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Difficult road to MC12 for developing countries

In the face of developed-country opposition, developing countries face the challenging task of trying to steer discussions at the WTO towards a successful outcome on issues of interest to them at the trade body's forthcoming 12th Ministerial Conference (MC12).

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Latin American and Caribbean economies need to boost their resilience amid commodity price hike

Privatized health services worsen pandemic

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ECONOMICS
Trends & Analysis

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South faces moment of truth on development issues in run-up to MC12

Unless they forge a common front around issues of interest to them, developing countries could see these subjects sidelined from the WTO agenda leading up to the organization's 12th Ministerial Conference this November.

by D. Ravi Kanth

GENEVA: The developing countries and least-developed countries (LDCs) could face a moment of truth at the World Trade Organization when their representatives return from their summer recess at the beginning of September.

Due to fierce opposition from a handful of developed countries and some developing countries, a successful outcome on the developmental issues raised by many developing and least-developed countries over the past four years seems unlikely at the WTO's 12th Ministerial Conference (MC12), which is scheduled to begin on 28 November in Geneva, said people familiar with the developments.

The developing and least-developed countries have consistently raised around 10 developmental issues in the run-up to MC12:

1) a temporary TRIPS waiver to combat the COVID-19 pandemic;
2) a permanent solution for public stockholding programmes for food security purposes in developing countries;
3) the multilateral work programme on electronic commerce;
4) the WTO's response to the COVID-19 pandemic;
5) trade-related challenges of the LDCs;
6) core developmental concerns in the proposed fisheries subsidies agreement;
7) the G90's 10 agreement-specific proposals for making special and differential treatment (S&DT) simple and effective;
(8) the legal status of the plurilateral Joint Statement Initiatives (JSIs);
(9) strengthening the multilateral character of the WTO; and
10) the developmental and inclusive agenda on reforming the WTO.

Major developed countries such as the United States, the European Union, Japan, Canada (which coordinates the Ottawa Group of some 13 countries), Australia, Norway and Switzerland seem to be coalescing around their own issues that risk turning the multilateral trading system, particularly the WTO, into an "us and them" plurilateral organization.

Unless many developing and least-developed countries forge a common front on their issues and thwart the continued attempts by the industrialized countries to divide them, there is little likelihood of any progress on the 10 developmental issues above, said people familiar with the developments.

The "us and them" divide on the 10 issues was starkly witnessed at the WTO General Council (GC) meeting on 27-28 July before the summer break. Among others, one outstanding issue that has been on the table for more than 20 years, namely, the 1998 multilateral work programme on e-commerce, faced a frosty response at the GC from the so-called "us" group led by the EU, Canada, Australia and the US.

E-commerce work programme

During the GC meeting, India and South Africa underscored the need to review the current moratorium on imposing customs duties on electronic transmissions on account of several developments that have taken place over the past 22 years.

India said that while digital infrastructure plays a significant role during the ongoing COVID-19 pandemic, there is also a widening digital

divide among countries. Further, the WTO members are yet to comprehend the implications of e-commerce on "competition and market structures; issues related to transfer of technology; data storage; automation and its impact on traditional jobs; and gaps in e-commerce policy and regulatory frameworks in developing countries, including LDCs".

India said it is time to review the 1998 decision to have the moratorium on customs duties on e-commerce, as the decision was taken without consensus on the scope of the moratorium and without any understanding of the unfolding digital revolution.

Since then, the moratorium has been extended on the commitment that the 1998 work programme on e-commerce "will be reinvigorated, to achieve clarity on various issues, including the scope of the moratorium and its impact on members' policy space and revenues," India said. However, there has been little progress in the discussions on the work programme.

India said that during the coming few months before MC12, members need to engage constructively on various issues under the work programme.

It is important to have "a clear understanding on the scope of the moratorium, to enable us to make an informed decision on extension or otherwise of the moratorium in the upcoming Ministerial Conference," India stated.

A reconsideration of the moratorium is critical for developing countries to preserve their "policy space to regulate imports, generate revenue through a simple and direct instrument such as customs duties and achieve digital industrialization," India said.

It called on the proponents of the moratorium to provide specific evidence of benefits, including with regard to development of the digital economy.

India said the developing countries and LDCs are bearing the brunt of the impact of the moratorium by "extending duty-free, quota-free market access, largely for the developed countries. We, therefore, need further discussions on this issue."

India also called for maintaining the e-commerce work programme as a standing item on the agenda of the GC meetings before MC12. It said it is important to reinvigorate work on the work programme in all the four related WTO bodies – the Council for Trade in Goods, the Council for Trade in Services, the Committee on Trade and Development, and the TRIPS Council.

South Africa emphasized the need for structured discussions in the GC on: (1) developmental aspects of e-commerce; (2) scope, definition and impact of the moratorium on customs duties on electronic transmissions; (3) examination of the challenges experienced by developing countries and LDCs in relation to e-commerce; and (4) exploring ways of enhancing the participation of developing countries in e-commerce.

India said the developing countries and LDCs are bearing the brunt of the impact of the moratorium by "extending duty-free, quota-free market access, largely for the developed countries."

It said that the pandemic has highlighted the enormous gap in access to digital technologies, laying bare the problems of the digital divide both between and within countries. Emphasizing the critical role played by technology in achieving the United Nations Sustainable Development Goals (SDGs), it argued that to harness its potential, rapid action is needed to close the digital divide and promote inclusion.

Therefore, the issues raised in the e-commerce work programme remain critical to achieve this objective, South Africa said. It underscored that only through a truly multilateral process can issues identified by members under the work programme, such as classification, definition and scope, be clarified to enable a common understanding on e-commerce.

It is regrettable, said South Africa, to see lack of commitment to the developmental aspects of the WTO-mandated work, and "we are concerned that this is increasingly contributing to lack of progress in the WTO."

It cautioned against attempts to expand the definition of electronic transmissions, which will have significant revenue and industrialization implications for developing countries.

A UN Conference on Trade and Development (UNCTAD) paper (UNCTAD Research Paper No. 47, June 2020) estimated that total imports of services via Mode 1 amounted to $705 billion in 2017 while total imports of digitizable products were around $80 billion. The paper also estimated the potential losses from the moratorium to be up to $10 billion per annum for developing countries and $289 million for advanced economies. These forgone revenues to developing countries are set to exponentially increase with the increasing digitization of goods, including advances in 3D printing technologies.

At the GC meeting, South Africa alluded to the narrative being advanced by the developed countries that such revenue losses can be evened out by internal taxes or compensated for by dynamic gains. This narrative, it said, ignores the principal purpose of customs duties as an industrial policy tool that can and indeed should also be deployed to foster the development of local digital economies.

The WTO's e-commerce work programme is designed to adopt a comprehensive and holistic approach to e-commerce to ensure equitable benefits for all, South Africa said, arguing that the reinvigoration of the work programme is critical to securing the development dimension of the longstanding area of work in the multilateral framework of the WTO, including digital industrialization and the need to address the digital divide.

The African Group of countries, the African, Caribbean and Pacific (ACP) Group, and many other countries strongly supported the call for reinvigorating the work programme in order to have a clear idea about the impact of the moratorium.

In contrast, the US, the EU, Australia,

Singapore and other members of the plurilateral JSI on digital trade opposed any change in the current moratorium.

The US apparently said that it wants a permanent moratorium on customs duties on electronic transmissions while opposing the retention of the 1998 work programme as a standing item on the GC agenda, according to people present at the GC meeting.

The EU said that the moratorium "provides the predictability and security that our consumers and businesses – in both developed and developing countries – need when engaging or planning to engage in e-commerce." It maintained that several studies "provided solid new evidence on the positive economic implications of the moratorium", without however citing these studies.

The EU said that while members had decided to extend the moratorium until MC12, it hopes that they "will be in a position to consider a longer-term – if not permanent – extension at the next Ministerial Conference."

In short, the developed countries seem determined to stymie any progress on the issues of scope and definition of electronic transmissions as well as addressing the revenue implications of the moratorium, said people who preferred anonymity.

According to analysts, the developing countries need to advance their digital industrialization in the face of the digital divide that is contributing to growing inequalities, particularly during the COVID-19 pandemic. Digital monopolies such as Google, Amazon, Facebook, Apple and Microsoft, which have made billions in profits during the pandemic but paid little tax, must be subjected to customs duties to level the playing field with the exporters of physical goods, said the analysts.

In conclusion, it appears clear that unless there is unity of purpose among many developing countries and LDCs in the next three months leading to MC12, these countries could face the prospect of having their interests being squashed permanently, said analysts who asked not to be quoted. *(SUNS9407)*

TWN Environment & Development Series No. 21

"Nature-based Solutions" and the Biodiversity and Climate Crises

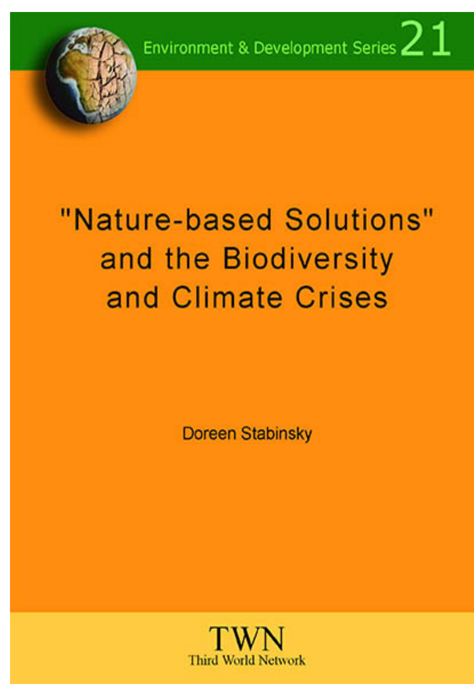
By Doreen Stabinsky

"Nature-based solutions" (NbS) have been defined as "actions to protect, sustainably manage and restore natural or modified ecosystems that address societal challenges...". The societal challenge to which NbS are most commonly applied at present is the mitigation of climate change.

In this context, emissions of the greenhouse gases that cause global warming, such as carbon dioxide, are sought to be offset by safeguarding forest, soil and other ecosystems which can remove and store atmospheric carbon. While this approach has attracted corporate interest and spawned a huge market for carbon offset credits, the mitigation potential of nature is limited. To effectively counter climate change, there is thus no avoiding the need to reduce emissions to as close to zero as possible.

Despite their shortcomings, carbon markets and the NbS model have also been held out as a means of financing conservation of biological diversity. Appropriating forests and lands to serve such NbS strategies, however, threatens to dispossess the indigenous peoples and local communities who are the true stewards of the planet's biodiversity.

In light of the dangers and drawbacks of turning to "nature-based solutions", this paper poses the question: Whose nature is being asked to solve which problems?



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Third World ECONOMICS No. 730, 1-15 September 2021

LAC economies need to boost their resilience amid commodity price hike

While the recent rise in commodity prices may benefit commodity-exporting countries in Latin America and the Caribbean, it also highlights the importance of enhancing these economies' resilience in the face of future price swings, says a UN development agency.

by Kanaga Raja

GENEVA: The recent commodity price hikes and the high level of uncertainty regarding future commodity market developments underscore the need to boost the resilience of economies in Latin America and the Caribbean (LAC) to the impacts of future shocks, such as commodity price fluctuations and capital flow volatility.

This is one of the main conclusions highlighted by the UN Conference on Trade and Development (UNCTAD) in a new study titled "The Recent Commodity Price Surge: A Boon for Latin America and the Caribbean?".

According to the study, commodity prices as a group have increased from the start of the COVID-19 pandemic in December 2019, and especially with respect to the floors attained by several individual commodities in the first half of 2020. However, there has been a wide heterogeneity across groups and especially individual products.

It said that while many different supply and demand factors are behind the recent commodity price increases, the roles of two key drivers are worth highlighting. First, the recovery in world economic activity as countries advanced in their vaccination efforts and subsequently removed a number of movement restrictions. Second, the improvement in investor and consumer expectations also contributed to commodity price increases, in particular for energy, and mineral and metal commodities.

The different degrees of commodity dependence across the LAC region indicate that the impacts of commodity price increases on trade and GDP growth in the commodity-dependent developing countries (CDDCs) of the region will also be heterogeneous, said the study. This is compounded by differences in terms of public indebtedness, domestic policy environments and other socio-political-economic factors impacting on macroeconomic variables.

"Also, for countries in the LAC region that import substantial amounts of basic commodities such as food and fuels, persistently high commodity price levels could cause additional issues such as cost pressures on prices and a rise in poverty and food insecurity."

The study said that volatility is likely to remain a challenge for CDDCs in the LAC region. It noted that commodity price swings are accompanied by movements of key macroeconomic indicators such as GDP growth, trade balances, debt positions and exchange rates. Also, LAC countries that import key commodities such as food and energy are prone to shocks and volatility transmitted via global commodity markets.

"Unquestionably, the near-term priority for LAC countries is to rebuild their economies after the shock of the COVID-19 pandemic," said UNCTAD. In this context, it said high commodity prices, if they are persistent, may provide a welcome boost for commodity exporters in the region. However, the study pointed out, the recent commodity price hikes and the high level of uncertainty regarding future commodity market developments are a reminder that, over the medium and longer term, it is also important to strengthen domestic institutions and policy frameworks (including fiscal, monetary, macro-prudential and social policies and their associated institutions) with a view to increasing the resilience of LAC economies to the impacts of future exogenous shocks, such as commodity price fluctuations, capital flow volatility and others.

Commodity price movements

The study noted that in recent months, commodity prices across the board have increased significantly. This is an important development for the LAC countries since commodity sectors play a vital role for many economies in the region, it said.

According to UNCTAD, a country is export commodity-dependent when commodities account for 60% or more of its total merchandise export revenue. Under this criterion, all countries in South America as well as Jamaica and Belize can be classified as commodity-dependent developing countries.

This means that 14 out of 33 countries (42%) in the LAC region are commodity-dependent. Additionally, seven countries in the region do not meet the 60% threshold but have a commodity share of 50-60% so that the commodity sectors play a major role in their economies.

For the 14 CDDCs in the LAC region, said UNCTAD, the average (median) share of the leading commodity group in total merchandise exports was 27.0% (24.2%) in the period 2015-19.

The 14 LAC CDDCs cited by the study are Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Jamaica, Paraguay, Peru, Suriname, Uruguay and Venezuela.

Highlighting the impact of the COVID-19 pandemic on the different commodity prices, the study said firstly, Energy was the only commodity group that suffered a severe decline in early 2020 following the onset of the pandemic, with a price decline of 61.5% in real terms in the four months from January-April 2020. Minerals and Metals experienced a much smaller decline (14.7%) during the same period, and prices of the Food and Beverage groups were little affected. The prices of commodities like soybeans and arabica coffee were not affected except for an increase in short-term volatility.

These developments reflect the impact of the movement restrictions that were imposed around the world in 2020

to slow the spread of COVID-19, which affected in particular energy prices, and the increase in uncertainty that brought about a slowdown in investment, which affected the prices of minerals and metals, said the study.

"Second, what is extraordinary about the drop in energy prices was not only its size but also its speed: the 61.5% real price decline in four months was identical in terms of percentage and speed (but smaller in terms of price declines, due to base differences) to the hitherto largest and fastest fall in energy prices, which occurred between August and December 2008 as a result of the global financial crisis," said UNCTAD.

Third, recent price increases for the Minerals and Metals, Food and Energy groups resulted in real price levels in June 2021 previously not seen since September 2011, June 2014 and October 2018, respectively. For Minerals and Metals, commodity group prices in June 2021 were 22.5% below the peak levels attained in March 2008 before the global financial crisis. Similarly, for the Food commodity group, prices in June 2021 were 25% below the peak prices reached in June 2008. However, Energy prices are at present far below the levels registered pre-financial crisis, in part due to expanding supply of gas and petroleum during the last decade, including due to fracking.

While prices of all commodity groups increased with respect to the beginning of the COVID-19 emergency, there was significant heterogeneity in terms of the magnitude of price increases across different commodity groups.

On the one hand, prices of Minerals and Metals increased by 53.3% since the start of the COVID-19 pandemic and prices of Food increased 27%. On the other hand, prices of Beverages and Raw Materials only increased 4.7% and 4.5%, respectively.

Energy prices have increased by 15.6% since the start of the pandemic and doubled with respect to the minimum levels registered in April 2020.

Prices of commodities in the Precious Metals group increased continuously during the pandemic, buoyed by investor demand as a safe asset in the face of expansive monetary policies around the world and the increase in uncertainty due to the pandemic.

Within the Minerals and Metals group, three key commodities like copper, iron ore and aluminium experienced significant price increases, with iron ore showing the largest increases.

Among food commodities, there were large price increases for maize, soybeans and products of the latter (soybean oil and soybean meal), which drove the price increase of the Food commodities group.

In the Beverages group, coffee experienced moderate price increases (from a relatively low base) caused by supply issues during the period and increasing demand. For cocoa, the combination of supply-side developments like bumper crops in West Africa with reduced grindings in key markets during the pandemic, resulted in prices in June 2021 that were 7.8% less in real terms than prices at the start of the pandemic in December 2019.

Factors affecting commodity price hike

According to the study, a number of broad-based factors played a role in the recent increase in commodity prices.

It said the acceleration of world economic activity has boosted the demand for energy and metal commodities. The spread of the pandemic was accompanied by severe restrictions of contacts and movements around the globe, leading to a decline in economic activity. Pointing to the beginning of a recovery in world economic activity starting in the second quarter of 2020 and accelerating in the first quarter of 2021 as vaccination campaigns took off around the world, the study noted that the growth in economic activity has been backstopped by expansive monetary and fiscal policies across the board and the progressive lifting of restrictions of movement and activities.

For steel production, the recovery of the Chinese economy played a key role as the country accounted for 56.7% of the global production of crude steel and 56.2% of the global consumption of steel products in 2020.

In parallel to the increase in world economic activity, there has been an improvement in investor expectations as indicated by the reduction in the volatility in international financial markets. The study said that reduced volatility and improved investor expectations have also led to increased attractiveness of commodities as an asset class, pushing up the number of transactions and prices in some commodity futures markets. More recently, policy announcements such as on the United States and European Union COVID-19 stimulus packages worth $1.9 trillion and €750 billion, respectively, may have also supported a favourable outlook among investors and consumers on near-term recovery and growth.

UNCTAD said in light of recovering world economic activity, positive expectations and expansive macroeconomic policies, including fiscal stimulus, packages relaxing monetary policy and a number of supply-side factors, it is no surprise that commodities linked to construction and infrastructure, like iron ore, coal and copper, have been among the most dynamic commodities in terms of price increases.

It also noted that longer-term trends such as the rapid growth of the market for low-carbon energy technologies and electric vehicles are starting to impact the demand for minerals. For instance, battery production is already the largest end use for cobalt and lithium and is absorbing increasing shares of the market for class-I nickel. The global electric car stock increased by 43% in 2020 and is expected to increase more than 10-fold through 2030. Furthermore, the share of renewables in the global energy mix has increased from 27% in 2019 to 29% in 2020.

UNCTAD also observed that the recent increases in food prices are due to a number of factors affecting market fundamentals, as well as production costs around the world.

First, rising energy prices contribute to higher agricultural production costs both directly, through fuel price increases, and indirectly, through the rise in fertilizer prices. In the same vein, higher energy prices have driven up transportation costs, which have added to the upward pressure on food commodity prices.

Second, supply uncertainties have contributed to increasing prices of certain agricultural commodities. For example, drought conditions have led to downward revisions of the maize production forecast for the 2020/21 growing season in Brazil, one of the world's largest maize exporters.

Third, rising global demand has caused the supply-demand balance to tighten for a number of food commodities. For instance, global utilization of soybeans and maize is expected to outweigh global

production in the 2020/21 marketing season, leading to a reduction of global stocks.

The study noted that the increase in commodity prices took place despite the appreciation of the US dollar against other currencies like the euro or renminbi, starting in the second quarter of 2020. However, further appreciation of the US dollar, for example, as a result of tightening of interest rates to contain inflationary pressures, may dampen further commodity price increases.

Overall, given the persisting uncertainty regarding the evolution of the pandemic, in particular regarding the impact of the new virus variants, it can be expected that commodity prices will remain volatile in the near future, the study underlined.

Possible impact on LAC economies

According to the study, most if not all countries in the LAC region rely on the production and export of commodities as a source of economic growth through different channels.

One channel operates through investment in commodity sectors. In particular, mining and energy are very capital-intensive sectors where foreign direct investment plays a key role.

Another channel operates via capital inflows, which are often positively correlated with the commodity price cycle.

Also, public and private income and expenditure tend to follow commodity cycles. As a result, the evolution of GDP growth in LAC is correlated with the observed evolution of commodity prices. For example, the (Pearson) correlation coefficient between changes in the UNCTAD commodity prices index and the weighted average GDP growth of CDDCs in LAC in the period 2000-20 indicates a linear correlation of 70% between both variables and is statistically significant with a 99% confidence interval.

The recent increase in commodity prices can be expected to strengthen the post-pandemic recovery of CDDCs in the LAC region, said UNCTAD. It said that a key risk factor to this positive outlook is the emergence of new variants of SARS-CoV-2 and their potential to disrupt economic activity in the region and across the globe, either directly or via an increase in uncertainty.

The study observed that commodity price movements impact the fiscal balance not only through their effects on the economic cycle but also through their link with fiscal revenue both directly (when exports are taxed or public firms engage in commodity export) and indirectly (e.g., via income taxes on exporting firms).

Given the persisting uncertainty regarding the evolution of the pandemic, it can be expected that commodity prices will remain volatile in the near future.

It noted that several studies have found evidence of pro-cyclicality of fiscal policy at different periods in different countries in the LAC region. For instance, several CDDCs in the region experienced falling debt-to-GDP ratios during the last commodity price boom and rising debt-to-GDP ratios thereafter. There exist large differences in debt-to-GDP ratio levels between different countries of the region.

UNCTAD said the recent commodity price increases can be expected to have a positive impact on GDP growth and public revenue in CDDCs in the LAC region, which could contribute to managing public expenditure needs in the wake of the COVID-19 pandemic.

Another key impact of the recent commodity price increases on CDDCs in the LAC region will be through the trade balance, said the study.

For many commodity exporters in LAC, price increases have led to significant increases in commodity export revenues in the first half of 2021, relative to the same period of 2020 and in spite of stagnant or (in some cases) even falling export volumes. For instance, Brazil's Free On Board export revenue from oilseeds in the first six months of 2021 was 24.3% higher than in the same period of 2020 although exported volumes were slightly lower in the first half of 2021 with respect to the same period in 2020. Similarly, Chile's export revenue from copper ores and concentrates was 48.8% higher in the first half of 2021 than in the first half of 2020, while exported volumes had only increased by 4.4%.

On the other hand, said the study, commodity price increases have a negative effect on the trade balances of net commodity importers in the LAC region, such as those importing energy and food commodities. For example, Costa Rica's Cost Insurance and Freight cereal import bill during the first five months of 2021 was 34.8% higher than during the same period of 2020, while import volumes only increased by 5%. Other countries in the LAC region such as El Salvador and Honduras also saw their import bills for basic food commodities increase disproportionately with respect to imported volumes in the first half of 2021.

Finally, commodity price movements also result in changes in the nominal and real effective exchange rates of CDDCs in the region, in particular for those countries that are most closely integrated with international capital markets and which follow more flexible exchange rate regimes, said UNCTAD. In the past, there has been a close correlation between the evolution of nominal exchange rates of the domestic currencies of those countries vis-a-vis the US dollar and the evolution of the commodity prices of key export commodities in each country.

For example, the (Pearson) correlation between the nominal monthly exchange rates of Chile, Peru and Colombia and the monthly real price index of Minerals and Metals (for Chile and Peru) and of Energy (for Colombia) for the period January 2000-June 2021 was 63.7%, 64.4% and 68.9%, respectively, and in all three cases, significant with a 99% confidence interval.

This indicates that a commodity price increase (decrease) of the relevant commodities for each country is closely associated with an appreciation (depreciation) of the nominal exchange rate. *(SUNS9407)*

 Third World ECONOMICS No. 730, 1-15 September 2021

Privatized health services worsen pandemic

Subjected to spending cuts and privatization, public health systems are ill-equipped to respond to new health challenges, as COVID-19 has exposed to devastating effect.

by Anis Chowdhury and Jomo Kwame Sundaram

Decades of public health cuts have quietly taken a huge human toll, now even more pronounced with the pandemic. Austerity programmes, by the International Monetary Fund (IMF) and World Bank, have forced countries to cut public spending, including health provisioning.

"Government is the problem"

"India's COVID crisis: A deadly example of government failure". "Government failures still hamper [UK] COVID-19 response". Such headlines have become commonplace as the pandemic rages on, with no sign of ending soon. Their godparents deserve due recognition.

UK Prime Minister Margaret Thatcher claimed, "No government can do anything [good] … people look to themselves first … There is no such thing as society … the quality of our lives will depend upon how much each of us is prepared to take responsibility for ourselves and each of us prepared to turn round and help by our own efforts those who are unfortunate." US President Ronald Reagan declared, "Government is not the solution to our problem; government is the problem." Inspired by them, government capacities and public sectors have been decimated in recent decades, ostensibly to liberate entrepreneurship and progress.

Four decades of defunding, delegitimization and demoralization of governments and their personnel since Thatcher and Reagan have taken their toll. Unsurprisingly, most governments have failed to respond more adequately to the pandemic.

To justify social spending cuts, politicians of various hues the world over have been parroting mantras that government is too big and bad. "New Democrat" US President Bill Clinton proudly declared the "era of big government is over".

This "politics of small government" legitimized privatization of public assets and services. Authorities have tripped over one another to privatize potentially lucrative public sector duties and activities, while reducing taxes and expenditure.

COVID-19 has revealed the nature and purpose of neoliberal health spending reforms. New policies have included privatization and contracting out public services. Social spending has not only been cut but also been used to pay private suppliers.

Health system failures highlighted by the pandemic have been long in the making. Four decades of neoliberal policies – including marketization, or commodification of healthcare – have greatly increased private provisioning.

Private healthcare provisioning in low- and middle-income countries (LMICs) took off in the 1990s. It gathered pace after the 2008-09 global financial crisis with more hedge fund and other investments in hospitals and allied health services.

Such provisioning now accounts for most health services in many LMICs, catering mainly to medical tourists and patients with means. Thus, profit considerations and financial markets have remade LMICs' national health systems.

Increasingly privatized and outsourced, public health systems in developing countries have been underfunded, undermined and understaffed. Fractured health systems, with poor governance and regulation, have become even less able to respond well to new challenges.

Such changes have been promoted by new aid-sponsored financial arrangements, such as public-private partnerships, as urged by the World Bank. The pandemic has exposed the results as grossly inadequate, ill-suited and vulnerable.

Profitable private services remain parallel to and separate from the public system. The reforms have not only undermined public health systems but also weakened governments' ability to cope. Even in rich countries, about 40% of health spending is now for private services.

Neither privatization nor commodification has improved the quality of care, equity and efficiency of public services. Thus, deregulation, privatization and liberalization have squeezed health access, raising morbidity and mortality.

Meanwhile, donors have been diverting aid from governments to non-governmental organizations (NGOs), especially "international" ones. But patchworks of foreign-run NGOs are no substitute for integrated national public healthcare systems.

Austerity kills

Analyses of economic shocks around the world, from the 1930s' Great Depression to the 2008-09 Great Recession, show fiscal austerity kills. In England since 2010, austerity has been linked to 120,000 more deaths and over 30,000 suicide attempts.

Despite declining alcohol abuse and smoking, and without counting flu and other epidemic fatalities, 100 "early deaths" daily were expected in the UK, even before the pandemic. Social security cuts have also been devastating.

Despite growing patient demand and rising healthcare costs, during 2010-20, the UK National Health Service suffered the "largest sustained fall in … spending as a share of GDP in any period" since its creation after the Second World War.

Earlier, Greece's 2010 austerity package required cutting its national health budget by 40%. Infant mortality rose 40% after some 35,000 doctors, nurses and other health workers lost their jobs.

As Greeks avoided routine primary healthcare due to long waits and rising drug costs, hospital admissions soared. Meanwhile, mosquito eradication programme cuts led to a resurgence of malaria.

Austerity also worsened Ebola in West

Africa. Cutting public health spending from 1990, Guinea, Liberia and Sierra Leone further weakened their already poor health systems, undermining their ability to cope with emergencies. Thus, in the year before the Ebola outbreak, Guinea spent more on debt repayment than public health.

Meanwhile, austerity-driven funding cuts to the World Health Organization (WHO) by the US, the UK and European governments critically delayed responses to the Ebola outbreak, worsening it. Funding shortages also set back needed WHO efforts to respond to future global health crises.

Government not main problem

Health threats posed by the pandemic have not been well addressed by the reforms of recent decades. Some have been made worse, with LMICs particularly hard hit by COVID-19. Unsurprisingly, confidence and trust in governments everywhere have dipped.

In fact, public health investments before the pandemic were projected to yield three times as much in economic growth. Thus, such spending would have not only saved lives but also accelerated economic expansion.

With COVID-19 endemic, and most government pandemic containment and fiscal capacities in the Global South limited, the pandemic will drag on, further setting back progress and worsening inequalities.

Meanwhile, Thatcher and Reagan still haunt us all until the world exorcises their ghosts forever. *(IPS)*

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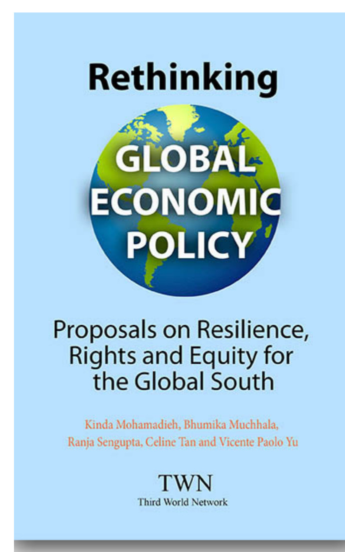
Rethinking Global Economic Policy

Proposals on Resilience, Rights and Equity for the Global South

By Kinda Mohamadieh, Bhumika Muchhala, Ranja Sengupta, Celine Tan and Vicente Paolo Yu

The COVID-19 crisis has thrown into stark relief the inequities and iniquities of an international economic order that consigns the Global South to the development margins while augmenting the power of rich countries and firms. Redressing this demands a bold multilateralism to support public health and economic recovery in developing countries and, beyond this, an overhaul of the unjust structures underpinning the global economy. This report surveys a myriad of areas – from trade, debt and public finance to investment and intellectual property rights – where fundamental reform and rethink of international policy regimes is urgently required for the developing world to emerge stronger and more resilient from the present turmoil.



***Available at** https://twn.my/title2/books/pdf/Rethinking%20Global%20Economic%20Policy.pdf*

Who is really at the table when global tax rules get decided?

International tax negotiations lack inclusive participation, with the likely outcome being global tax standards that are designed by and in the interests of the richest countries.

by Tove Maria Ryding

In 2016, the Organisation for Economic Co-operation and Development (OECD) established a so-called Inclusive Framework, which was mooted as a place where all countries could join discussions on international tax rules. This was to spearhead the implementation of the package on Base Erosion and Profit Shifting (BEPS), which had just been agreed by the OECD and the Group of 20 (G20), and it was to be the forum where any further changes to global tax rules would be negotiated.[1] This forum is now a central part of the discussion about rules in response to the digital economy. However, there are reasons to question whether the forum is as inclusive as its name suggests, and whether the forum really is the place where the rules are being negotiated.

Inclusive Framework?

The Inclusive Framework allows interested countries to become members, but not without conditions. In particular, the countries have to commit to following the OECD/G20 BEPS agreements from 2015.[2] This package of agreements, which runs to almost 2,000 pages, was negotiated through a process from which over 100 developing countries were excluded.[3] Each member of the Inclusive Framework must also commit to paying a yearly membership fee of around €20,000 to the OECD secretariat, which leads the process.[4] The OECD, which is also known as the "rich countries' club", has a membership of 38 primarily developed countries,[5] and it is not uncontroversial that it is this body that hosts the Inclusive Framework.

As of July 2021, 122 countries have chosen to become members of the Inclusive Framework.[6] In comparison, the United Nations (UN), which is considered a near-universal body, has a membership of 193 countries as well as two permanent observers.[7] In other words, more than one-third of the world's countries are not at the table in the Inclusive Framework.[8]

The differences become more extreme when looking at specific sub-groupings of countries. For example, out of the 54 countries in Africa, less than half are members of the Inclusive Framework.[9] For the group of least-developed countries (LDCs), 36 out of 46, meaning over 75%, are not members.[10] Meanwhile, for both of these groups, 100% are members of the UN. Furthermore, through their many years of engagement with the UN, they are now established with permanent representatives, and organized in their respective negotiating groups – the African Group[11] and the LDC Group.[12] These groups play a key role in strengthening the capacity and collective impact of their members in UN intergovernmental negotiations.

While the number of countries that are members of the Inclusive Framework is 122, the total number of members is 139.[13] The explanation for this difference is that over 10% of the Inclusive Framework members are jurisdictions rather than countries.[14] These include, for example, 10 overseas territories and crown dependencies of the United Kingdom, such as the Cayman Islands, Bermuda, Jersey and the British Virgin Islands.

Global agreement?

In discussing the inclusiveness of global tax decision-making, it is vital to consider not only how many countries have agreed to a specific decision, but also how many have not. In this context, the fact that the Inclusive Framework membership includes jurisdictions that are not countries gives rise to some confusion. In July 2021, following the issuance of an Inclusive Framework statement regarding the future of the global tax system, the Secretary of the Treasury of the United States, Janet Yellen, sent out an announcement stressing that the Inclusive Framework statement was an "agreement by 130 countries".[15] However, while still a significant number, the agreement was in fact by less than 120 countries, since out of the 122 countries that are members of the Inclusive Framework, several, including large African countries such as Kenya and Nigeria, chose not to support the agreement.[16]

Even in the case where all Inclusive Framework members do reach an agreement, and despite the fact that the framework includes a high number of countries, it is important to keep bearing in mind that over one-third of the world's countries are not participating in the negotiations. It is also vital to note that developing countries are strongly overrepresented among the countries that are absent from the Inclusive Framework negotiations, and that approximately half of the absent countries fall in the category of least-developed countries.[17] Therefore, it would be incorrect to consider decisions by the Inclusive Framework to be "global agreements", as for example the countries in the Group of 7 (G7) seem to do.[18]

Rule makers and rule takers

In 2016, when the Inclusive Framework was set up by the G20 and OECD, it was stressed that all members should participate "on an equal footing".[19] The reality of this was questionable from the onset, since no country would be able to become a member unless it signed up to implementing the OECD/G20 BEPS package.[20] Since this package was so central to the overall agenda and outline for the Inclusive Framework,[21] it could be argued

that the members were – from the very beginning – divided into those that had made the rules, and those that had accepted to take the rules as they were.

In the negotiations on new global tax rules in response to the digital economy, inequalities in the roles of countries have also appeared. Firstly, the entire negotiating process was, as in the case of the BEPS negotiations, mandated by the G20 and led by the secretariat of the OECD.[22] While all members of the framework are, at least on paper, equal, this puts more political power in the hands of the members of those two bodies. Especially in the first half of 2021, the G7 also emerged as a forum where a small group of rich countries can make decisions ahead of the Inclusive Framework meetings, which then seem to be passed on to be tweaked and slightly adjusted, but not fundamentally altered. The key example of this is the decisions that were made by G7 finance ministers and leaders in June 2021,[23] which seemed to have exerted a strong sway over the outcome of the Inclusive Framework meeting in July 2021.[24]

Ninety percent of the world's countries are not members of the G20, and even fewer are members of the G7. Therefore, the vast majority of the world's countries are not at the table when these bodies make decisions. Within the G7, it is also clear that the US has a very powerful role, and the G7 outcome from June 2021 had a very significant overlap with the proposals launched by the US government in Spring 2021.[25]

In theory, the Inclusive Framework operates by consensus, and each member should therefore be able to reject a proposal for a decision. This was, however, brought into question when Pascal Saint-Amans, Director of the OECD's Center for Tax Policy and Administration, gave an interview where, among other things, he described the decision-making process at the Inclusive Framework in the following way: "Now, we are pragmatic. If you have all the big guys and a significant chunk of the small guys saying 'yes we [should] do it,' then the thing happens. Everyone must be involved, though."[26] In this context, it is also worth noting again that the July 2021 statement by the Inclusive Framework was not agreed to by all members.[27]

An approach where smaller clubs of rich and powerful countries steer the outcome of Inclusive Framework negotiations raises some specific concerns. Especially for smaller and less rich and powerful countries that are members of the Inclusive Framework but not of the powerful decision-making clubs, it brings the risk that they will be pressured into agreements that do not reflect their views and interests. It also brings the risk of generating outcomes of the Inclusive Framework negotiations that are biased in favour of a particular group of countries.

Civil society organizations (CSOs) have previously raised concerns that inputs from developing countries were not given proper consideration nor reflected in the negotiating texts developed by the OECD secretariat as inputs to the Inclusive Framework.[28] At the same time, CSOs have flagged that when it comes to the question of which countries will have the right to tax the profits of multinational corporations, the new rules that are being sketched out by the G7 and the Inclusive Framework include biases that favour the interests of richer and larger countries, whereas in particular smaller developing countries will be disadvantaged.[29] This has led to several civil society coalitions raising strong concerns, and some, especially from the Global South, calling for a rejection of the proposals put forward by the G7, OECD and its Inclusive Framework.[30]

The alternative – a UN-led intergovernmental process and convention

There is an obvious alternative to the current international governance on global tax issues, and that is to let the UN be the forum where global tax standards are set. Leading intergovernmental negotiations on global issues is a key part of the UN mandate,[31] and is the role that the body plays on numerous other issues, including on climate change, human rights, gender equality and sustainable development goals.

For over a decade, the Group of 77 (G77), which is a coalition of over 130 developing countries,[32] has raised concerns about the lack of an inclusive intergovernmental forum for tax cooperation and called for an intergovernmental UN tax body to be established.[33]

In 2011, the Secretary-General of the UN published a report outlining options for strengthening international tax cooperation. This included several proposals on how an intergovernmental UN tax body could be designed with the aim of creating a "global, all-inclusive body for international tax cooperation, which would further this cooperation in a fair and balanced way by offering the developing countries a full 'seat at the table', and working with others active in this area". The report also stressed that "Because of its universal membership and legitimacy, the United Nations is the most appropriate forum to host this body."[34] In 2015, as part of his Synthesis Report on the Post-2015 Agenda, the Secretary-General stressed that "Member States should consider … the establishment of an intergovernmental committee on tax cooperation, under the auspices of the United Nations."[35]

The key reason why such a body has not yet been established is resistance from OECD countries. During the Financing for Development Summit in Addis Ababa in 2015, the G77 made the call for a UN intergovernmental tax body a key demand, but it was once again rejected by OECD countries.[36]

The resistance from some OECD countries has, however, not made the discussion go away, and in fact, some countries have expanded the proposal to include a UN Convention on Tax. During a UN high-level meeting on combating illicit financial flows in May 2019, Senegal, speaking on behalf of the African Group, called for "the upgrading of the existing committee of experts in tax matters to a universal intergovernmental body under the auspices of the UN with a mandate to deal with all aspects of [illicit financial flows]." In the statement, Senegal also highlighted that the African Group believes existing UN tools do "not sufficiently cover illicit flows emanating from tax avoidance, trade misinvoicing, profit shifting and other illegal commercial activities, especially those by multinational enterprises," and added, "We therefore call for a separate international convention on tax. We believe that such a convention will serve as the backbone for our envisioned upgraded international tax committee, and will assist in tackling all aspects of [illicit financial flows]."[37]

In 2020, the African Group reiterated this call on several occasions, and in September 2020, the idea of setting up an intergovernmental UN tax body and negotiating a UN tax convention was included in a "menu of options" produced under the leadership of the UN to consider how the international community could respond to the COVID-19 crisis.[38]

In February 2021, the High Level Panel on International

Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (the FACTI Panel), which had been set up by the Presidents of the UN General Assembly (at the time Nigeria) and the UN Economic and Social Council (at the time Norway), issued its final report.[39] Among its key recommendations were:

- Recommendation 2 (on Legitimacy): International tax norms, particularly tax-transparency standards, should be established through an open and inclusive legal instrument with universal participation; to that end, the international community should initiate a process for a UN Tax Convention.
- Recommendation 4A (on Fairness): Taxpayers, especially multinational corporations, should pay their fair share of taxes. The UN Tax Convention should provide for effective capital gains taxation. Taxation must be equitably applied on services delivered digitally. This requires taxing multinational corporations based on group global profit.

The FACTI Panel's report also stressed that "The international community must ensure that the norms they develop have broad legitimacy by making sure that they are framed and negotiated in an inclusive manner. That has not been the case for international tax norms" and that "Proposed new rules on digital economy taxation at the OECD are excessively complex and not adapted to developing countries' needs".

Conclusion

Non-inclusiveness and illegitimacy continue to be key concerns in relation to the negotiation of global tax rules. Despite the name of the forum, over one-third of the world's countries are not members of the OECD-led Inclusive Framework. Developing countries are strongly overrepresented among the countries that are not at the table, and approximately half of those that are absent fall in the category of least-developed countries. Meanwhile, the role of the G7 in global decision-making has become prominent, and there are strong concerns about the fact that the new global tax rules, which are currently being negotiated at the Inclusive Framework, seem to be biased towards the interests of the richest and most powerful countries.

The issue of lack of legitimacy and biases in international tax rule-making is a very central part of the crisis of the global tax system. Global standards written by clubs with limited membership face great challenges when it comes to global implementation, and face a higher risk of individual countries, or groups of countries, introducing rules that are not in line with the standards. This undermines the chances of achieving a stable, effective and coherent global tax system. Furthermore, global tax rules that are primarily designed by, and in the interests of, the richest countries will fail to deliver on the demand for a fair global tax system, and thus continue to be subject to instability and calls for fundamental reforms.

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