Third World ECONOMICS
Trends and Analysis

No.731 16-30 September 2021 e-ISSN : 27165388

Pandemic reinforces need for universal social protection – ILO

Over half the global population have no form of social protection, according to the International Labour Organization. The gaps in coverage have been exposed by the COVID-19 pandemic, which, the ILO says, "has poignantly shown the inherent vulnerability of all, thereby making the case for universal social protection more strongly than ever".

.... ALSO IN THIS ISSUE ....

THIRD WORLD
ECONOMICS
Trends & Analysis

131 Jalan Macalister
10400 Penang, Malaysia
Tel: (60-4) 2266728/2266159
Fax: (60-4) 2264505
Email: twn@twnetwork.org
Website: https://twn.my

CONTENTS

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

Editor: Chakravarthi Raghavan

Editorial Assistants: Lean Ka-Min, T. Rajamoorthy, Chee Yoke Heong

Visit our website at https://twn.my/

More than 4 billion people lack access to social protection, says ILO

A majority of the world's population are not covered by any form of social protection, according to the International Labour Organization, even as the COVID-19 crisis has laid bare the need for universal protection.

by Kanaga Raja

GENEVA: Currently, only 46.9% of the global population are effectively covered by at least one social protection benefit, while the remaining 53.1%, or as many as 4.1 billion people globally, are left wholly unprotected, the International Labour Organization (ILO) has said.

In its *World Social Protection Report 2020-22*, released on 1 September, the ILO said that countries spend on average 12.9% of their gross domestic product (GDP) on social protection (excluding health). However, high-income countries spend on average 16.4%, or twice as much as upper-middle-income countries (which spend 8%), six times as much as lower-middle-income countries (2.5%), and 15 times as much as low-income countries (1.1%).

This financing gap for building social protection floors has widened by approximately 30% since the onset of the COVID-19 crisis, owing to the increased need for healthcare services, income security measures, and reductions in GDP caused by the crisis, said the ILO.

The ILO said to guarantee at least a basic level of social security through a nationally defined social protection floor, lower-middle-income countries would need to invest an additional $362.9 billion and upper-middle-income countries a further $750.8 billion per year, equivalent to 5.1% and 3.1% of GDP respectively for the two groups. Low-income countries would need to invest an additional $77.9 billion, equivalent to 15.9% of their GDP.

The COVID-19 crisis has resulted in an unprecedented yet uneven global social protection response, said the ILO. Higher-income countries were better placed to mobilize their existing systems or introduce new emergency measures to contain the impact of the crisis on health, jobs and incomes. Mounting a response was more challenging in lower-income contexts, "which were woefully ill prepared and had less room for policy manoeuvre, especially in macroeconomic policy".

At a virtual media briefing, ILO Director-General Guy Ryder said that since the last ILO report on social protection was published in 2017, "the world, of course, has been struck by a crisis unlike anything we've ever previously lived through". Part of that impact is that COVID-19 has devastated the world of work. Not only has it brought new and profound challenges, it has also exposed and crystallized the existing challenges such as those of inequality and poverty, he said.

"Most of the countries in the world continue to feel the full weight of the pandemic's impact and there is massive uncertainty about the future direction of the recovery process," said Ryder. "But what I think is extremely clear is that this crisis has revealed the absolutely crucial role that social protection has played in national responses around the world."

For millions of people, social protection has ensured access to healthcare, to safeguarded jobs and incomes, and it has stabilized businesses and economies. Without the massive and rapid expansion of social protection during the COVID-19 crisis, its impact would certainly have been very much worse than it actually has been, said Ryder.

Social protection at a crossroads

The ILO said social protection is at a critical crossroads. Around the world, the COVID-19 pandemic has exposed the vulnerability of those who are not adequately protected from its socioeconomic consequences.

"This crisis has underscored the vital role of social protection as a frontline policy response," the ILO said, adding that, crucially, it has made the case for universal social protection irrefutable.

The ILO said while the unprecedented initial response to COVID-19 provided a massive impetus for universal social protection, in many countries this response has been neither sustained nor sufficient. Short-term measures, lasting only a few months, have come to an end, and benefit levels have often been too low to ensure an adequate standard of living. "These measures have thus provided only limited underpinning for a full recovery, leaving many people highly vulnerable," it added.

"Now is the time to take decisive action to shape the future of social protection. It remains to be seen whether the lessons learned from this crisis and previous ones will provide the necessary jolt for universal social protection to be realized."

To achieve this would require gaps in coverage, comprehensiveness and adequacy to be closed, and national social protection systems to be reinforced, not least with solid social protection floors that guarantee at least a basic level of social security to everyone throughout their lives, the ILO underlined.

According to the report, unless emergency measures are systematically transformed into elements of rights-based social protection systems, large numbers of people will be unceremoniously consigned to circumstances no better than, and in many cases worse than, those in which they found themselves before COVID-19: left to fend for themselves with insufficient protection or even none at all.

State of social protection coverage

According to the ILO report, many countries have made significant progress in the extension of social protection coverage, reinforced their social protection systems and established effective social protection floors. Some have achieved universal or near-universal coverage in different branches of social protection through a combination of non-contributory and contributory schemes and programmes.

Nevertheless, the human right to social security is still not a reality for a majority of the world's population, said the ILO. It noted that only 46.9% of the global population are effectively covered by at least one social protection benefit (excluding healthcare and sickness benefits), while the remaining 53.1% – as many as 4.1 billion people – are left unprotected.

The ILO said that while 77.5% of people above retirement age receive a pension, thanks to the expansion of both non-contributory and contributory pensions, other branches of provision still lag behind.

It said only 26.4% of children globally receive social protection benefits. Despite the positive developmental impacts of supporting childbearing women, only 44.9% of women with newborns worldwide receive a cash maternity benefit. A mere 18.6% of unemployed people receive unemployment cash benefits in the event of job loss, largely owing to the absence of unemployment protection schemes. Meanwhile, the share of people with severe disabilities worldwide who receive a disability benefit remains low at 33.5%.

Moreover, said the ILO, social assistance cash benefits are limited and cover only 28.9% of vulnerable persons, comprising children, people of working age and older persons not otherwise protected by contributory schemes.

It said that in Africa, despite significant progress in extending social protection coverage, only 17.4% of the population are effectively covered by at least one social protection cash benefit, with significant variation across countries.

Owing to greater efforts to extend old-age protection, 27.1% of Africa's older population now receive a pension, and some countries, such as Botswana, Cabo Verde, Lesotho, Mauritius and Namibia, have reached, or approached, universal pension coverage.

"However, significant coverage gaps remain across the region with respect to children, mothers with newborns, unemployed workers, persons with disabilities and vulnerable population groups," said the ILO report.

In the Americas, 64.3% of the population are effectively covered by at least one social protection cash benefit, largely as a result of major efforts to extend social protection systems over recent decades.

Just over half of children, pregnant women and mothers of newborns are covered by social protection cash benefits, but only 16.4% of unemployed people receive unemployment benefits. While almost 90% of older people enjoy pension coverage, benefit levels are often low.

The ILO said some countries in the region have successfully achieved universal legal coverage and high effective coverage of children (Argentina, Brazil, Chile), mothers with newborns (Canada, Uruguay), people with disabilities (Brazil, Chile, United States, Uruguay) and older people (Argentina, Bolivia, Canada, Trinidad and Tobago, United States).

In the Arab States, just 40% of the population are effectively covered by at least one social protection cash benefit. Significant coverage gaps remain across the region for older people, children, people with disabilities, women with newborns and unemployed workers. This is the result of segmented and exclusionary social insurance schemes on the one hand, and under-investment in non-contributory social protection, which remains fragmented and narrowly targeted, on the other.

In Asia and the Pacific, only 44.1% of the population are effectively covered by at least one social protection cash benefit, although significant progress has been made in strengthening social protection systems and building social protection floors. Moreover, the regional aggregate hides important disparities both across and within countries.

Older people enjoy the highest coverage rate in the region, at 73.5%, while pregnant women and mothers are covered to a lower extent at 45.9%. Even larger coverage gaps remain in the areas of child and family benefits, unemployment protection and disability benefits.

However, the ILO report noted that some countries in the region have achieved universal or near-universal coverage of children (Australia, Mongolia), others have extended maternity protection coverage (Bangladesh, India, Mongolia), and still others have introduced and expanded non-contributory and contributory pension schemes to achieve universal coverage for older people (China, Japan, Mongolia, New Zealand, Thailand, Timor-Leste).

In Europe and Central Asia, where social protection systems are relatively comprehensive and mature, 83.9% of the population have access to at least one cash social protection benefit.

Regional estimates suggest that

coverage is 82.3% for child and family benefits, 83.6% for maternity cash benefits, 86.0% for disability benefits and almost 97% for old-age pensions, with several countries reaching universal coverage. However, further progress needs to be made in the extension of unemployment coverage, as well as the adequacy of pensions and other social protection benefits, in the light of demographic changes, macroeconomic pressures and the socioeconomic fallout from COVID-19.

Despite significant progress in the development of national social protection floors, vulnerable population groups face greater challenges than other sections of the population in accessing social protection, said the ILO. Globally, only 28.9% of people considered vulnerable – all children, along with people of working age and older people not covered by social insurance – receive social assistance.

While in Europe and Central Asia, almost two-thirds of vulnerable people receive non-contributory benefits (64.4%), this is the case for only 36.7% in the Americas, 32.2% in the Arab States, 25.3% in Asia and the Pacific, and 9.3% in Africa.

Many countries face significant challenges in closing coverage gaps and achieving universal social protection. In this context, the ILO identified three major challenges: extending coverage to workers who are still uncovered, including those in the informal and rural economies; ensuring social protection coverage for migrant workers and the forcibly displaced; and closing gender gaps.

It noted that only a minority of the working-age population enjoy comprehensive social protection coverage. According to its estimates, just 30.6% of the working-age population are legally covered by comprehensive social security systems that include the full range of benefits, from child and family benefits to old-age pensions, with women's coverage lagging behind men's by a very wide margin of 8 percentage points. "This implies that the large majority of the working-age population – 69.4%, or 4 billion people – are not protected at all, or only partially protected," said the ILO.

The ILO report also pointed out that prior to COVID-19, countries spent on average 12.9% of their GDP on social protection (excluding health), with staggering variations across regions and income groups.

Significantly, high-income countries spend on average 16.4%, or twice as much as upper-middle-income countries (which spend 8%), six times as much as lower-middle-income countries (2.5%), and 15 times as much as low-income countries (1.1%).

Pronounced differences are also evident between regions, with proportions of GDP ranging from 17.4% in Europe and Central Asia and 16.6% in the Americas to 7.5% in Asia and the Pacific, 4.6% in the Arab States and 3.8% in Africa.

Factoring in the impact of COVID-19, low-income countries would need to invest an additional $77.9 billion or 15.9% of their GDP to close the annual financing gap, said the ILO. Lower-middle-income countries would need to invest an additional $362.9 billion and upper-middle-income countries an extra $750.8 billion, equivalent to 5.1% and 3.1% of GDP respectively.

Regionally, the relative financing gap is particularly high in Central and Western Asia, Northern Africa and sub-Saharan Africa (9.3%, 8.3% and 8.2% of GDP respectively).

"Clearly, then, current levels of expenditure on social protection are insufficient to close persistent coverage gaps, despite large – yet unequal – resource mobilization during COVID-19," the ILO emphasized.

Social protection during COVID-19 crisis

The ILO report said the pandemic has exposed pronounced gaps in social protection coverage, comprehensiveness and adequacy across all countries. "These have left a number of population groups, including women, children and workers in different forms of employment and in the informal economy, very vulnerable."

Before the crisis, half of the global population did not have access to health services, and about 40% were not affiliated to a national social health insurance system or national health service. Many people have had to make significant out-of-pocket payments to get the treatment they need.

More than any recent economic crisis, the COVID-19 pandemic has reinforced the need for comprehensive social protection systems, the ILO stressed.

In 2020, virtually all countries and territories took action – in total, just over 1,600 social protection measures were announced.

As of March 2021, more than 196 countries had introduced domestic fiscal measures with a total value of approximately $17.1 trillion (not limited to social protection). Global fiscal stimuli, however, have been strongly concentrated in high-income countries, the ILO said, adding that in lower-income countries, domestic efforts have been backed by pledges from international financial institutions and development cooperation agencies, amounting to $1.3 trillion as of 1 February 2021.

"The crisis has poignantly shown the inherent vulnerability of all, thereby making the case for universal social protection more strongly than ever," said the ILO.

While the crisis disproportionately affected certain groups, it illustrated that without comprehensive and adequate social protection, anyone can fall into poverty and insecurity, it said.

The crisis exposed the shortcomings of limited coverage and low benefit levels – with narrow targeting, problematic proxy means tests and behavioural conditions, especially in contexts where large parts of the population are vulnerable and administrative capacity is constrained – to an even greater degree than in non-crisis times, said the ILO. Consequently, many eligibility requirements were relaxed during the crisis to ensure high take-up and to protect people's health.

COVID-19 made it impossible for policymakers to ignore the "missing middle" and unpaid carers, noted the ILO. For instance, countries where large parts of the population, including workers in the informal economy and unpaid carers, were covered either inadequately or not at all had to adopt ad hoc measures; this often entailed a fair degree of improvization, with hit-and-miss results. Furthermore, many of these emergency benefits were limited in terms of adequacy and paid for only a short period, soon leaving people vulnerable and unprotected once more.

In some countries, social protection has been insensitive to the needs of women, children, indigenous people and people with disabilities, said the ILO.

According to the UN Development Programme and UN Women, the global jobs and social protection response to the crisis has been largely gender-blind: of 1,340 social protection measures they identified, only 23% can be considered gender-sensitive (half aimed at strengthening women's economic security and half at supporting unpaid care work).

Moreover, said the ILO, about one-third of all high-income countries did not implement any policies specifically aimed at supporting children through the crisis period, and only 2% of the fiscal response across all high-income countries was earmarked for child-specific social protection policies. In contrast, around 90% of the fiscal response was allocated to or through businesses (in such forms as loans and grants, or wage subsidies), tending to benefit families with a strong labour market attachment.

While modest progress was made before COVID-19 to the point where, in 2017, 17.5% of children (one in six, or 356 million) were living in extreme poverty – down from an estimated 19.5% in 2013 – the pandemic has dealt a profound blow to child well-being. On the basis of national poverty lines, it is estimated that the pandemic has increased the number of children living in income-poor households by more than 142 million, bringing the total to almost 725 million.

The vast majority of children still have no effective social protection coverage, the ILO pointed out. Effective coverage figures for SDG (Sustainable Development Goal) indicator 1.3.1 show that only 26.4% of children globally receive social protection benefits, with significant regional disparities: while 82.3% of children in Europe and Central Asia and 57.4% in the Americas receive benefits, this is the case for only 18% of children in Asia and the Pacific, 15.4% in the Arab States and 12.6% in Africa.

Taking the high road

The ILO said that making progress in a high-road scenario means making continued investment in social protection to ensure a human-centred response to this ongoing crisis and to an eventual recovery.

The ILO suggested that beyond crisis mitigation, a high-road approach will involve a longer-term commitment to progressively strengthening social protection systems, including floors, as reflected in ILO Social Protection Floors Recommendation No. 202 and the vision set out in the 2019 ILO Centenary Declaration for the Future of Work. "Such policies are essential to accelerate progress towards achieving the SDGs," it said.

If there is a silver lining to this pandemic, said the ILO, it is the potent reminder it has provided of the critical importance of social protection and the need to follow a high-road strategy.

It is evident that countries can pursue a high-road strategy in different ways – there is no "one pre-eminent high road".

The ILO said to make progress along a high road requires several policy actions to be taken and several critical challenges tackled. These include:

- ensuring universal protection for all people in case of need;
- overcoming serious structural challenges that pre-dated COVID-19 but were accentuated by it, and ensuring that the state effectively fulfils its role by enshrining social protection in law and being answerable to rights-holders;
- ensuring that social, economic and employment policies cohere;
- leveraging the comparative advantages of universal social protection – rights fulfilment, inclusivity, ease of take-up, non-stigmatizing shock responsiveness – across both contributory and non-contributory provision;
- closing the social protection financing gaps in sustainable and equitable ways by considering a diversity of mechanisms based on national and international solidarity as a matter of priority – both during this crisis and beyond it;
- making full use of social dialogue and social participation; and
- further enhancing coordination between United Nations agencies, development partners and international financial institutions on the design and financing of social protection.

Given the immense social and economic collateral damage wrought by the pandemic, now is the time for being bold and taking the high road to realize universal social protection and shape a more socially just future, the ILO report concluded. *(SUNS9413)*

 Third World ECONOMICS No. 731, 16-30 September 2021

Concerns voiced over possible "rigged" decisions at MC12

Given the logistical complications posed by the pandemic, questions have arisen as to how the WTO's 12th Ministerial Conference, which is due to convene in November, will be held and how decisions will be made at the meeting.

by D. Ravi Kanth

WASHINGTON: Many developing and least-developed countries seem concerned about the possibility of "rigged" decisions at the WTO's 12th Ministerial Conference (MC12) to be held in Geneva in end-November, amidst mounting logistical hurdles as well as difficulties in convening in-person meetings due to the COVID-19 pandemic, said people familiar with the development.

Concerns about the "difficult logistical challenges" of MC12 were apparently raised by the United States Trade Representative (USTR) Katherine Tai during a virtual meeting held with WTO Director-General Ngozi Okonjo-Iweala on 8 September, according to a report in the *Washington Trade Daily* (*WTD*).

Despite these challenges, the USTR and the WTO DG emphasized their shared commitment to ensuring that MC12 is a success. "Ambassador Tai and Director-General Ngozi agreed that the WTO must remain a relevant force for good and demonstrate its ability to advance a global trade agenda that increases shared prosperity," according to the *WTD* report.

Tai and many other trade officials have said that the WTO must produce "deliverables" at the ministerial meeting in order to show that it is still a relevant organization.

No clarity yet

There is still no clarity on the format of MC12 or about the possible "deliverables".

Given the imposition of visa-related restrictions, including in Switzerland, due to the worsening pandemic and the denial of vaccines to many countries in Africa and South America, there is considerable uncertainty over hosting an in-person ministerial meeting where "bread-and-butter" decisions have to be negotiated, said a trade envoy who asked not to be quoted.

In his report to the WTO General Council (GC) on 27 July, the GC chair, Ambassador Dacio Castillo from Honduras, acknowledged that "given that the pandemic was evolving rapidly in different regions and that the pace of the vaccine roll-out and other containment measures differed widely, delegations said that a definitive response about the format is premature at this point."

"Irrespective of the format, delegations stressed the importance of an inclusive, open and transparent Conference, ensuring full participation," the GC chair said, as per his restricted document Job/GC/259 that was issued on 28 May.

Castillo said that "the preference was for an in-person conference, depending on the evolution of the pandemic, with small-sized delegations (e.g., Minister+1), counting on the support of the Geneva-based missions and the existing infrastructure."

"Given the current state of the pandemic, several delegations considered a fully in-person Conference as being increasingly unlikely," he said.

Even though "some delegations mentioned having a hybrid conference, suggesting that Ministers be physically [present] at the Conference and their delegation participating virtually," the hybrid approach could pose serious problems about arriving at decisions with integrity and credibility, said several people who asked not to be quoted.

Past "rigged" meetings

The controversial "green room" meetings of trade ministers in limited configurations would erode the multilateral credibility of the ministerial meeting, as had happened at MC10 in Nairobi in 2015.

At that meeting, while trade ministers from the US, the European Union, India, Brazil and China finalized the key decisions, the rest of the ministers were kept waiting on the ground floor, according to a March 2018 report in the *Economic and Political Weekly*.

The possibility of finalizing decisions in a "pressure-cooker" atmosphere could result in "rigged" decisions that will be inimical to the interests of a large majority of developing and least-developed countries, said people familiar with the discussions.

The GC chair also admitted that "questions related to equity were raised, i.e., if some delegations are able to be present while others are not due to travel restrictions or other measures, thereby affecting inclusivity."

Many countries said unequivocally that "if MC12 was not in-person, it could not be a negotiating conference."

The GC chair also said "some group coordinators also pointed to additional challenges in terms of coordinating group positions and decision-making."

Some members, according to the chair, maintained that "given the level of uncertainty due to the pandemic, affecting regions differently and at different times, the Conference would have to be fully virtual."

In fact, many countries found "an in-person meeting too burdensome, and a hybrid one discriminatory."

Many members noted that a virtual MC12 would also not be a negotiating conference.

With little possibility of concluding negotiating texts before MC12, as has repeatedly been called for by the WTO DG in her statements, there is hardly any possibility of ministers endorsing clean texts.

Differences in areas like agriculture, elimination of fisheries subsidies and a proposed waiver of intellectual property protections in order to boost COVID-19 vaccine production in developing countries are holding up potential key deliverables for the ministerial meeting.

In 2009, the then WTO DG Pascal

Lamy decided that MC7 held that year was to focus only on confidence-building measures. That was also a period when the US did not have a trade envoy in Geneva.

As countries are now finding themselves in a pandemic-induced quagmire as well as escalating restrictions on the movement of people, including in Switzerland, there are grim doubts as to whether MC12 can be held at all, said several trade envoys who asked not to be quoted.

Further, there is no clarity yet on what would be the deliverables at MC12. In relation to the intellectual property waiver, Germany, which is the main driving force of the EU, the United Kingdom and Switzerland appear determined to stymie a decision before the ministerial meeting.

On 9 September, Australia announced its intention to support the waiver. Canberra may however have made its decision knowing full well that the EU, the UK and Switzerland would block the proposed waiver, said a trade envoy who asked not to be quoted. It is also possible that Canberra may be trying to make overtures to developing countries given the vehement opposition by a large majority of developing countries to what they see as the biased and flawed draft agriculture text that is strongly supported by Australia, said another trade envoy.

Meanwhile the negotiations on fisheries subsidies are currently mired in deep differences because of perceived special dispensations being granted to the big subsidizers responsible for the global depletion of fish stocks as well as issues concerning special and differential treatment for developing and least-developed countries, said trade envoys. The US has also raised the issue of forced labour, which appears to be a "red line" for a large majority of developing countries.

Right now, it appears almost impossible to make significant progress on fisheries subsidies in the two-and-a-half months before MC12, said people involved in the negotiations.

Recently, the Indian trade minister Piyush Goyal wrote to the WTO DG saying that the fisheries subsidies agreement must be based on the "polluter pays" principle and on common but differentiated responsibilities, with enhanced special and differential treatment provisions.

For the WTO to remain relevant, it cannot be a one-way street – the 164-member body cannot simply serve the core interests of the US, the EU, the Ottawa Group of countries led by Canada, and the Cairns Group of farm exporting countries, said people who asked not to be quoted.

They added that if MC12 ignores the "bread-and-butter" issues of the developing countries and prevents them from securing their developmental space, the organization could lose its credibility and integrity once and for all.

In short, the developing and least-developed countries must oppose a hybrid ministerial meeting which could result in "rigged" decisions to their detriment, said these people. *(SUNS9416)*

South countries criticize draft agri text for creating unlevel playing field

A draft package of farm trade reforms put forward by the chair of the WTO agriculture talks has drawn criticism from developing countries for sidelining their interests in favour of developed-country proposals.

by D. Ravi Kanth

WASHINGTON: Many developing countries on 7 September inveighed against the draft agriculture text issued by the chair of the Doha agriculture negotiating body, Ambassador Gloria Abraham Peralta from Costa Rica, suggesting that it appears to have created an unlevel playing field that undermines the developmental priorities of the developing countries.

They alleged that the draft text is biased in promoting the interests of select countries like the United States, the European Union, and the Cairns Group of farm exporting countries led by Australia.

The 27-page text was issued on 29 July and contains nine draft decisions that are loaded with transparency provisions as demanded by the US and the EU, domestic support provisions seen as being in line with the Cairns Group proposals, and market access provisions based on the proposals of a group of South American countries.

However, it does not include any proposals from the African Group of countries, which had submitted several proposals on domestic support, a permanent solution on public stockholding programmes for food security, cotton, and a special safeguard mechanism among others.

At an informal Doha agriculture negotiating body meeting on 7 September, the developing countries including Nigeria on behalf of the African Group, India, Indonesia, Sri Lanka, South Africa, and Jamaica on behalf of the African, Caribbean and Pacific (ACP) Group severely criticized the chair's proposals contained in the draft text.

In contrast, the Australia-led Cairns Group, the US, the EU and Switzerland, which is the coordinator for the G10 farm defensive countries, lent support to the text, said participants after the meeting.

Ahead of the meeting, Australia had lobbied hard with the US, the EU and Switzerland, said people familiar with the development.

Australia leads bandwagon of supporters

In her introductory statement at the meeting, the chair Peralta said that her draft text represents work in progress and is aimed at starting the discussions on possible landing zones for the WTO's 12th Ministerial Conference (MC12) to be held in Geneva in end-November.

The chair apparently said that members can amend the text according to their priorities, said people who preferred not to be quoted.

In its statement at the meeting, Australia, on behalf of the Cairns Group, said that it "strongly supports the process of the Chair of the Committee on Agriculture in Special Session of moving to text-based negotiations and the efforts of the Chair to provide a draft text in Job/AG/215 for an MC12 agriculture package as a starting point for the negotiations."

The Cairns Group said it recognizes that "the draft text should be seen as a tool and a living document to be used in a collective effort to build convergence and help identify where compromises and trade-offs might lie in the development of an overall MC12 agriculture package." However, more work needs to be done in the coming weeks and months, it said.

On its own behalf, Australia said that "the text is not perfect", suggesting that there is a lack of consensus across most issues covered by the text. "Yet this draft was always going to be a starting point for Members to try and reach greater convergence ahead of MC12," it said, emphasizing that the text is a sound basis for negotiations on a package of agricultural outcomes for MC12. "We believe this package could usefully set the direction for negotiations post-MC12."

Australia said that it therefore supports the process of moving towards a text-based negotiation based on the chair's text.

Australia said that it is also hosting a Cairns Group ministerial meeting on 5 October on the margins of the annual Organization for Economic Cooperation and Development (OECD) ministerial meeting in Paris.

The US, which was not overly negative towards the draft agriculture text as it was with the draft Doha fisheries subsidies agreement, acknowledged that divergences seem to be very high. However, it sounded a positive note on account of the chair's emphasis on transparency proposals as well as the issue of market access to be linked with domestic support, said participants who asked not to be quoted.

"The African Group believes that the current approach adopted by the Chair is not conducive for reaching a balanced and equitable outcome on agriculture at MC12."

Significantly, the EU, which provides the greatest amount of Amber Box support of more than $70 billion and which is yet to convert its specific and seemingly opaque tariffs into ad valorem equivalents, also remained positive on the text. It apparently suggested that the text should not be overburdened, said participants who asked not to be quoted.

Developing-country criticism

In sharp contrast, India, Indonesia (which is a member of the Cairns Group and also the coordinator of the Group of 33 developing countries), Sri Lanka, the African Group, the ACP Group and South Africa criticized the draft text on grounds that it contained proposals on domestic support and other areas, including market access, that are directly taken from the Cairns Group proposals.

Apparently, India said the text relied on applied tariffs, which has not been the practice in the Uruguay Round.

India and Sri Lanka asked the chair what criteria she had adopted in crafting a text that, for the first time, ignored the developmental proposals of the developing countries in such a blatant manner, said people who asked not to be quoted.

Nigeria, speaking on behalf of the African Group, said the Group's expectation had been that the text would reflect "(i) the balance in the issues of interest to Members and views; (ii) the balance in terms of political perspectives; and (iii) Members' development priorities."

However, it said, this did not turn out to be the case as the text "centralized the proposals of a few Members and a Group [an apparent reference to the Cairns Group] and completely jettisoned submissions by the African Group and other like-minded developing countries."

"Consequently," Nigeria said, "the African Group believes that the current approach adopted by the Chair is not conducive for reaching a balanced and equitable outcome on agriculture at MC12."

It argued that though the chair has indicated that the text would evolve over time as a result of future inputs and negotiations, the African Group "believes that additional work needs to be done to balance the text by incorporating the proposals and submissions by other Groups and Members before the African Group could agree for it to be the basis for negotiations."

Among other things, it complained that "the text is based on an erroneous idea that all Article 6 entitlements are trade-distorting."

Article 6.2 of the WTO's Agreement on Agriculture (AoA) contains the "Development Box" for developing countries. For the past several years, the US along with the Cairns Group have continued to oppose Article 6.2.

It "appears the goal is to get a global number for all Article 6 entitlements and then work out the reductions for each Member to arrive at 1/2 by 2030," the African Group said.

"There is no clarity regarding the treatment of [Articles] 6.2 and 6.5 [Blue Box] entitlements [which are used by the US and the EU among others] which are unbounded. It appears the only way to generate these figures would be to rely on notified numbers."

"This would unjustly punish those developing countries that have not fully used up their entitlements," the African Group said, pointing out that "the text ignored the food security, livelihood, and rural development objectives of [Article]

6.2 and opted to subject it to further negotiations."

Further, the text "disregarded the fact that S&DT [special and differential treatment] is an integral part of the sustainability agenda of the WTO and suggests that [Article] 6.4 entitlements with its clear caps stipulated in the AoA which is unlikely to be concentrated in certain products in a manner that distorts trade should be part of the reduction commitment".

The African Group "has always maintained that the preservation of Development Box (6.2) and 6.4 S&DT is crucial for addressing the food security difficulties of developing countries."

The Group said it "believes that in order for a form of support to have the effect of distorting global trade, it has to fulfil two criteria, the first is being granted to large-scale commercial producers aiming at exportation, and the second is allowing for unlimited sums of support to be concentrated in certain products."

"In our view," the Group said, "for the WTO to achieve a meaningful MC12 outcome under the domestic support pillar, the starting point is for the membership to focus on levelling the playing field by addressing the imbalance and inequities of the current domestic support rule."

"It's in view of this that the Group tabled a proposal on Final Bound AMS [Aggregate Measurement of Support], which offered specific options and constructive formulae for making cuts to FB [Final Bound] AMS."

South Africa apparently said that it cannot "claim to be especially happy with your [chair's] text; however, we are willing to work with you, and other WTO members, to ensure the text is transformed to a draft that we can agree to at MC12."

It said the Doha Development Round, which was launched 20 years ago, came close to an agreement (on agriculture) in 2008. However, it seems now that members are further away from the objective of real change than they have ever been.

South Africa apparently said the main criticism about the draft text is that it will not result in any real changes in trade-distorting domestic support.

It called for substantial reduction of support to be undertaken in such a manner as to ensure that those members responsible for distortions in the past will make the biggest contribution to the reduction of support.

It also underscored the need to preserve policy space to support resource-poor farmers and rural and agriculture development. Therefore, it argued, the support provided to low-income or resource-poor producers under Article 6.2 of the AoA must remain exempted from any reduction commitments.

Further, there is an urgent need to address the concentration of support on specific products and observe the sequence in the agriculture negotiations, said South Africa, which added that special and differential treatment provisions should remain a critical component of any outcome of the agriculture negotiations.

In conclusion, the draft text, which seems to be overwhelmingly tilted in favour of the Cairns Group, the US and the EU among others, has laid bare the uphill task the developing countries in the WTO face in getting any justice from new rules that are being crafted.

If anything, the countries from the Global South are being forced to bear the brunt of the proposed new rules while forgoing their own developmental priorities, said several people after the meeting. *(SUNS9415)*

Opposition to addressing export restrictions in WTO's COVID-19 response

WTO members are divided as to whether the organization's response to the pandemic should focus on trade-facilitating measures.

by D. Ravi Kanth

WASHINGTON: The United States, India and South Africa have opposed attempts to include the issues of "export restrictions" and "trade facilitation, regulatory coherence, cooperation and tariffs" as part of the WTO's response to the COVID-19 pandemic, said people familiar with the development.

The WTO General Council-appointed facilitator, Ambassador David Walker from New Zealand, who has been tasked with crafting the WTO's response to the pandemic, has included these issues as part of the issues for the proposed thematic discussions.

In nuanced statements delivered at an informal meeting convened by Walker on 1 September, the three countries argued that the findings in a recent WTO Trade Policy Review Body (TPRB) report do not justify discussions on these issues.

In contrast, the key members of the Ottawa Group of countries such as the European Union, Canada, Australia and Brazil among others strongly supported the need to include these issues as part of the WTO's response to the pandemic.

In his report to the General Council on 27 July, Walker had highlighted six elements to be negotiated as part of the WTO's response: (i) export restrictions; (ii) trade facilitation, regulatory coherence, cooperation and tariffs; (iii) the role of services; (iv) transparency and monitoring; (v) collaboration with other organizations and engagement with key stakeholders; and (vi) the idea of a framework to respond more effectively to future pandemics and crises.

The facilitator, however, has excluded from his thematic discussions intellectual property (IP) issues, including the TRIPS waiver proposal co-sponsored by 63 countries at the WTO and aimed at boosting the supply of COVID-19 vaccines and other medical products.

The need for a waiver to temporarily suspend certain provisions in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in order to scale up the production of vaccines, diagnostics and therapeutics has become gravely urgent, say proponents.

Yet, a handful of countries such as the EU, led by its key member state Germany, Switzerland and the United Kingdom are continuing to deny an early outcome on the TRIPS waiver.

Against this backdrop, the facilitator's decision to include only trade-related market access issues and not IP issues in the proposed thematic discussions has raised serious questions, said several people who asked not to be quoted.

The facilitator appears to be leaning towards WTO Director-General Ngozi Okonjo-Iweala's "Third Way" approach, which critics say appears aimed at safeguarding Big Pharma's interests while promoting market-access-related issues, said people who asked not to be quoted.

The facilitator said, "I proposed leaving IP and IP-related aspects aside from this process for now, as the Chairman of the TRIPS Council was to report on these aspects to the General Council."

Trade-facilitating vs trade-restrictive measures

At the 1 September meeting, the US came down heavily against the need to discuss the issue of export restrictions.

It apparently drew attention to the TPRB report on trade-related developments from mid-October 2020 to mid-May 2021, which revealed that countries had adopted more trade-facilitating measures than trade-restrictive measures.

The report said that "since the outbreak of the pandemic, 384 COVID-19-related trade measures in the area of goods have been implemented by WTO Members, of which 248 (65%) were of a trade-facilitating nature and 136 (35%) could be considered trade-restrictive measures."

It added that "several of these measures, originally introduced in immediate response to the pandemic, have been extended during the review period. Export bans accounted for 84% of all restrictive measures recorded."

It said that the reduction or elimination of import tariffs and import taxes accounted for 60% of trade-facilitating measures taken, and several Members reduced their tariffs on a variety of goods such as PPE, sanitizers, disinfectants, medical equipment and medicines/drugs. "Some WTO Members and Observer-countries, who are severely affected by successive waves of the pandemic, have actually eliminated import tariffs on certain goods necessary to fight COVID-19, such as oxygen, oxygen canisters, certain drugs, and active substances."

South Africa voiced its concern about including extraneous issues in the WTO's response to the pandemic, suggesting that the core issues concerning IP must be addressed without delay.

Further, the report said that "WTO Members continued to repeal measures implemented in response to the pandemic and, as at mid-May 2021, around 21% of COVID-19 trade-facilitating measures and 54% of the COVID-19 trade-restrictive measures have been terminated, suggesting a swifter roll back of trade-restrictive measures." It pointed out that 57% of the 114 export-restrictive measures put in place since the beginning of the pandemic have been repealed.

The report stated that the trade coverage of COVID-19-related trade-facilitating measures implemented since the beginning of the pandemic was estimated at $291.6 billion, while that of trade-restrictive measures stood at $205.8 billion.

According to preliminary estimates by the WTO secretariat, the trade coverage of the trade-facilitating measures still in force ($107.6 billion) is slightly higher than that of the trade-restrictive measures ($106.0 billion).

Based on the TPRB's findings, the US apparently said that it would be wrong to tinker with the current rules, as it could create imbalances in members' rights and obligations, said people who asked not to be quoted.

The WTO report appears to have countered the "gloomy" narrative contained in the Ottawa Group's trade and health initiative, as well as the WTO DG's "Third Way" approach.

In its intervention at the meeting, India apparently said members need to be realistic and not focus on the wrong issues. It pointed out that the problems being faced by countries due to shortage and unequal access to vaccines are largely due to supply-side issues. It called for including the IP component, particularly the TRIPS waiver, in the thematic discussions being conducted by the facilitator.

India called on the Ottawa Group members such as the EU, Switzerland and the UK to stop pushing the narrative for the so-called trade-facilitating measures, including a ban on export restrictions, as part of the WTO's response to the pandemic.

It said that members need policy space during the pandemic to respond effectively to the evolving situation, adding that the TPRB report showed that members acted responsibly.

South Africa voiced its concern about including extraneous issues in the WTO's response to the pandemic, suggesting that the core issues concerning IP must be addressed without delay.

In their interventions, the EU and other members of the Ottawa Group appear to have suggested that bad trade measures, including export restrictions, lack of transparency, and the disruption of global value chains need to be addressed.

The EU, which itself took recourse to export-restrictive measures during the pandemic, has now assumed the role of championing the banning of export restrictions, in what appears to be an attempt to target the US, said people familiar with the discussions at the meeting convened by the facilitator. *(SUNS9414)*

Revised JSI e-commerce text undermines policy space for South

The revised negotiating draft for the plurilateral talks on electronic commerce contains provisions that would erode developing countries' policymaking flexibility, although participating states remain at odds in many key areas.

by D. Ravi Kanth

WASHINGTON: The three convenors of the Joint Statement Initiative (JSI) group on electronic commerce – Japan, Australia and Singapore – have presented a second revised consolidated draft text that includes new proposals that will impose more onerous commitments on developing countries, said analysts.

The convenors presented the 92-page text during a plenary meeting on 13 September, claiming that there is progress in some areas such as rules on spam, electronic authentication and consumer protection among others.

The convenors hope to conclude an agreement in some 10 areas at the WTO's 12th Ministerial Conference to be held in Geneva from 29 November.

However, the JSI members remain far apart on the most important issues such as data flows and data localization, data privacy, market access, customs duties, cybersecurity and trade facilitation, said people familiar with the consolidated draft text.

There are a host of other areas where progress may take several years from now, a JSI participant said, suggesting that the progress is only in areas that are less difficult.

The draft text has six sections: (1) enabling electronic commerce; (2) openness and electronic commerce; (3) trust and electronic commerce; (4) cross-cutting issues; (5) telecommunications; and (6) market access.

The second section includes highly controversial areas where there has been no progress so far, including non-discrimination and liability; flow of information such as cross-border data flows; location of computing facilities; location of financial computing facilities for covered financial service suppliers; customs duties on electronic transmissions; and access to internet and data.

The fifth section on telecommunications contains rules that have largely been proposed by the European Union, Norway, the United Kingdom, Uruguay and China (on network equipment and products).

In the sixth area of market access, there appears to be a battle being waged between three countries, namely the United States, the EU and China.

Developing-country concerns

At the plenary meeting on 13 September, developing countries Nigeria, Cote d'Ivoire, China, Indonesia, Ecuador and Guatemala raised concerns over capacity-building and technical assistance.

Nigeria said what developing countries have in terms of their core interests in the consolidated draft text is not enough, suggesting that they want binding commitments and not best-endeavour provisions.

On capacity-building, Indonesia, China and Cote d'Ivoire proposed the following bracketed textual language:

"1. Upon request of a developing [Party/Member] or LDC, developed and developing [Parties/Members] [in a position/with the capacity] to do so shall provide targeted technical assistance and capacity [and skill] building on mutually agreed terms and conditions to developing [Parties/Members], in particular [low-income developing countries and] LDCs, in [order to improve their digital ecosystems and to allow them to develop/improving, promoting, and protecting the development of] electronic commerce [to allow them to/and] implement WTO rules on electronic commerce.

"2. Electronic Commerce for Development Program: [Parties/Members] should explore the way to establish an Electronic Commerce for Development Program under the WTO framework to encourage, manage and coordinate the contributions that [Parties/Members] [voluntarily] provide, with the aim of assisting developing [Parties/Members], especially [those of low income and] LDCs [to improve development of electronic commerce and implement WTO rules on electronic commerce]. [This Program shall constitute a framework for consultation between [Parties/Members] and between [Parties/Members] and the international agencies and organizations concerned.]

"3. [Alt 1:
Bridge the Digital Divide: Members are encouraged to adopt recommendations and practical measures that contribute to improving the electronic commerce infrastructure and technical conditions of developing Members, to help enterprises and citizens realize digital transition.]

"[Alt 2:
Developed and developing [Parties/Members] with the capacity to do so undertake to adopt practical measures that contribute to bridging the digital divide and improving the infrastructure and technical conditions of developing [Parties/Members], so as to help their micro, small and medium sized enterprises and their citizens realize digital transition and participate in electronic commerce and the digital economy.]

"4. Research, Training and Communication: Members are encouraged to conduct information exchange, joint study and cooperative training, share best practices of electronic commerce development [and facilitation] and implement capacity building among Members and international organizations, to promote the common [and inclusive] development of electronic commerce."

At the meeting, the US said that while it agrees with the need for capacity-building, it is important to frame the rules first following which the issue of capacity-building will be decided.

Significantly, the US appears to be finding it difficult to advance its core interests on data flows and data localization, as more countries are now veering towards the EU's General Data Protection Regulation (GDPR) of 2016 that stipulates data protection and privacy policies in the EU member countries.

Although China remained silent on the discussion on data protection and privacy, Beijing seems to prefer the GDPR proposed by the EU, said a JSI participant who asked not to be identified.

The JSI members appear not to be on the same page with regard to the scope of electronic commerce and the definitions, which are being pushed into annexes at the end of the text.

Limited progress

At the meeting, the three coordinators Japan, Australia and Singapore were expected to drive home the message that there has been significant progress on about 10-12 issues, which, by normal standards of a highly ambitious agreement, seem like inconsequential issues, said people familiar with the JSI discussions.

In the introduction to the updated text, seen by *SUNS* (*South-North Development Monitor*), the three coordinators claimed that the text is "a working document that captures progress so far in the WTO Joint Statement Initiative on Electronic Commerce."

The text, according to the coordinators, "brings together streamlined text based on all text proposals submitted by Members to date and has been prepared under the responsibility of the co-convenors."

The text, which incorporates outcomes of small group discussions, suggests that "for transparency, a box has been included under most provisions to indicate which Members' proposals the text is based on."

Proposed definitions have generally been placed with the provisions to which they relate. Some proposed cross-cutting definitions have been included in Annex 1.

The coordinators said that "the draft text reflected in this document is subject to the consideration of several cross-cutting issues that many Members have highlighted in the negotiations." The issues include the following:

- Several Members have noted that they would expect security, general and prudential exceptions to apply.
- Several have expressed their intention that commitments would not apply to government procurement, or information held by or on behalf of a Party, or measures related to such information, including measures related to its collection.
- Some Members have said they want to carve out from scope financial services as defined in the GATS Annex on Financial Services.
- Several have noted the need to determine the relationship of provisions with Members' market access commitments, and the legal architecture of the JSI outcome.

As regards the consolidated draft text, the low-hanging fruits appear to be spam, electronic signature and authentication, consumer protection and open government data, said people familiar with the negotiations.

The text includes several revised sections on source code, which is one of the controversial areas, with Nigeria having proposed a waiver for developing countries to access source code for developing their digital sector; open internet access; and new updates on paperless trade.

There is no agreement on any of the above revised sections. Also, there are revisions with a single text on competition, while there is revised language in several parts, said people who asked not to be quoted.

The main areas which are replete with unbridgeable differences at this juncture include data flows and data localization, market access, customs duties, cybersecurity and trade facilitation, said participants familiar with the discussions.

The textual proposals on data flows and data localization, as set out in pages 26 and 29 of the draft text, are based on proposals from members of the former Trans-Pacific Partnership and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and the EU among others. The proposals remain in square brackets indicating lack of consensus.

There is also no consensus on many issues proposed by the US such as interactive computer services (infringement), non-discrimination and liability, and interactive services (limiting liability).

On market access, the US, the EU, China and Canada have made seemingly diverse and conflicting proposals.

The section on market access includes: (1) services market access; (2) temporary entry and sojourn of electronic commerce related personnel; and (3) goods market access.

Services market access includes business services, communications services, telecommunication services, distribution services, financial services, transport services and maritime business services, with the demandeurs being the US, the EU and China among others.

The area of temporary entry and sojourn of electronic commerce related personnel has been proposed by China.

Meanwhile, Canada, the EU and the US circulated their proposals on goods market access.

China's list of market access areas includes logistics, infrastructure, transport and movement of personnel. While they may not be related to digital trade, China has insisted that they have an intrinsic link with digital trade rules.

Commenting on the revised draft text, a Geneva-based electronic commerce analyst said "it contains proposals on enhanced trade facilitation which will pressurize developing countries to implement specific provisions of the Trade Facilitation Agreement at the earliest possible."

According to the analyst, "members will also have to make specific commitments for higher liberalization in identified services sectors."

"Also, further liberalization in goods market access is being sought, which will be GATT-plus," the analyst said.

"Developing countries that are part of this agreement will definitely lose policy space as well as regulatory space for which they have fought so long in the WTO," the analyst warned. *(SUNS9417)*

SDR issuance must be redistributed from rich to developing countries

The Special Drawing Rights allocated under the recent record issuance of these international reserve assets should be channelled to the countries most in need, writes *Bhumika Muchhala.*

On 23 August, the International Monetary Fund (IMF) issuance of $650 billion in Special Drawing Rights (SDRs) came into effect.

It is lauded as historic for being the largest ever distribution of monetary reserves and provides much-needed additional liquidity for the global economy, particularly for developing countries with formidable fiscal needs.

IMF Managing Director Kristalina Georgieva announced to the press that it will provide a "significant shot in the arm" for global efforts to combat the COVID-19 pandemic by supplementing member countries' foreign exchange reserves and reducing their reliance on more expensive domestic or external debt.

Since all IMF member countries will receive SDRs in proportion to their quotas, or financial contributions to the IMF, a small number of rich countries in the Group of 8 will receive the vast majority of this SDR issuance. Despite not needing additional reserves, high-income countries will receive approximately $390 billion, or 60% of the total allocation. Meanwhile, low-income countries will receive $21 billion, or 3.23% of the total allocation.

In light of this reality, the need to redistribute SDRs from rich countries to all developing countries in need is urgent, particularly for those developing countries facing economic recession and upturns in poverty.

A wide coalition of international civil society organizations and networks, in alliance with economists and academics, are calling on rich countries to channel their SDRs to developing countries in need through a broad range of mechanisms that adhere to a core framework of principles. These principles include the following concerns and priorities:

(1) Developing countries should be able to use the SDRs that are channelled to their reserves without policy conditionalities enforced by either the IMF or other authorized holders of SDRs.
(2) Mechanisms by which SDRs are channelled from rich countries to developing countries should not result in the augmentation of sovereign debt burdens.
(3) Redistributed SDRs should be accessible to all middle-income countries.
(4) They should also be additional to existing official development assistance (ODA) and climate finance commitments, in that they should not replace or be double-counted as ODA or climate finance.
(5) Redistributed SDRs should employ approaches that proactively promote a fair recovery from the COVID-19 pandemic through support for climate change mitigation and adaptation as well as addressing economic, gender and social inequalities, including the unpaid care work burden that women bear, which has been exacerbated by the lockdowns and health crisis of COVID-19.
(6) Transparency and accountability over the use of redistributed SDRs should be ensured, as well as full inclusivity and participation by SDR-receiving country governments and citizens.
(7) SDRs channelled to receiving countries should not result in any financial costs beyond what is required by the current SDR rules.

Importantly, the channelling of SDRs from rich countries to developing countries cannot be a substitute for the need to restructure and relieve sovereign debt burdens in low- and middle-income countries. This is critical to prevent a scenario where SDRs are used to repay external private and other creditors, rather than being directed to economic recovery and social needs.

In July 2021, a letter was sent by a group of international civil society organizations to the IMF's Executive Board to encourage it to employ these principles in the channelling mechanisms that the Fund is proposing and outlining, as mandated by the G20.

Mechanisms by which SDRs are channelled should also not be limited to only IMF lending facilities, such as the Poverty Reduction and Growth Trust (PRGT), the primary trust used by the IMF to provide concessional financing to low-income countries. While the PRGT has been supported by SDRs in the past, the loans typically come with harmful conditionalities such as regressive taxation and cuts in vital social expenditures in healthcare, education and social protection systems.

Apart from the IMF and its member states, there are 15 entities that are authorized holders of SDRs and therefore can engage in redistributing SDRs from rich to developing countries. These authorized holders include four supranational central banks, three regional monetary authorities and eight development institutions. They should be encouraged to actively cooperate with each other to establish the ways and means to distribute SDRs directly to countries with active fiscal gaps.

Developing countries should be able to use the SDRs that are channelled to their reserves without policy conditionalities

$650 billion is not enough

Despite being the largest SDR issuance in history, the international community must acknowledge that $650 billion in SDRs does not meet the real fiscal needs of lower-middle-income and low-income countries.

Juxtaposed against massive South-North flows, the $650 billion SDR issuance pales significantly.

According to Yilmaz Akyuz, former chief economist of the UN Conference on Trade and Development (UNCTAD) and author of *Playing with Fire: Deepened Financial Integration and Changing Vulnerabilities of the Global South*: "The nine G20 EMEs [emerging economies] taken together have been transferring around 2.7 per cent of their combined GDP per year in the new millennium mainly to AEs [advanced economies] as a result of the negative return gap between their foreign assets and liabilities and capital losses resulting from changes in asset prices and exchange rates.

"These resource costs are incurred in large part because EMEs favour a particular structure of external balance sheets (highly liquid low-yielding assets, less liquid high-yielding liabilities) that is believed to be more resilient to external financial shocks.

"This means that, in effect, EMEs are transferring large sums of resources to AEs in order to protect themselves against the shocks created mainly by policies of the very same countries. This is underpinned by an international reserves system that allows a handful of reserve-issuing countries, notably the US, to constantly extract resources from the rest of the world" (Akyuz, "Financial globalization, North-South wealth distribution and resource transfers", Inter Press Service, 6 February 2019).

That 2.7% in terms of 2016 GDP amounted to about $570 billion.

In order to meet the financing gaps, the IMF should agree to issue further SDRs on a per annum basis, at least for the next several years. These subsequent issuances should be supported by redistributive mechanisms in alignment with the above seven principles.

Political will must be generated to channel and use the opportunities presented by this latest SDR issuance.

While some developed-country central bank officials abide rigidly by the rules of central bank reserve assets that technically or legally block the use of SDRs for fiscal needs, SDRs can, in practice, be redistributed in a multitude of ways that consider the core principles mentioned above.

The $650 billion issuance provides a window to pool rich-country SDR resources in an act of international cooperation that can reduce risks to any one country or to the global financial system.

The world's political leaders can activate the use of some portion of dormant SDRs to confront the twin global crises of health and climate through executive decision-making to address the serious economic and social inequalities being exacerbated by the pandemic.

The opportunity created by this SDR issuance should be acted on to provide reserve assets that can be constructively used to meet the pandemic's formidable economic, social and humanitarian costs across the developing world. It will importantly be a step towards correcting the inequitable persistent South-North financial transfers. *(SUNS9408)*

Allow the least developed countries to develop

The world's least developed countries need greater leeway to chart their own growth paths.

by Anis Chowdhury and Jomo Kwame Sundaram

The pandemic is pushing back the world's poorest countries with the least means to finance economic recovery and contagion containment efforts. Without international solidarity, economic gaps will grow again as COVID-19 threatens humanity for years to come.

While bringing some concessions, the "least developed countries" (LDCs) designation – introduced five decades ago – has not generated the changes needed to accelerate sustainable development for all.

The United Nations General Assembly created the LDCs category for its Second Development Decade (1971-80). Its resolution sought support for its 25 poorest member states, with Sikkim out after India's 1975 annexation. With many others joining, the LDCs list rose to 49 in 2001. Half a century later, with only seven having "graduated" – after meeting income, "human assets", and economic and environmental vulnerability criteria – the 44 remaining LDCs have 14% of the world's people.

With more than two-thirds in sub-Saharan Africa, LDCs have over half the world's extreme poor, surviving on under $1.90 daily. LDCs are 27% more vulnerable than other developing countries, where 12% are extreme poor.

LDC criteria differ from World Bank low-income country benchmarks for concessional loan eligibility. Some LDCs – especially the resource-rich – are middle-income countries (MICs) disqualified from graduation by other criteria.

Most LDCs have become greatly aid-reliant. Despite grandiloquent pronouncements, only six of 29 Organization for Economic Cooperation and Development (OECD) "development partners" have kept promises to give at least 0.15% of their national incomes as aid to LDCs.

Chasing mirages?

The UN has organized conferences every decade since to review progress and action programmes for LDC governments and development partners. The first – in Paris – was in 1981, while the fifth will be in Doha in January 2022.

The 2011 Istanbul conference ambitiously sought to graduate at least half the LDCs by 2020. But only three – Samoa (2014), Equatorial Guinea (2017) and Vanuatu (2020) – have done so. Worse, most ex-LDCs have had difficulties sustaining development after graduating.

During the 1980s and 1990s, many developing countries implemented macroeconomic stabilization and structural adjustment policies from the Washington-based International Monetary Fund (IMF) and World Bank. These imposed liberalization, privatization and austerity across the board, including many LDCs. Unsurprisingly, "lost decades" followed for most of Africa and Latin America.

Botswana, the first graduate in 1994, is now an upper MIC. Its diamond boom enabled 13.5% average annual growth during 1968-90. Unsurprisingly, Botswana's "good governance", institutions and "prudent" macroeconomic policies were hailed as parts of this "African success story".

However, the accolades do not sit well. Mineral-rich Botswana remains vulnerable. Right after graduation, average growth fell sharply to 4.7% during 1995-2005, and it has never exceeded 4.5% since 2008. Manufacturing's share of GDP fell to 5.2% in 2019, after rising from 5.6% in 2000 to 6.4% in 2010. Nearly 60% of its people have less than the Bank's MIC poverty line of $5.50 daily.

Botswana remains highly unequal. During 1986-2002, life expectancy fell 11 years, mainly due to HIV/AIDS. When the government embraced austerity, its already weak health system suffered a disastrous brain drain.

Policy independence crucial

Although they have not yet graduated, several LDCs have successfully begun diversifying their economies. Their policy initiatives offer important lessons for others.

Neither Bangladesh nor Ethiopia would qualify as a "good governance" model by criteria once so beloved by the Bank and the OECD. Instead, they have successfully intervened to address critical development bottlenecks.

Once considered a "basket case", Bangladesh is now a lower MIC. Diversifying deliberately rather than pursuing Washington's policies, it has become quite resilient, averaging 6% growth for over a decade, despite the 2008-09 global financial crisis and current pandemic.

Bangladesh saw the potential for exporting manpower to earn valuable foreign exchange and work experience. In 1976, it agreed to provide labour for Saudi Arabia's oil-financed boom.

Similarly, as newly industrialized economies no longer qualified for privileged Multi-Fibre Arrangement market access, Dhaka worked with Seoul from 1978 to take over South Korean garment exports.

LDCs' current predicaments are largely due to policies from decades ago, pushed by international organizations and development partners.

Bangladesh is also the only LDC to have taken advantage of the 1982 World Health Organization essential drugs policy. Its National Drug Policy blocks imports and sales of non-essential drugs. Thus, its now vibrant generic pharmaceutical industry has emerged.

During 2004-19, Ethiopia's growth averaged over 9%. Poverty declined from 46% in 1995 to 24% in 2016 as industry's share of output rose from 9.4% in 2010 to 24.8% in 2019.

Avoiding "Washington Consensus" policies, Ethiopian industrial policy drove structural change. Manufacturing grew by 10% yearly during 2005-10, and by 18% during 2015-17.

With improved governance, state-owned enterprises still dominate banks, utilities, airlines, chemical, sugar and other strategic industries. Ethiopia opened banks to domestic investors, keeping foreign ones out. Meanwhile, privatization has been limited and gradual.

Instead of full exchange rate liberalization, it adopted a "managed float" system. While market prices were liberalized, critical prices – such as for petroleum products and fertilizers – have remained regulated.

Neither Bangladesh nor Ethiopia has embraced central bank independence or formal inflation targeting frameworks, once demanded by the IMF and others, ostensibly for macroeconomic stability and growth.

Both countries retain reformed specialized development banks to direct credit to policy priorities, while Bangladesh's central bank has "remained proactive in its mandated developmental role".

Policy is destiny

In development and structural transformation, "path dependency" implies policy is destiny. LDCs' current predicaments are largely due to policies from decades ago, pushed by international organizations and development partners.

Reform agendas now should avoid ambitious comprehensive efforts which will overwhelm LDCs with modest resources and capabilities. Also, there is no "magic bullet" or "one-size-fits-all" policy package for all LDCs.

Policies should be appropriate to country circumstances, considering their limited options and difficult trade-offs. They must be politically, economically and institutionally feasible and pragmatic, and target overcoming critical constraints.

OECD development partners must instead meet their commitments and support national development strategies. They must resist presuming to know what is best for LDCs by, for example, requiring them to ape Washington and OECD fads. *(IPS)*

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