the largest ever financing-for-development operation, but that scale of action is what our current scale of crisis requires.

Of course, what countries most need is to grow their own domestic resourcing. Right now, we lose a nurse's yearly salary to tax havens every second. World leaders' dialogue on tax evasion has been rightly acknowledged as historic, with proposals to establish a minimum global corporate tax, something that would enable billions in public investment across countries, seriously reducing extreme inequality. An agreement will be under discussion soon at the G20 and with the OECD. Leaders need urgently to move from discussion to agreement and action.

We need a compact that includes taxation on excess profits, wealth and negative climate impacts, invested to fund the scrapping of user fees and the expansion of health and education so that they are finally experienced as universal rights.

Global pandemic preparedness, stability and prosperity all require us to fight inequality.

Gordon Brown's proposal for G7 countries to immediately share the burden of the $60 billion needed in funding for vaccines and vital medical supplies, diagnostics and medical oxygen is both essential and achievable – now. It would kickstart recovery for every country and could help set the world on a pathway to a new approach to global financing.

Now is the moment to consign to the dustbin old, worn-out ideas that we can't afford to overcome our crises. The reality is that we can't afford not to.

The COVID-19 crisis has seen a transfer of wealth from workers to billionaires of almost $4 trillion. This moment could, like other crises before, become a moment for rebuilding a fairer world – but only if we seize it.

Achieving a more equal world is essential for our health. The financing solutions are there. The principal challenge is not technical, it is courage. *(IPS)*

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Third World ECONOMICS No. 723, 16-31 May 2021

Pandemic relief policies need more resources, better design

Lack of funds and poor policy design are hampering prospects of recovery from the COVID-19 crisis in developing countries.

by Anis Chowdhury and Jomo Kwame Sundaram

Pandemic relief measures in developing countries have been limited by modest resources, fear of financial market discipline and policy mimicry.

COVID-19 has triggered not only an international public health emergency, but also a global economic crisis, setting back decades of uneven progress, especially in developing countries.

The pandemic's economic and social impacts weigh more heavily on low- and middle-income countries (LMICs). The World Bank estimated that the pandemic pushed 119 to 124 million more people into extreme poverty in 2020. The Bank also reported disproportionately larger business impacts in terms of closures, drops in sales, greater corporate debt and financial fragility. Meanwhile, households in poorer countries saw greater food insecurity as well as income and educational losses.

It also found public debt surging in many developing economies as a rising number of LMICs had greater difficulties servicing official debt. Facing sharp falls in tourism and export earnings, access to foreign credit for many has deteriorated.

LMICs must address various urgent needs and other short-term problems. They need to finance emergency contagion containment and relief measures for those most adversely hit by the pandemic. These would minimally include the costs of diagnostic testing, personal protective equipment for "frontline" personnel, medical treatments for those infected, and urgent vaccination to mitigate further infections.

Liquidity support – e.g., low-interest loans and wage subsidies – can also be vital for the survival of businesses and workers. But in most countries, such credit facilities have mainly benefited more influential larger enterprises.

COVID-19 recessions different

Policy and fiscal space as well as policy design are key elements influencing implementation of economic measures to cope with COVID-19 recessions. These require understanding the specific nature of recessions and options available, as distinct from simply following what others have done or recommend.

What makes the pandemic economic shocks different?

First, SARS-CoV-2 is a highly contagious aerosol-borne virus with variants and mutations rapidly evolving, with mixed, uneven, even deadly effects. COVID-19 has affected most countries, albeit with varying and unequal economic consequences.

Second, both supply and demand shocks have had mainly negative effects. The pandemic directly affected the ability to work, earn and spend. Containment measures have also hit production, supplies and incomes. In turn, these have lowered demand, spending and incentives for firms to invest.

Third, the shocks have worsened existing disparities and other inequalities. Fourth, they especially hurt LMICs, which typically lack fiscal resources and relevant governance capacities to better cope with the pandemic.

Misreading the COVID-19 shocks and expecting brief V-shaped recessions, some novel fiscal and monetary measures were hastily introduced to assist businesses and workers. These typically emulated measures in developed economies including temporary tax relief, low-interest loans, cash transfers and wage subsidies.

Many high- and upper-middle-income governments have served as "payers-of-last-resort", helping "suspended" businesses to continue paying their involuntarily idle employees instead of firing them.

Large firms have also been able to get governments to help settle some of their unavoidable bills to cover their overheads and maintenance costs – such as rent, utility and other payments – during "stay in shelter" lockdowns.

Such "payer-of-last-resort" programmes have successfully complemented effective contagion containment measures, enabling early resumption of economic activity. While high, such costs can remain manageable if governments can secure sufficient fiscal resources and space.

Policy blind spots

There has not been enough consideration of country-specific circumstances or social, economic, cultural and institutional circumstances.

Thus, large informal sectors, crowded slums and limited social protection in developing countries have been largely overlooked or, worse, ignored.

Unsurprisingly, most financing disbursed via various official channels has not reached most in the informal sector. These resources have not provided much relief to small and micro-enterprises, let alone the self-employed. However, much of what was offered to large firms was not used due to uncertainty and reduced domestic spending options.

Meanwhile, significant resources have "leaked out" of many developing countries, including via corruption as well as tax and other incentives for foreign investors.

Such failures in policy responses and poor design have greatly impaired prospects for quick and equitable COVID-19 containment and recovery. They have also exacerbated various inequalities within and among countries.

The International Monetary Fund (IMF) projects divergent so-called K-shaped recoveries, leaving many LMICs and the vast majorities in most societies further behind.

With ongoing vaccine apartheid and nationalism, early hopes of quickly addressing the crises in LMICs have faded. Vaccinations in these countries have been much delayed, while donor countries such as the UK have significantly cut aid. Thus, economic crises in LMICs are far from over, delaying recovery with often disastrous consequences.

IMF Managing Director Kristalina Georgieva has even warned that uneven global recovery would "ricochet" as "poorer countries are faced with the risk of interest rates increasing while their economies aren't growing, and may find themselves ‘really strangled' to service debt, especially if it's dollar-denominated".

Appropriate relief measures

All governments must try their best to prevent protracted recessions becoming extended depressions. Relatedly, policymakers need to ensure that temporary short-term liquidity problems do not become full-blown solvency crises.

Measures are needed to change contracts and other obligations to enable firms to better cope with involuntary suspension of business operations. Much more is needed to address specific challenges facing small family businesses.

Income maintenance policies can help those losing some, if not all their incomes. Often unable to earn their livelihoods from home, lowly paid and casual workers are more likely to be displaced by lockdowns. Typically, they have much less in savings to ride out temporary earnings losses.

Social protection has been poorly, if at all, institutionalized in most developing countries. Instead, temporary "social safety nets" in response to crises have been recommended and deemed adequate by influential foreign agencies.

Such "one-off" relief measures, typically involving targeting, usually miss many of the deserving as they strive, often at great cost, to prevent opportunistic "undeserving free-riders" abusing such chances to secure benefits.

Appropriate design and efficient implementation of adequate relief measures are also vital for enabling robust and equitable recovery. These can be crucial to the survival of businesses – especially micro and small ones – and vulnerable people. The absence of sufficient relief measures can strengthen vicious circles of business failures and job and income losses.

Declining aid inflows, more capital flight and inadequate relief for high government debt even before the pandemic have prevented most developing countries from deploying the bolder measures needed. Facing financing constraints, many low-income countries have even cut spending!

Fearing punitive market responses and longer-term problems, many developing-country governments have been reluctant to borrow more. The urgent challenge now, however, is to enable them to wisely and equitably spend more. *(IPS)*

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