Third World ECONOMICS
Trends and Analysis

No.732 1-15 October 2021 e-ISSN : 27165388

World economy to rebound but imbalances persist

The global economy is expected to recover strongly in 2021 after shrinking last year, according to the United Nations Conference on Trade and Development (UNCTAD). Setting it on a more sustainable and equitable growth path, however, demands effective multilateral coordination and a break with wrong-headed policy prescriptions of the past 40 years.

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

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Chakravarthi Raghavan (1925-2021)

It is with great sadness that we share the news that Chakravarthi Raghavan passed on peacefully on 26 September 2021 in Geneva at the age of 96.

Raghavan was the Editor of *Third World Economics* and, after his retirement as Editor of the *South-North Development Monitor* (*SUNS*), was designated Editor Emeritus. Both are publications of the Third World Network.

He was formerly at the Press Trust of India and served as its Editor-in-Chief from 1971-76. His journalistic experience included covering the United Nations in New York for nine years and, since 1978, in Geneva closely monitoring activities and negotiations at UNCTAD, GATT and the WTO as well as the UN specialized agencies.

Raghavan authored *Recolonization: GATT, the Uruguay Round and the Third World*, a seminal record of the negotiations that set up the post-1995 multilateral trade system – no other publication documents so well the struggle of the South, most of which had been unprepared for the onslaught of economic liberalization launched by the developed countries in the name of "trade".

Raghavan went on to write several other books, including *The New Issues and Developing Countries*; *The World Trade Organization and Its Dispute Settlement System: Tilting the Balance Against the South*; *Developing Countries and Services Trade: Chasing a Black Cat in a Dark Room Blindfolded*; *The Third World in the Third Millennium CE: The Journey from Colonialism Towards Sovereign Equality and Justice*; and *The Third World in the Third Millennium CE: The WTO – Towards Multilateral Trade or Global Corporatism?*; as well as papers and numerous articles on trade and development, finance and other issues. He was presented the Group of 77/UNDP award for TCDC/ECDC (Technical and Economic Cooperation among Developing Countries) for 1997.

He was the pioneer in reporting in *SUNS* on the GATT and the Uruguay Round when those life-changing negotiations took place out of public sight, including the scrutiny of elected representatives.

We in the Third World Network mourn the passing of a giant of the South and defender of economic and social justice, and pledge to carry forth his legacy.

Our deepest condolences go to Artie Raghavan, his daughter, who was by his side all through his last months. *(TWN/SUNS9426)*

Global growth to hit 5.3% in 2021, but uncertainty remains

The world economy this year is projected to record its highest growth in decades, says a UN development body, but this recovery from the COVID-19 crisis has so far been uneven, reflecting pre-pandemic inequalities that need to be redressed through multilateral coordination.

by Kanaga Raja

GENEVA: Global growth is expected to hit 5.3% this year, following a fall of 3.5% in 2020, the United Nations Conference on Trade and Development (UNCTAD) has said.

In its *Trade and Development Report 2021* (*TDR 2021*), released on 15 September, UNCTAD said that this represents the fastest growth in almost half a century, with some countries restoring (or even surpassing) their output level of 2019 by the end of 2021.

However, UNCTAD pointed out that the global picture beyond 2021 remains shrouded in uncertainty. It said next year will see a deceleration in global growth, but for how long and by how much will depend on policy decisions, particularly in the leading economies.

"Even assuming no further shocks, a return to the pre-pandemic income trend could, under reasonable assumptions, still take until 2030 – a trend that, it should be remembered, itself reflected the weakest growth rate since the end of the Second World War."

The recent decision by the IMF Executive Board to allow a $650 billion issue of Special Drawing Rights (SDRs), the largest in its history, offers a glimmer of hope but the international community has still to acknowledge the scale of the challenge facing many developing countries, said UNCTAD.

Whether or not the world builds back better from the pandemic will not depend on the actions of a single country but on concerted efforts to rebalance the global economy. Hurdling the barriers to greater prosperity will depend on improved coordination of the policy choices made in leading economies over the coming years as they push to maintain the momentum of recovery and build resilience against future shocks.

Growth trends and prospects

According to the UNCTAD report, the global economy is set for a strong recovery in 2021, albeit with a good deal of uncertainty clouding the details at the regional and country levels over the second half of the year. As in the past, policymakers continue to pay undue attention to financial markets, whose horizon rarely stretches beyond quarterly macroeconomic and earnings data and whose sentiment appears jittery even in the face of small changes in leading indicators.

After a 3.5% fall in 2020, world output is expected to grow 5.3% this year, partially recovering the ground lost in 2020, said UNCTAD. However, considering the average annual global growth rate of 3% in 2017-19, world income will still be 3.7% below where its pre-COVID-19 pandemic trend would have put it by 2022. Based on the nominal gross domestic product (GDP) estimates for this year, the expected shortfall represents a cumulative income loss of about $10 trillion in 2020-21. Looking ahead, UNCTAD said it expects world output to grow 3.6% in 2022.

Despite this two-year boost to the global economy, it will take several years for world income to recover the loss from the COVID-19 shock. Assuming, for example, an annual growth rate of 3.5% from 2023 onwards (an optimistic assumption), global output will only revert to its 2016-19 trend by 2030.

Since the pre-COVID-19 trend was unsatisfactory – average annual global growth in the decade after the 2009-10 financial crisis was the slowest since the end of the Second World War – this is a prospect that should raise alarm in policy circles, said the *TDR*.

Such an environment would not get the 2030 Agenda for Sustainable Development back on track and would hinder efforts to mobilize the additional resources needed to address the climate challenge. Moreover, if unanticipated shocks – whether of an epidemiological, financial or climatic nature – hit again, or policy efforts to sustain the current recovery begin to falter, the negative economic impact of COVID-19 would last longer.

This is an outcome that cannot be dismissed lightly, given what happened in the aftermath of the global financial crisis and the current, broken state of international policy coordination, said UNCTAD.

The recovery has to date been unbalanced, reflecting faultlines that were present before the pandemic. There have been substantial differences in GDP growth between regions and countries, with many developing countries falling behind; a sectoral divide between the recovery in services and goods production but also within the service sector between booming financial and digital services and the depressed hospitality and entertainment sectors; and a sharp divergence in income (and wealth) gains amongst social groups.

So far, the world economy appears to be building back separately, said UNCTAD.

In most regions, but particularly in the developing world, the damage from the COVID-19 crisis has been much greater than after the global financial crisis, notably in Africa and South Asia.

Geographically, as of mid-2021, post-lockdown growth accelerations were concentrated mostly in North America, with close regional trade linkages reinforcing a strong fiscal stimulus and monetary accommodation in the United States, and in East Asia, where an infrastructure investment drive (through state-owned enterprises) in China has helped growth ripple across the region.

In this context, the report highlighted the differences in the speed of recovery by examining expected cumulative GDP growth between 2019 and 2021 in countries in the Group of Twenty (G20). The standout performances, on this measure, have taken place in the two G20 countries that avoided a recession in 2020: China and Turkey.

In the case of China, an early lockdown policy, combined with massive testing and related public health measures, followed by a rapid vaccine rollout from the middle of 2021, helped to contain the spread of the virus and allow for a relatively swift rebound of activity. On the demand side, the maintenance of domestic investment projects and the post-lockdown surge in the foreign demand for industrial goods have helped maintain the pace of recovery, although concerns remain about the financial position of some highly indebted state-owned enterprises and the danger of new virus variants.

Turkey did see a sharp contraction in the second quarter of 2020, but this was followed by strong growth in the third quarter, largely thanks to accommodative monetary policy and the ensuing credit boom. Despite a resurgence in infections during the second quarter of 2021, growth has been driven by the country's industrial sector and budgetary support to businesses from the government. Rising prices and pressures on the lira are, however, clouding growth prospects for the second half of 2021, raising concerns about its sustainability.

India suffered a contraction of 7% in 2020 and is expected to grow 7.2% in 2021, while Indonesia had a milder contraction of 2.1% in 2020 and is expected to grow 3.6% in 2021, which is fairly weak given its growth rates in recent years.

In the Americas, the fast recovery in the United States is expected to raise GDP to 2% above its pre-COVID-19 level. This should help Canada to approach its 2019 level. In contrast, despite the pull of demand of the United States, Mexico will fall short of its pre-COVID-19 income in 2021 because of its relatively deeper recession and small domestic fiscal relief in 2020. Argentina is in a similar situation due to tight financial constraints, resulting in large part from its heavy pre-pandemic external borrowing. Brazil should grow slightly above its 2019 GDP this year, thanks to the positive effect of higher commodity exports and a relatively larger and well-targeted fiscal stimulus than in Mexico and Argentina.

Europe is experiencing a disappointing growth recovery, despite a very accommodative monetary policy stance adopted by the European Central Bank. The policies agreed by eurozone governments have been too little and too late. In numbers, despite the recovery in its net exports, the German GDP in 2021 is expected to be almost 3% below its 2019 level. The recovery tends to be even weaker in France, Italy and the United Kingdom, where Brexit disruptions have counteracted the effects of fiscal expansion and rapid vaccine rollout. Europe's historical coordination problem will be felt hardest in Spain and Italy, where the 2021 GDP is expected to be 5.6% and 3.8% below their pre-pandemic level, respectively.

Even in countries with fiscal space, there is a risk of premature withdrawal of fiscal (as well as monetary) stimulus.

The initial economic impacts of COVID-19 were the deep recession and lower inflation. However, since the second half of 2020, due to a combination of the quick recovery of global aggregate demand and some adverse supply shocks, prices have been accelerating in the world's advanced economies, said UNCTAD.

Globally, the rise in commodity prices has pushed the cost of basic inputs higher. Since mid-2020, metal and oil prices have been on the rise, and in May 2021, annual food inflation reached almost 40%, its highest value in 10 years according to the FAO food price index. The increase in food prices has contributed to the rise in the world hunger index since the pandemic, with the greatest harm in developing countries. The pandemic has caused bottlenecks in global value chains, especially in sectors that depend heavily on semiconductors, which, in turn, has raised the price of capital goods and durable consumer goods around the world, with a stronger impact in advanced economies.

Role of fiscal policy

In developed countries the aggressive spread of the virus prompted a set of equally aggressive measures to counter its paralyzing consequences. In contrast, most of the developing world faced the same financial, structural and political constraints that had hampered their ability to intervene in the economy over previous decades, resulting, in most cases, in an exacerbation of domestic and international inequities.

However, even in countries with fiscal space, there is a risk of premature withdrawal of fiscal (as well as monetary) stimulus. While a consensus has emerged about the need for significant public sector intervention, there is no clear agreement yet about its composition or duration. If, as in previous recessions, state intervention is confined to absorbing the immediate shock, it is likely that the deep sources of instability will not be addressed. If that becomes the case, the much-heralded post-pandemic paradigm shift in policymaking would prove to be more a matter of rhetoric than reality, said the *TDR*.

The lesson from previous crises and recovery experiences strongly suggests that the political space created by the pandemic should be used to reassess the role of fiscal policy in the global economy, as well as the practices which have widened inequalities.

At the onset of the pandemic, most governments were quick to announce large spending packages, as recommended by international organizations. Yet, in the absence of an internationally coordinated effort, the global stimulus was not as effective as it could have been. In many cases, actual measures were insufficient and considerably smaller than initial announcements, said UNCTAD.

According to International Monetary Fund (IMF) data, 41 developing countries actually reduced their total expenditures in 2020, 33 of which nonetheless saw their public-debt-to-GDP ratios increase. A similar divergence is evident also within the group of developed economies. Developed countries were able to increase their total primary outlays, relative to the past, significantly more than developing countries with similar or lower public debt ratios in 2019.

Agreement on practical solutions to reduce fiscal constraints has proven elusive. Actions taken over the past months to lessen foreign exchange constraints on developing economies have been narrow in scope and temporary in nature: the G20 granted a suspension of the debt servicing of bilateral loans to a small number of countries, and the IMF and the World Bank offered emergency credit. No significant action was taken regarding private financial claims, or to address the urgent need of direct assistance (in cash, services or equipment, let alone waivers on patents) to combat the health crisis.

Thus, said UNCTAD, while massive amounts of public money were used by the major central banks to keep private credit institutions afloat, governments in developing countries continued to experience severe constraints both on servicing their external debt and on supporting production, exports, income and employment throughout the pandemic. The overriding concern continues to be avoiding domestic actions that could trigger financial turmoil or anticipating when the major central banks will decide to withdraw their massive liquidity injections or raise their interest rates. Moreover, fear of upsetting private creditors has prevented many eligible countries from taking advantage of the G20 Debt Service Suspension Initiative (DSSI): only 46 of 73 eligible countries have participated.

Hence, whilst the pandemic has brought back the shock-absorbing dimension of fiscal policy into the mainstream of counter-cyclical demand management, it is clear that additional steps are necessary to guarantee that all countries can employ even those minimal fiscal measures in line with their own domestic circumstances and to the benefit of global recovery and financial stability, said UNCTAD.

According to the *TDR*, since the beginning of the pandemic a consensus seems to have materialized in favour of maintaining fiscal and monetary support beyond the immediate recovery. However, the question remains whether fiscal policy will remain a counter-cyclical tool for macroeconomic emergencies, or if it merits a more structural role to promote development and sustained job creation, especially in developing economies where leaving structural change to market forces has, invariably, ended in disappointment.

A fiscal policy that withdraws stimulus at the earliest possible point in the cycle, even if extended to prevent possible damage to long-term growth from skill obsolescence or debt deflation, cannot play its necessary structural role. The current approach, despite giving fiscal policy a relatively longer span of action, continues to imply that governments cannot actively prevent or preemptively reduce the size of downturns, which simply occur from time to time despite demand-management policy. The function of fiscal policy then should be solely counter-cyclical, mostly prompted in the downward part of the cycle. More ambitiously, measures such as guaranteed minimum income schemes and progressive taxation can provide a floor to the fall in disposable income.

More concerted and bolder international action is urgently needed to reduce the debt overhang in developing countries through substantive debt relief and outright cancellation.

Even though spiralling sovereign debt crises were avoided in 2020, developing countries' external debt sustainability further deteriorated, revealing growing pressures on external solvency in addition to immediate international liquidity constraints. Growing optimism about financial resilience in developing countries is premature, said UNCTAD.

The external debt stocks of developing countries reached $11.3 trillion in 2020, 4.6% above the figure for 2019 and 2.5 times that for 2009 ($4.5 trillion). The slower growth of these stocks in 2020 compared with average annual growth rates between 2009 and 2020 (7.7%) reflects a combination of more limited access to international financial markets, increased reliance on concessional financing sources and the temporary impact of partial debt service payment suspensions through the G20 DSSI for low-income economies.

Rising commodity prices from around the second quarter of 2020 helped to alleviate balance-of-payments constraints in developing-country commodity exporters, but were also a contributory factor to inflationary pressures and to rising food insecurity in commodity-importing developing countries, while the recovery of remittances has been very gradual and tourism revenues have remained subdued. But these rebounds, as well as the gradual return of global investors to some developing countries, have been insufficient to compensate the impact of their drastic collapse in the first half of the year on the ability of developing countries to service their external debt obligations.

At the same time, substantive debt relief has not materialized. The only lasting multilateral relief is being provided by the IMF through the cancellation of debt service obligations in 29 countries due to it, amounting to $727 million between April 2020 and October 2021.

UNCTAD suggested that more concerted and bolder international action is urgently needed to reduce the debt overhang in developing countries through substantive debt relief and outright cancellation. The alternative to addressing structural solvency constraints and putting developing countries' external debt burdens on a more sustainable, long-term footing is another lost decade for development marked by developing countries struggling under unsustainable debt burdens rather than investing in more promising approaches after the pandemic and achieving the 2030 Agenda.

Towards a new economic settlement

According to UNCTAD, governments in the North have been seen to abandon parts of the 40-year-long neoliberal policy dogma to protect lives and livelihoods amidst the pandemic and an unprecedented economic contraction. But without a more thorough revision of multilateral rules and norms, inequality will persist, the world will squander financial resources and fail to meet the challenge of the climate crisis, even as growth returns, it said.

The world needs more effective multilateral coordination, without which recovery efforts in advanced countries will damage development prospects in the South and amplify existing inequalities, UNCTAD added. Through 2025 developing countries will be $12 trillion poorer because of the pandemic; the failure to roll out vaccines could knock another $1.5 trillion from incomes across the South.

According to the *TDR*, speculating on the future direction of economic policy after COVID-19 is complicated by the extemporaneous nature of the response to the pandemic in many countries, as well as the high degree of uncertainty at the current juncture. Moreover, the global financial crisis stands as a warning that directions taken under the pressures of a particularly stressful moment may not persist once those pressures ease.

Under the circumstances, it is perhaps not surprising that a good deal of attention has been given to the actions and pronouncements of the new administration in the United States, with some already anticipating "the dawn of a new economic era" and others a "new variant" of capitalism.

According to the *TDR*, a nascent break with past policy prescriptions – and the emergence of a new consensus – is detectable in the multilateral financial institutions, with their endorsement of big spending programmes, taxing the rich and curtailing the market power of big business, their acknowledgment that capital flows need to be more effectively managed including, under some circumstances, through capital controls, and their endorsement of a strongly interventionist policy agenda to backstop a green investment push. Another bastion of neoliberal policy thinking, the Organization for Economic Cooperation and Development (OECD), has also encouraged its members to spend big and protect jobs and has recognized that socially inclusive and cohesive outcomes will require "a fundamental reappraisal of the relationship between state, society, the economy and the environment".

Others, however, have warned that the death of neoliberalism is exaggerated, stressing its adaptability to changing circumstances and pointing to new strains that will extend the power and influence of under-regulated financial markets. Some have also pointed to the policy continuities attached to the lending programmes of multilateral financial institutions during the pandemic and the call from G7 trade ministers for deeper liberalization and a further narrowing of policy space.

If there is to be a genuine break with the past 40 years, said UNCTAD, governments must not only confront the vested interests that have built up considerable economic and political capital from the skewed distribution patterns under hyperglobalization, but also acknowledge the deep structural constraints and vulnerabilities that have continued to obstruct sustainable growth and development prospects.

Doing so will have to allow for greater flexibilities in the setting of policy priorities by developing countries and ensure sufficient policy space for the measures needed to manage ambitious goals and resulting trade-offs, along with differential treatment in support of their efforts to mobilize the resources needed to pursue the 2030 Agenda.

That said, the COVID-19 crisis has already opened the door to taboo-breaking approaches to policymaking that could help countries, at all levels of development, navigate towards a better future, said UNCTAD. These would include recognition that:

1. Governments are not households. The COVID-19 crisis has not only seen advanced-country governments spend on an unprecedented scale, it has forced them to abandon the idea that budgets should always be balanced and instead to embrace, whether implicitly or explicitly, a functional approach to government finance which allows governments to spend first and tax later, and under certain conditions to spend solely with state-issued money. Recognizing this opens up a discussion on the determinants of fiscal space, particularly in developing countries, where external factors have a much greater influence on the spending capacity of governments and where reforms to the multilateral financial institutions, as well to the domestic tax system, can help provide greater room for both counter-cyclical and social expenditures.
2. Revisiting central bank independence. Central banks have, since the last crisis, moved away from a singular focus on inflation targeting into economic firefighting through their balance sheet operations. This approach has continued in the current crisis, including, in some cases, direct lending to the private sector. Accepting that central banks are the lynchpin of a credit-making machine necessarily extends their regulatory authority, including over the shadow banking system, taming boom-bust credit cycles, and more broadly extends their risk horizon to include wider threats to financial stability, such as from climate change and rising inequality. Given such wider responsibilities, greater democratic oversight is appropriate.
3. Resilience is a public good. The idea that "no one is safe until everyone is safe" clearly extends to challenges beyond the immediate health crisis. While some elites appear desperate to find ways to isolate themselves from economic, health and environmental shocks, COVID-19 has reinforced the idea that resilience is a public good, in the sense that it is both non-excludable and non-rivalrous, and one with global dimensions. Countries need universal systems of basic services and social protection, but this imperative also raises specific challenges for developing countries over how to adapt the goals of a developmental state to the challenges, including financial challenges, posed by protecting citizens against shocks. In this respect, funding worldwide resilience will require new and ambitious thinking on the mobilization and dispersion of financial resources.
4. Finance is too important to be left to markets. Wall Street, and its counterparts elsewhere, has not been good at providing long-term, affordable finance even as its indulgence of speculative excess has undermined resilience at country and community levels; rates of capital formation have been too low in many countries and at all levels of development. Equally, the willingness to allow parts of the financial system

to operate in the shadows, beyond regulatory oversight, has proved damaging, along with the discredited idea that they are disposed to regulate themselves. A financial system that accords a more significant role to public banks, breaks up and guards against the emergence of mega-banks, and exercises stronger regulatory oversight is less likely to generate speculative excesses and more likely to deliver a healthier investment climate.

5. Minimizing wages is bad for business. The idea, grounded in microeconomic logic, that wages are no more than a cost of production has underpinned the drive to make labour markets as flexible as possible. But not only are wages a critical source of demand, their growth can stimulate productivity. Moreover, decent wages are a key component of a strong social contract. Consequently, healthy labour markets require that wages are embedded in robust arrangements of voice and representation and supported through minimum wage and related labour legislation that provides appropriate protection against abusive practices.
6. Diversification matters. No country has made the difficult journey from rural underdevelopment to post-industrial prosperity without employing targeted and selective government policies that seek to shift the production structure towards new sources of growth. The stalled industrial transition in much of the developing world, or worse still "premature deindustrialization", has reinforced their peripheral position in the international division of labour, left them more vulnerable to external shocks and perpetuated high levels of informality. Industrial policies are even more urgent where meeting the climate and digital challenges implies structural and technological leaps, and a just transition requires the effective management of stranded activities that ensures new jobs are created in the right locations.
7. A caring society is a more stable society. The question of care work is becoming an integral part of any policy agenda for recovering better, including transforming paid care work into decent work with the wage levels, benefits and security typically associated with industrial jobs in the core sector of the labour market. But more generally, the design of proactive transformational social policy must go beyond offering simply a residual category of safety nets or floors designed to stop those left behind from falling further. *(SUNS9418)*

Third World ECONOMICS No. 732, 1-15 October 2021

EU, Switzerland, UK continue opposition amid support for TRIPS waiver

Progress towards an intellectual property waiver to aid the fight against COVID-19 is being held up by three members at the WTO.

by D. Ravi Kanth

WASHINGTON: Amid the groundswell of international support for a TRIPS waiver at the WTO coupled with more countries joining as co-sponsors of the waiver proposal, three WTO members – the European Union led by Germany, Switzerland, and the United Kingdom – seem determined to undermine an expeditious decision on the waiver, said people familiar with the development.

The intransigent positions adopted by these three members against the waiver appear more like an attempt to protect the monopolies and massive profits of Big Pharma over the lives and livelihoods affected by the COVID-19 pandemic, said people familiar with the discussions.

The waiver proposal seeks to temporarily suspend certain provisions in the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) relating to copyrights, industrial designs, patents and protection of undisclosed information in order to ramp up the production of COVID-19 vaccines, therapeutics and diagnostics.

However, the EU, Switzerland and the UK have continued to oppose the waiver on "ideological" grounds, which could create a permanent state of "vaccine apartheid" as well as lead to the loss of millions of lives due to COVID-19, said people who asked not to be quoted.

When launching the *Trade and Development Report 2021* recently, the new Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), Rebeca Grynspan, said her organization would support the waiver to accelerate production of vaccines across countries in the Global South.

TDR 2021 said "the reluctance of other advanced economies to follow the lead of the United States on [supporting] the vaccine waiver is a worrying sign and a costly one; on one recent estimate, the cumulative cost (in terms of lost income) of delayed vaccination will, by 2025, amount to $2.3 trillion with the developing world shouldering the bulk of that cost."

Meanwhile, in a separate development on 13 September, 140 former heads of state and Nobel laureates called on the candidates for German Chancellor to support a wide and comprehensive waiver of intellectual property rules on all COVID-19-related technologies at the WTO if elected and chosen to lead the next German government.

They wrote in an open letter to the candidates that "German publicly-funded science developed the world-class mRNA BioNTech-Pfizer vaccine ... Yet vaccines are zero per cent effective for those who cannot access them. The fact that a few vaccine producers hold monopoly control over how much vaccine is made and where it is made has resulted in a serious shortage of doses ... The artificial restriction on manufacturing and supply is leading to thousands of unnecessary deaths from COVID-19 each day, and countless thousands of cases – a proportion of which will suffer long term, adverse health impacts."

Non-engagement

At an informal WTO TRIPS Council meeting on 14 September, the 64 co-sponsors of the TRIPS waiver proposal (with Malaysia being the latest co-sponsor) expressed grave concerns over continued non-engagement by the waiver opponents.

The three opponents – the EU, Switzerland and the UK – repeatedly raised the same questions without showing any willingness to seriously engage in the negotiations to find a solution, said people familiar with the development.

The chair of the TRIPS Council, Ambassador Dagfinn Sorli from Norway, said it is his assessment from small group meetings that have been held that there is little change in the members' positions.

He said he would prepare a neutral and factual draft report on the waiver discussions towards the end of September to be presented to the WTO General Council, which is scheduled to meet on 7-8 October. Unless there are any major changes in members' positions until then, he said, that report will be very closely based on the previous status report submitted to the General Council in July.

The chair's last report said that the TRIPS Council had "not yet completed its consideration" of the waiver request and would therefore "continue its consideration" of the request, including through small-group consultations and informal open-ended meetings, and report back to the General Council.

The chair intends to convene a formal meeting of the TRIPS Council on 4 October to discuss/agree on his draft status report. Members also agreed to hold small group meetings on 23 and 29 September.

During the 14 September TRIPS Council meeting, South Africa, a leading co-sponsor of the waiver proposal, highlighted the grave situation of the COVID-19 pandemic. Despite the World Bank's assessment of around 5.6% world economic growth in 2021, the global economic recovery appears "highly asymmetrical, however, with only two countries accounting for a quarter of the said growth," South Africa said.

"Vaccine inequity" is a major contributory factor, said South Africa. With 75% of vaccines going to 10 countries, according to a World Health Organization estimate, the EU is able to vaccinate 60.1% of the adult population; the UK 64.4%; Switzerland 51.9%; and Africa only 3.3%.

Having spent months answering questions from various members and submitted a revised proposal on the waiver to address the various concerns raised, the co-sponsors regret that rather than getting into a "genuine text-based negotiation process, the meetings were used to ask and often repeat questions which had already been dealt with", South Africa said. The co-sponsors are frustrated and disappointed as their continued efforts to engage in good faith seem to have not yielded the anticipated results.

Even though the co-sponsors showed flexibility and good faith in agreeing to the consideration of the EU's separate proposal on compulsory licensing, South Africa told the chair, "you will recall that at the time of its introduction, the proposal's legal basis was not certain and the co-sponsors had serious reservations about its efficacy."

South Africa reckoned that members should avoid "a binary between the TRIPS waiver proposal and the EU's proposal," suggesting that it is prepared to engage constructively on all proposed solutions.

Such engagement, said South Africa, would be consistent with a recent European Parliament resolution "calling for support for proactive, constructive, and text-based negotiations for a temporary waiver of the WTO TRIPS Agreement, aiming to enhance global access to affordable COVID-19-related medical products and to address global production constraints and supply shortages".

South Africa said the "TRIPS waiver is a credible response and members should engage in good faith discussion as the overall objective for all of us should be to save lives." It is a necessary, targeted, time-bound and proportionate legal measure directed at addressing intellectual property barriers in a direct, transparent and efficient fashion, which is consistent with the WTO legal framework, South Africa argued, suggesting that an expeditious agreement would vindicate global solidarity.

South Africa suggested the following immediate actions in the following weeks:

1. Members being encouraged to engage constructively with the text of all proposals on the table. This entails focusing on the topics at hand in each meeting of the TRIPS Council.
2. Aligning the discussion in the TRIPS Council to the process led by New Zealand Ambassador David Walker, who was appointed by the WTO General Council to facilitate the crafting of the WTO's response to the pandemic. "The TRIPS waiver is a critical part of the WTO response to the pandemic and is crucial to a credible outcome at MC12 [the WTO's 12th Ministerial Conference, which is scheduled to take place in end-November]. It is important that we work with speed to deliver an outcome before MC12. This necessitates that we engage differently and in a solution-based process. The outcome will be possible if we sit around the negotiations table with the sole objective of saving people's lives. People are watching and history will judge us harshly if we fail."
3. "We hope to get a schedule of meetings that will assist to structure our discussions. We believe on the need to come back to the scope of the waiver, including picking up the discussion on undisclosed information and sharing of regulatory data. The duration and implementation of the waiver are also issues that seemed to be of interest to members. We assure members that we remain flexible and are committed to successful negotiations of the waiver proposal."
4. "We will continue our outreach and are willing to engage substantively with members both within and outside the TRIPS Council setting with the view to reaching solutions."

Loss of time

India, another leading co-sponsor of the waiver proposal, said it did not want to waste more time in countering the arguments presented by a few members at the TRIPS Council who maintained that the waiver is not the response to enhance supplies and production and combat COVID-19. Expressing concern over the loss of time in discussing the same issues repeatedly, India said it is time for members to fulfil their commitments, either through consensus or by starting substantive text-based negotiations.

India regretted that some members only accepted engaging in a text-based process to evade or delay any constructive engagement on the waiver text.

It welcomed Malaysia as a new co-sponsor of the waiver proposal, emphasizing that the majority of WTO members – except a handful – see the waiver as the best response to the current health crisis.

It reiterated that the waiver would provide manufacturers around the world the freedom to operate and scale up production of vaccines. Such a process would lead to greater accessibility and affordability.

Many other developing and least-developed countries including Cuba, Bangladesh, Bolivia, Tanzania (on behalf of the African Group), Malaysia and Indonesia made strong interventions in support of the waiver proposal.

Australia, which announced its support for the waiver recently, said it backs it as a way to send the world a powerful message of solidarity through a positive, meaningful and consensus-driven outcome at MC12. Also, a waiver decision would send a strong signal that the WTO has the ability to respond to a major global crisis.

Australia expressed concern that some of the entrenched views repeatedly expressed in the TRIPS Council are putting at risk the WTO's ability to achieve consensus. It urged members to find common ground.

Australia also said it looks forward to progressing the Trade and Health Initiative, which includes provisions on export restrictions, customs, services, technical regulations, tariffs, transparency and the expansion of voluntary licensing arrangements.

China, which supports the waiver, said that over the past couple of weeks the momentum on vaccine-related discussions has been especially notable in various fora, including APEC, the G20 and BRICS. It emphasized that the WTO has the responsibility to provide a response and a solution to the pandemic, in particular from the perspective of intellectual property. It called for intensifying the work, suggesting that upcoming discussions must build upon the previous discussions so as to arrive at a tangible outcome.

Without mentioning the words "temporary waiver", the US stressed that the most important part of global efforts in fighting COVID-19 is increasing vaccine manufacturing capacity domestically and in other countries around the world.

It welcomed the clarifications provided before the summer break with regard to the revised or new proposals and said that moving towards text-based negotiations was a move in the right direction. It said however that efforts by WTO members have lost momentum and forward progress has stalled in recent weeks, despite the fact that the urgency of the pandemic continues.

The US said the WTO needs to up its game to demonstrate its relevance in a time of global humanitarian and economic need, suggesting that a way forward can and should be achieved through moving this effort beyond form and going into substance.

It spoke about its consultations as well as bilateral meetings with other members to listen to views and to explore ways forward. The goal has been to encourage members to weigh in with approaches to moving forward with steps that contribute to increasing production and equitable distribution of vaccines.

It called for moving beyond entrenched policy positions and making a meaningful contribution to addressing the pandemic crisis. It said the current crisis is a collective one, adding that members' solution through the WTO requires a collective sense of purpose and collective responsibility.

New Zealand, South Korea and Brazil also underscored the need to think out of the box to find a solution.

New Zealand reiterated its support for a TRIPS waiver outcome which covers vaccines. It urged members to move away from the repetition of entrenched positions in order to facilitate the emergence of an outcome and show the world that intellectual property is a key tool as part of the WTO's efforts to contribute to the global response to the pandemic.

South Korea said while the protection of the intellectual property system is an important principle in international trade, members should examine if exceptional measures can be taken to cope with the grave health crisis the world is facing. It said a broadly based and holistic approach should be taken in order to effectively respond to this and future pandemics, including by encouraging technology transfer, facilitating the supply of raw materials and strengthening the COVAX operation.

Brazil called for openness and flexibility with regard to the different avenues of negotiations which are underway in the TRIPS Council, including the waiver proposal. Brazil stressed the need to engage with all members with a view to exploring different tools that contribute to tackling the challenges countries are facing to ramp up production of life-saving drugs and vaccines. It also said that it is ready to discuss targeted reforms of the TRIPS Agreement in order to improve the compulsory licensing system, based on the EU proposal. *(SUNS9418)*

Humanity facing a global water crisis, says UN expert

Poverty and unsustainable aquatic ecosystems are depriving people of adequate water and sanitation, according to a UN rights expert.

by Kanaga Raja

GENEVA: The world is facing a global water crisis generated by the confluence of two structural flaws in the current development model, namely, the unsustainability of the aquatic ecosystems and the poverty, inequality and discrimination that prevail under the current socioeconomic order.

This was one of the main conclusions highlighted by the United Nations Special Rapporteur on the human rights to safe drinking water and sanitation, Pedro Arrojo-Agudo, in his first report presented to the UN Human Rights Council, which is currently holding its 48th regular session from 13 September-8 October.

Humanity faces, among others, a crisis that is as tragic as it is paradoxical: the global water crisis on the water planet, the blue planet, said Arrojo-Agudo. The facts that 2.2 billion people do not have guaranteed access to safe drinking water, 4.2 billion people live without access to a basic sanitation service, almost 673 million practise open defecation and that, as a consequence, there are around 2 million deaths per year, along with many other arguments, justify the characterization of the situation as a global water crisis.

"It is a global water crisis that is generating a growing wave of socio-environmental conflicts around the world over the management of water and aquatic ecosystems, conflicts carried out by those who are the first to suffer from the crisis on its various fronts."

According to the Special Rapporteur, the root causes of the global water crisis lie at the confluence of two major structural flaws in the current development model: (a) the unsustainability of the aquatic ecosystems, which degrades the quality of flows, turning water from being the key to life into a terrible vector of disease and death; and (b) the poverty, inequality and discrimination under the prevailing socioeconomic order.

To make matters worse, he said, there are currently three factors that are directly and indirectly aggravating and intensifying the global water crisis: the commodification and financialization of water, climate change and, recently, the COVID-19 pandemic, which has deepened inequalities and extended poverty.

On the commodification and financialization of water, the Special Rapporteur said he is concerned that the prevailing neoliberal vision tends to consider water as a simple economic resource, useful and scarce, to be managed as a commodity. "That approach opens up business opportunities in the privatization of water and sanitation services, in the sale and purchase of water rights or even in the management of water as a financial asset based on speculative strategies."

With that vision applied, people become mere customers, which increases the vulnerability of those 2.2 billion impoverished people by turning them into poor customers who find it very difficult to pay. In short, Arrojo-Agudo said, that vision, far from solving the global water crisis, actually aggravates it by making those living in poverty more vulnerable, weakening compliance with human rights and seriously degrading democratic water governance.

With regard to climate change, he said that the serious problems of unsustainability currently affecting a large part of the world's aquatic ecosystems could worsen to the point of collapse, with unprecedented socioeconomic consequences.

As for the COVID-19 pandemic, the fact that it is disproportionately affecting the most impoverished and marginalized populations is deepening the inequality, marginalization and poverty that fuel the global water crisis.

Water poverty

According to the rights expert, water is extremely abundant on planet Earth. However, 97.5% is salt water and only 2.5% is fresh water, mostly stored as perpetual ice at the poles or on mountaintops. Around 0.5% of the total volume is available fresh water, circulating through rivers, lakes and aquifers.

The Special Rapporteur said it is simplistic to argue that freshwater scarcity is at the heart of the global water crisis. If that approach were taken, one should also consider the atmosphere to be scarce, as it is not able to digest the emission of greenhouse gases without altering the climate, and even the planet to be insufficient.

That type of diagnosis exists, however, and often leads, on the one hand, to proposing new hydraulic mega-projects and intensifying the exploitation of rivers and aquifers, which would put additional and increased pressures on ecosystems and accelerate their unsustainability crisis. It also leads, on the other hand, to justifying the treatment of water as a simple, useful and scarce economic good. Such an approach, said Arrojo-Agudo, constitutes a serious and dangerous mistake.

From the human rights perspective, the key reference point is the 2.2 billion people who do not have guaranteed access to drinking water and the 4.2 billion who lack sanitation. The amount of water needed per person to satisfy those human rights, while depending on the climate and culture of each region, is in fact a minimal amount.

According to the Special Rapporteur's estimate, taking the reference of 50 litres of safe drinking water per person per day estimated by the World Health Organization in a scenario in which water is delivered fewer than 100 metres from the home, the total required would be about 3% of the water that is currently taken on average from nature for people's needs and economic activities. "No river will dry up if, in the future, humanity takes only 3 per cent of the water from it," he said.

In today's urban society, in which people have to buy everything they need, having a low income that does not allow access to what is necessary for a decent life undoubtedly implies poverty, he said. According to the World Bank, in 2017, one-tenth of the world's population, around 689 million individuals, had an income of less than $1.90 per day. Although income is only one of the dimensions that should be taken into consideration, those estimates hint at the magnitude of global poverty.

The non-fulfilment of human rights such as the rights to adequate housing, health, education, food, water and sanitation, which are in fact inter-related, is perhaps the clearest expression of extreme poverty, said the Special Rapporteur. "Of them all, it is perhaps the breach of the right to sanitation that triggers the non-compliance of all the others." For that reason, dedicating attention and effort not only to the human right to water, but also to sanitation, which is often kept in the shadows, is key in the fight against poverty.

In rural areas and particularly for indigenous peoples, whose patterns of life are more closely linked to nature, territory and community values, most of the necessities for a dignified life are not bought but provided by nature or the community, said Arrajo-Agudo. A healthy river is the guarantee of abundant drinking water and even food, providing for irrigation to grow crops and for fishing.

Problems emerge when large extractive ventures, hydraulic mega-projects, deforestation or large agribusiness break the sustainability of ecosystems and, in particular, of the rivers on which those communities depend. In such cases, poverty arises from discrimination towards those communities. Rarely do large dams flood wealthy, influential populations, noted the Special Rapporteur. Often such projects affect indigenous peoples or peasants who are discriminated against and victimized by the alleged development of the projects, which plunge into poverty and destitution those who up until then had lived with dignity despite having little income.

In urban settings, water supply and sewage networks often do not reach the large slums or informal settlements where the poorest families live. Despite having negligible incomes, they end up buying the water they need to live from vendors with tanker trucks, with no guarantee of drinkability and paying much more than the cost of water for wealthy families in the neighbourhoods reached by the supply network. It is estimated that they pay between 10 and 20 times more than their more affluent neighbours.

In many developing countries, the fact that the urban water supply is not drinkable is assumed to be normal or unavoidable. In that context, those with sufficient income consume bottled water, even if it costs around $1,000 per 1,000 litres, while the poorest end up assuming the risks involved in drinking tap water.

Those urban networks, said the Special Rapporteur, often have leaks in the order of 50% or more, so the way to save on leaks is to cut off the water in different neighbourhoods and districts in turn. That is indeed a very important saving, but it necessarily involves supplying non-drinkable water, as massive contaminant intrusion occurs through the same leakage points when there is no water circulating in the network and therefore no pressure in the pipes.

The fact that water is not safe to drink is sometimes due to toxic pollutants. Unfortunately, the toxic contamination of rivers and aquifers by mining and industrial discharges or even by diffuse pollution from agriculture is growing daily, said the Special Rapporteur. Heavy metals, pesticides and other toxins end up poisoning millions of people little by little through urban water networks, even if the water is chlorinated.

Since adequate public information is often not accessible and the effects on health are not immediate, the most impoverished often consume that water and suffer disproportionately from negative health impacts in the medium and long term, aggravating their situation in poverty.

One of the benchmarks of poverty in both developing and developed countries is water poverty that arises in the form of water disconnections to poor families due to non-payment. Such disconnections, in the Special Rapporteur's view, should be considered a violation of their human rights to water and sanitation.

The health of people, especially those living in poverty, is closely related to the health and ecological status of the rivers or aquifers from which they receive water. Therefore, the health of those ecosystems has an impact on the enjoyment of the human rights to water and sanitation, said the rights expert.

Degrading or breaking the sustainability of rivers, wetlands and aquifers also endangers other human rights by affecting fishing and the livelihoods of riverine communities. It can also seriously affect the sustainability of the deltas and beaches on which many people's lives depend.

The deterioration of the biodiversity of freshwater ecosystems is alarming: of the 3,471 mammal, bird, amphibian, reptile and fish populations assessed, there has been an average decline of 84% since 1970. Millions of kilometres of river ecosystems have been destroyed or severely affected. Nearly 90% of the wetlands that existed in the 18th century have disappeared, said the Special Rapporteur.

"Leave no one behind"

The COVID-19 pandemic has exposed the vulnerability of all people and forced the world to undertake a collective response, Arrajo-Agudo said. The option of shielding borders to restrict risks to remote countries, as was achieved with other diseases, did not work with COVID-19; the virus travelled by plane, even in business class.

Although vulnerability is greatest in impoverished populations, particularly among women and girls, as well as other marginalized groups, no one will be out of harm's way until everyone is under cover. For the first time, the motto that governs the Sustainable Development Goals, "leave no one behind", is felt and imposed as inescapable.

The pandemic has highlighted the role of adequate hygiene with soap and water to prevent infection. What had been evidence argued a thousand times – the role of water and sanitation services as a basic tenet of public health – has become an urgent and unavoidable tool that should not leave anyone behind, to ensure effectiveness in fighting the virus. That has led many governments to ban disconnections of water supply service for non-payment as an emergency measure in the face of the pandemic.

General consensus is growing on the need to strengthen public health systems as non-profit public efforts that seek to protect the health of all those who have been left behind, according to the Special Rapporteur. There is also growing evidence of the need to integrate, under the consensus, the management of water and sanitation services as a cornerstone of public health, prioritizing the corresponding public economic efforts to empower local and sub-national governments, as well as community authorities, in their competencies in water and sanitation services and facilities and the corresponding obligation to guarantee the human rights to safe drinking water and sanitation.

In any case, beyond that positive shift in public awareness, the pandemic is deepening and expanding inequality and poverty, which, it must not be forgotten, is the first structural flaw causing the global water crisis, by affecting more intensely those who live in the worst conditions of habitability and hygiene.

The approach based on maximizing benefits that dominates the development and application of vaccines increases the problems of inequity, exacerbates the impact of the pandemic among the poorest and increases the risks of virus mutation, said the rights expert. "Vaccines maximize individual and collective resilience to disease, but they must be guaranteed for everyone, including the poorest, prioritizing the principle of the general interest over the right to excessive profits of large pharmaceutical corporations."

Over the past few decades, the prevailing neoliberal vision has been proposing that water be considered as a commodity to be managed under the logic of the free market, Arrajo-Agudo said. Adopting that approach, privatized management of water and sanitation services has been promoted and water markets have been created, leading to an increase in de facto private appropriation of water by those holding concessions for its use. Recently, under the vision of water management as a business space, water rights have come to be managed as financial assets in the Wall Street futures markets under the logic of speculative strategies.

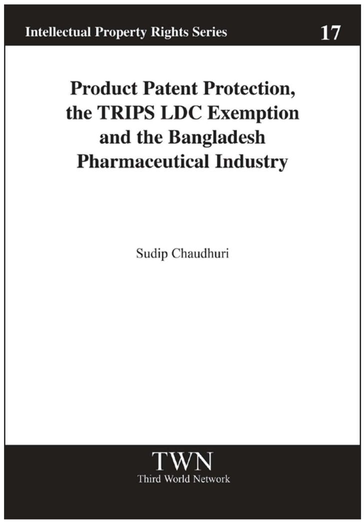
In the Special Rapporteur's view, water must continue to be considered as a public good, preserving the values of participation and common responsibility treasured by community-based management. The global water crisis must be met by promoting democratic water governance that ensures the sustainability of ecosystems and develops a human-rights-based approach to water management under legal rules that regulate the ethical priorities outlined above.

Managing water according to purely market logic, through privatization, commodification and even financialization strategies, makes those living in poverty more vulnerable, jeopardizes their human rights to safe drinking water and sanitation, and undermines the sustainability of ecosystems, contradicting both the consideration of water as a public good and the logic of the general interest, said the Special Rapporteur.

In short, to face the global water crisis with those 2.2 billion people without guaranteed drinking water and 4.2 billion without sanitation, it is necessary to build and strengthen democratic governance practices, he concluded. *(SUNS9422)*

TWN Intellectual Property Rights Series No. 17

Product Patent Protection, the TRIPS LDC Exemption and the Bangladesh Pharmaceutical Industry



By Sudip Chaudhuri

As a least developed country (LDC), Bangladesh is currently exempted from the requirements under the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to grant patent protection for pharmaceutical products. Consequently, there is scope for the country's pharmaceutical industry to manufacture and sell medicines whose production would otherwise be controlled by a patent-holding firm.

This paper finds that this opportunity has been made use of to positive effect: in comparison with neighbouring India where pharmaceutical product patenting is in force, the market for several new pharmaceuticals in Bangladesh is more competitive and the medicines more affordable. Not only has this benefitted patients domestically, but Bangladesh has also played a key role in supplying essential medicines to other countries.

For this potential to be fully realized, however, the Bangladesh government needs to support the technological development of its industry, particularly the active pharmaceutical ingredients (API) sector. In addition, Bangladesh should maximize the use of TRIPS flexibilities for the freedom to operate in the pharmaceutical sector, which, as this paper shows, has had significant favourable impact thus far.

Available at https://twn.my/title2/IPR/ipr17.htm

 Third World ECONOMICS No. 732, 1-15 October 2021

COVID-19 recovery requires justice beyond rhetoric

Transformational policies are needed to combat rising inequality and build a socially just, inclusive post-COVID world.

by Jens Martens

Policy responses to the COVID-19 pandemic and resulting economic crisis have exacerbated rather than reduced global inequalities.

On the one hand, the net wealth of billionaires has risen to record levels since the outbreak of the pandemic (increasing by more than $5 trillion to $13.1 trillion from 2020 to 2021). On the other hand, the number of people living in extreme poverty has also increased massively (by some 100 million to 732 million in 2020). These contrasts alone show that something is fundamentally wrong in the world.

In response to the disastrous effects of the pandemic, there was much talk of solidarity with regard to health support, including access to vaccines. But the brutal national competition for vaccines shows that solidarity is embraced by many world leaders merely as a rhetorical flourish.

The World Health Organization (WHO) made an early appeal to countries to agree on a coordinated distribution of vaccines, with available doses distributed fairly according to the size of each country's population. This has not happened. By the end of August 2021, more than 60% of the people in high-income countries had received at least one dose of COVID-19 vaccine, but less than 2% had done so in low-income countries.

The European Commission, the US, the UK and numerous other countries have signed bilateral COVID-19 vaccine agreements with pharmaceutical producers to secure vaccine quotas. By the end of August 2021, more than 400 agreements had been concluded, securing over 18 billion doses of vaccine. The European Commission has so far negotiated supply agreements for 4.3 billion doses, equivalent to eight vaccine doses per capita of the EU population. The UK could vaccinate its population nine times with the contracted doses, the US 10 times and Canada as many as 16 times.

Exacerbating the problem for many countries in the Global South is the enormous cost of vaccines. The producers do not charge standard prices but vary their prices depending on the quantity purchased and the bargaining power of the purchaser. Occasionally, they grant preferential terms to rich countries, while countries in the Global South sometimes have to pay higher prices. For example, the European Commission received a batch of AstraZeneca vaccines for $2.19, while Argentina had to pay $4.00 and the Philippines $5.00. Botswana had to pay $14.44 million for 500,000 doses of the Moderna vaccine, or $28.88 per dose, while the US got it at almost half the price (US$15.00).

While the vaccine pharmaceutical oligopoly makes exorbitant profits, countries of the Global South are confronted with falling government revenues and rising debt burdens. The situation will worsen as regular vaccine boosters become necessary in the coming years. What is tantamount to a licence to print money for the pharmaceutical companies is a massive burden on public budgets.

In view of this dramatic disparity, the promise of the 2030 Agenda for Sustainable Development to "leave no one behind" remains an empty slogan.

Insufficient responses to the global health crisis

As an immediate response to the global health crisis, the People's Vaccine Alliance has formulated "5 steps to end vaccine apartheid". These are in line with the demands derived from the analyses in the civil society *Spotlight on Sustainable Development 2021* report.

Increasing global vaccine production capacity, lowering market prices and substantially increasing public financial support are vital, especially for the poor and disadvantaged people in the Global South.

One way to overcome the vaccine shortage is to accelerate technology transfer. In May 2020, WHO established the COVID-19 Technology Access Pool (C-TAP), designed to pool voluntary licences, research and regulatory data. But most countries with large vaccine production capacity, such as the US, Germany, China and India, do not support the initiative. Thus, it has so far remained without any noticeable impact.

Faced with scarce global production capacity, India, South Africa, Kenya and Eswatini applied for a waiver under the TRIPS Agreement of the World Trade Organization (WTO) to temporarily remove patent protection for COVID-19-related vaccines, medicines and devices. The TRIPS waiver is intended to enable manufacturers in the Global South in particular to produce medicines and vaccines more quickly and at lower cost.

More than 100 countries support this initiative, including the US as of May 2021. The EU, the UK, Switzerland and the pharmaceutical companies and lobby groups based in these countries are particularly opposed and have so far blocked an agreement.

In this context, the more fundamental question arises as to whether medicines vital to realizing the human right to health should be patented at all. Should they not in principle be considered global public goods, especially when, as in the case of the COVID-19 vaccines, billions of dollars of public money have gone into research and development?

In another initiative, WHO and several partners – including France, the EU and the Bill & Melinda Gates Foundation – launched the Access to COVID-19 Tools (ACT) Accelerator and its COVAX initiative. This has shifted the centre of the global COVID-19 response from WHO to a multistakeholder initiative with its own governance and decision-making structure, thereby further weakening WHO's role in the global health architecture.

But with the unilateral approach of the rich countries to vaccine procurement, COVAX has failed in its claim to serve a global coordination function. Its primary task is now to provide COVID-19 vaccines to 92 low- and middle-income countries, with the objective to provide at least 2 billion COVID-19 vaccine doses by the end of 2021.

By 14 September 2021, just 270 million doses had been delivered. To date, COVAX has received pledges of $9.825 billion, nowhere near enough to provide sufficient vaccines for about 4 billion people in the 92 countries.

The COVID-19 pandemic has painfully demonstrated the absence of a functioning global health system. This reality has led to the proposal to create a Pandemic Treaty – a legally binding framework and improved global governance structures for pandemic preparedness and response.

Whether it can actually overcome structural weaknesses of the global health architecture, such as the underfunding of WHO, is very unclear. Depending on its design, it could lead to an actual strengthening of WHO, or to its further weakening by outsourcing pandemic preparedness and response to multistakeholder bodies with limited public accountability.

More transformational steps are needed

Beyond responding to the global health crisis, far more fundamental transformational steps are needed. An essential aspect of an agenda for change is the shift towards a rights-based economy and a concept of human rights that forms the basis of our vision of economic justice.

To make this systemic shift happen, the trend towards privatization, outsourcing and systematic dismantling of public services must be reversed. To combat rising inequality and build a socially just, inclusive post-COVID world, everyone must have equitable access to public services, which must be reclaimed as public goods and run in the common interest, not for profit.

UN Secretary-General Antonio Guterres has repeatedly emphasized that human rights must guide all COVID-19 response and recovery measures. This should also mean strengthening the rights of those on the frontlines of the COVID-19 crisis.

First and foremost, that means the millions of workers in the healthcare sector, 70% of them women. Most of them experience poor work conditions, low wages and job insecurity.

The situation is similar in the education sector. Research by Education International shows that even before the COVID-19 pandemic, teachers' workloads have steadily worsened, while salaries have remained the same or even decreased.

The situation has continued to deteriorate as a result of the pandemic. The global teacher shortage, which the UN estimated at 69 million even before the pandemic, will continue to grow so long as teaching remains "an overworked, undervalued, and underpaid profession".

A basic precondition for the adequate provision of public goods and services is that states have sufficient resources. To prevent the COVID-19 pandemic being followed by a global debt and austerity pandemic, governments must be enabled to expand their fiscal space and to implement alternatives to neoliberal austerity policies. This includes implementing a progressive tax reform which prioritizes taxes on wealth and high earners.

Over the past year, many UN officials, human rights activists and civil society groups (like in the *Spotlight 2020* report) have demanded that the resources of the COVID-19 recovery and economic stimulus packages be used proactively to promote human rights and the implementation of the Sustainable Development Goals. During that time, however, initial studies show that this is rarely the case.

A report of the Financial Transparency Coalition that tracked fiscal and social protection recovery measures in nine countries of the Global South found that in eight of them, a total of 63% of announced COVID-19 funds went to large corporations, rather than small and medium enterprises or social protection measures.

In particular, poorer countries, some of which were already facing massive budget shortfalls before the pandemic, need substantial external support to finance additional healthcare and social spending and measures to overcome the economic recession.

In this regard, the general allocation of Special Drawing Rights (SDRs) equivalent to $650 billion in August 2021 – the largest distribution ever made by the International Monetary Fund (IMF) – has been heralded as a major achievement. However, its distribution will not benefit the countries most in need without rechannelling measures, again illustrating existing imbalances in the global economic architecture.

Only if the world collectively embarks on the path towards transformational policies is there a chance to reduce global inequalities, protect our shared planet and make the proclaimed goal of solidarity a political and institutional reality. *(IPS)*

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Progressive taxation for our times

Jomo Kwame Sundaram makes the case for equitable forms of taxation to finance the government spending required to promote recovery from the COVID-19 crisis.

As developing countries struggle to cope with the pandemic, they risk being set back further by restrictive fiscal policies. These were imposed by rich countries which no longer practise them if they ever did. Instead, the Global South urgently needs bold policies to ensure adequate relief, recovery and reform.

Governments must mobilize and deploy resources sustainably and fairly, consistent with the Sustainable Development Goals (SDGs). With rich countries' refusal to help more, adequate government financing is crucial. Taxation is typically a more sustainable, effective and accountable way of raising government fiscal resources.

But the pandemic has imposed extraordinary demands requiring massive urgent spending. National authorities can generate fiscal resources in two main ways, by collecting revenue or borrowing. Government borrowing is generally needed as revenue has been hit by the slowdown. Massive fiscal resource mobilization and appropriate spending are needed to contain the contagion and prevent temporary recessions – for example, due to lockdowns – from becoming debilitating protracted depressions.

Fiscal policy involves both government resource generation and spending. But developing countries have been far more conservative in spending compared with the rich. The latter have introduced much bolder relief and recovery packages.

In the short, medium and long term, both government spending and taxation must be progressive. Much depends on how revenue is raised and spent. Hence, both taxation and expenditure need to be considered.

Ensure progressive taxation

Governments must quickly develop progressive ways to finance massive spending needed to protect both lives and livelihoods. Over the last four decades, many governments reduced progressive direct taxation, instead embracing regressive indirect taxes.

Higher tax rates on the wealthy made direct taxation progressive. The regression was mainly due to lobbying by powerful elites, including foreign investors. The influential Washington-based Bretton Woods international financial institutions led such advocacy.

Incomes of the wealthy are mainly from assets, rather than wages, salaries or payments for goods or services. But tax rates on the highly paid as well as property, inheritance and corporate incomes have declined in most countries.

Wealth is often untaxed, or only lightly taxed at lower rates. New rules now allow assets to be moved and hidden abroad. Depending on how one estimates, between $8-35 trillion is held offshore, obscuring wealth concentration and inequality.

Taxation can reduce existing inequalities, but rarely does so despite the widespread presumption that taxes are progressive overall. Worse, most state spending is regressive, little mitigated by highly publicized social spending.

Difficult to measure, pandemic impacts on various inequalities vary considerably. Nevertheless, the vicious cycle connecting economic disadvantage with vulnerability has worsened disparities.

To be equitable, taxation must be progressive. More equitable tax systems should get more revenue from those most able to pay while reducing the burden on the needy.

Wealth taxes are the most progressive way to raise revenue while also reducing inequalities.

Wealth taxes are the most progressive way to raise revenue while also reducing inequalities. Direct taxes on wealth and incomes are potentially progressive. Progressively higher rates and exemptions for the poor can ensure this.

Low rates on investment income and assets – such as property, wealth and inheritance – can be increased. Besides reducing inequalities, these can finance progressive spending. Taxing windfall and excess profits is not only publicly acceptable, but can also raise considerable funds. Some corporations and individuals have benefited greatly during the pandemic; for example, US billionaires have reportedly become over a trillion dollars richer over the last year and a half.

In the longer term, progressive taxation means less reliance on indirect taxes – such as sales or consumption taxes, including value-added, or goods and services, tax – which burden those with lower incomes much more.

Tax evasion by the wealthy must also be deterred. Companies using tax havens to pay less can be penalized, such as by disqualifying them from all government and state-owned enterprise contracts. Tax systems can thus be made more progressive by improving design and with strict, equitable enforcement.

Equitable recovery?

Ensuring equitable recovery requires urgent systemic reforms. Although unlikely to yield much more revenue in the near term due to the economic slowdown, introducing such reforms now will be politically much easier.

Taxation can transfer fiscal resources from the wealthy to the needy. Those living precariously, including those now at risk due to the pandemic and its broad impacts, urgently need help. Financing relief and recovery provides liquidity, averting protracted economic contraction and stagnation.

Some pandemic relief spending in many countries has been "captured" by the politically well-connected, as political elites and their cronies seize the lucrative new opportunities. These compromise not only relief and recovery, but also reform efforts.

When relief and recovery are treated as temporary "one-off" measures, they are unlikely to address pre-pandemic problems, including inequities. Governments should instead use the crisis to advance SDG solutions for both the medium and long term.

International cooperation can help, but the rich countries' Organization for Economic Cooperation and Development (OECD) has long focused on addressing offshore tax evasion to secure more revenue for themselves. A decade ago, it broadened its attention, but continued to insist on its own leadership at the expense of developing countries. It has thus effectively blocked multilateral tax cooperation for decades, ignoring the UN's strong mandate from various Financing for Development and other summits.

Equitable international tax reforms remain urgent. But these have been undermined by earlier reforms encouraging cross-border flows of funds, enabling illicit financial flows from developing countries.

Although unlikely to yield much revenue for some time, US Treasury Secretary Janet Yellen's global minimum corporate income tax proposal deserves strong qualified support.

Developing countries need to ensure that transnational companies are better taxed, instead of the current G7 proposal for a low rate. Revenue should be distributed according to where both production and consumption take place instead of just where sales occur.

Effectively checking tax abuses also requires access to financial information and common, equitable and transparent rules, not those imposed by the rich.

But such outcomes can be achieved only through UN-led multilateralism with developing-country governments participating as equals. *(IPS)*

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

The obscure financial product that could cause the next global crisis

The CDO, or collateralized debt obligation, was at the heart of the 2007-09 global financial crisis. Might a similar financial instrument, the CLO – collateralized loan obligation – spark fresh turmoil?

by Daniel Tischer, Adam Leaver and Jonathan Beaverstock

At the heart of the global financial crisis of 2007-09 was an obscure credit derivative called the collateralized debt obligation (CDO). CDOs were financial products based on debts – most notoriously, residential mortgages – which were sold by banks to other banks and institutional investors.

The profitability of these CDOs largely depended upon homeowners' ability to repay their mortgages. When people began to default, the CDO market collapsed. And because CDOs were interwoven with other financial and insurance markets, their collapse bankrupted many banks and left others requiring government and central bank support.

Many thought this would put an end to the market for complex structured credit derivatives, but it didn't. As of 2021, a close cousin of the CDO known as the collateralized loan obligation or CLO was approaching the equivalent value of the CDO market at its peak. A record number of CLOs were issued in August, and the market as a whole is approaching $1 trillion in value. Many within the financial services industry say that there is nothing to worry about, but there are good reasons why they could be wrong.

How CLOs differ from CDOs

Collateralized loan obligations are underpinned not by mortgages but by so-called leveraged loans. These are corporate loans from syndicates of banks that are taken out, for example, by private-equity firms to pay for takeovers.

Proponents of CLOs argue that leveraged loans have a lower record of defaults than subprime mortgages, and that CLOs have less complex structures than CDOs. They also argue that CLOs are better regulated, and carry weightier buffers against default through a more conservative product design.

None of this is untrue, but this does not mean risk has disappeared. Mortgages, for example, had low rates of defaults in the 1990s and early 2000s. But since CDOs enabled banks to sell on their mortgages to free up their balance sheets for more lending, they began lending to riskier customers in their search for more business.

This relaxation of lending standards into subprime mortgages – mortgages issued to borrowers with a poor credit rating – increased the eventual default rate of CDOs as people who could ill afford their mortgages stopped repaying them. The danger is that the same appetite for CLOs may similarly reduce standards in leveraged lending.

In one respect, CLOs may even be worse than CDOs. When homeowners failed to repay their mortgages and banks repossessed and sold their houses, they could recover substantial amounts that could be passed through to CDO investors. However, companies are rather different to houses – their assets are not just bricks and mortar, but also intangible things like brands and reputation, which may be worthless in a default situation. This may reduce the amount that can be recovered and passed on to CLO investors.

Network effects

In a recent paper, we examined the similarities between CDOs and CLOs, but rather than comparing their design, we examined legal documents which reveal the networks of professionals involved in this industry. Actors working together over a number of years build trust and shared understandings, which can reduce costs. But the mundane sociology of repeat exchanges can have a dark side if companies grant concessions to each other or become too interdependent. This can drive standards down, pointing to a different kind of risk inherent in these products.

The US-appointed Financial Crisis Inquiry Commission (FCIC) found evidence of this dark side in its 2011 report into the CDO market collapse, underlining the corrosive effects of repeat relationships between credit-rating agencies, banks, mortgage suppliers, insurers and others. The FCIC concluded that complacency set in as the industry readily accepted mortgages and other assets of increasingly inferior quality to put into CDOs.

Unsurprisingly, creating CLOs requires many of the same skill sets as CDOs. Our paper found that the key actors in the CDO networks in the early 2000s were often the same ones who went on to develop CLOs after 2007-09. This raises the possibility that the same industry complacency might have set in again.

Sure enough, the quality of leveraged loans has deteriorated. The proportion of US-dollar-denominated loans known as covenant-light or cov-lite – meaning there are fewer creditor protections – rose from 17% in 2010 to 84% in 2020. And in Europe, the percentage of cov-lite loans is believed to be higher.

The proportion of US dollar loans given to firms that are over six times levered – meaning they have been able to borrow more than six times their earnings before interest, tax, depreciation and amortization (EBITDA) – also rose from 14% in 2011 to 30% in 2018.

Before the pandemic, there were alarming signs of borrowers exploiting looser lending standards in leveraged loans to move assets into subsidiaries where the restrictions imposed by loan covenants would not apply. In the event of a default, this limits creditors' ability to seize those assets. In some cases, those unrestricted subsidiaries were able to borrow more money, meaning the overall company owed more in total. This has strong echoes of the financial creativity that drove riskier borrowing in 2005-07.

So how worried should we be? The CLO market is certainly very large, and corporate defaults could soar if it turns out that the extra money pumped into the economy by central banks and governments in response to the COVID crisis provides only a temporary reprieve. The major buyers of these derivatives again seem to be large, systemically important banks. On the other hand, according to some accounts, these derivatives are less interwoven with other financial and insurance markets, which may reduce their systemic risks.

Nevertheless the market is at least large enough to cause some disruption, which could cause major ructions within the global financial system. If the networks behind these products are becoming blind to the risks and allowing CLO quality to slowly erode, don't rule out trouble ahead.

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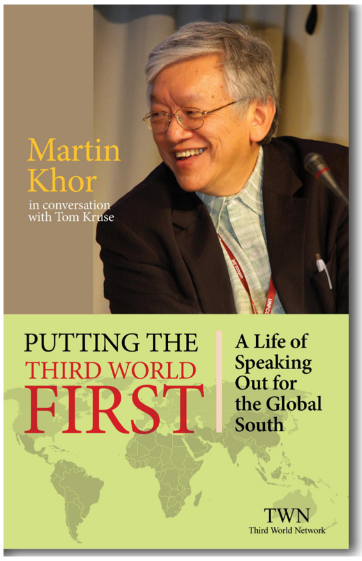
Putting the Third World First

A Life of Speaking Out for the Global South

Martin Khor in conversation with Tom Kruse



Martin Khor was one of the foremost advocates of a more equitable international order, ardently championing the cause of the developing world through activism and analysis. In this expansive, wide-ranging conversation with Tom Kruse – his final interview before his passing in 2020 – he looks back on a lifetime of commitment to advancing the interests of the world's poorer nations and peoples.

Khor recalls his early days working with the Consumers Association of Penang – a consumer rights organization with a difference – and reflects on how he then helped build up the Third World Network to become a leading international NGO and voice of the Global South. Along the way, he shares his thoughts on a gamut of subjects from colonialism to the world trade system, and recounts his involvement in some of the major international civil society campaigns over the years.

From fighting industrial pollution in a remote Malaysian fishing village to addressing government leaders at United Nations conferences, this is Khor's account – told in his inimitably witty and down-to-earth style – of a life well lived.

Martin Khor (1951-2020) *was the Chairman (2019-20) and Director (1990-2009) of the Third World Network.*

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