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IP impedes availability of COVID-19 treatments too

Access to COVID-19 vaccines has been wildly uneven across countries, and the distribution of treatment and testing products – also essential tools in the global pandemic response – must not go down the same route. The barriers intellectual property protections pose to greater supply and affordability of these therapeutics and diagnostics therefore need to be dismantled.

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IP monopolies perpetuate inequitable access to COVID-19 therapeutics

Intellectual property barriers to production of COVID-19 treatments must be overcome to avoid the inequity that has characterized the global distribution of coronavirus vaccines. *Sangeeta Shashikant* reports on a recent webinar which delved into this issue.

LONDON: Shortages and high prices are hindering access to therapeutics in the developing countries, said experts participating in a webinar on access barriers to COVID-19 therapeutics and diagnostics organized by the People's Health Movement and Third World Network on 6 October.

The experts underscored the importance of therapeutics and diagnostics in the fight against COVID-19 for treating the unvaccinated, especially due to the vast inequality in access to vaccines, for treating breakthrough infections and for countering new viral variants that are resistant to vaccines, as well as in the context of the "test and treat" strategy.

The experts expressed serious concern that mistakes contributing to the staggering inequity in vaccine and diagnostic access are being repeated in the case of therapeutics.

Voluntary licences, where granted, are restricted to a few manufacturers, while excluding supply to many developing countries that are suffering from the effects of COVID-19.

Supply constraints can be unlocked if generics manufacturers in developing countries are engaged by addressing the legal barrier of intellectual property (IP), the experts argued. In this regard, they stressed the positive role that could be played by the proposed waiver of certain provisions in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). With more suppliers in the market, affordability would also increase as prices drop with an increase in competition.

The panel of experts at the webinar included Christa Cepuch, pharmacist coordinator for Medecins Sans Frontieres (MSF) Access Campaign; Michelle Childs, director of policy and advocacy at the Drugs for Neglected Diseases initiative (DNDi); and Reshma Ramachandran, a physician and fellow at the Yale University national clinician scholars' programme.

In recent months, the World Health Organization (WHO) has recommended several therapeutics for treating COVID-19 patients.

In July, it recommended IL-6 receptor blockers (tocilizumab or sarilumab) for patients with severe or critical COVID-19 infection.

Even before this recommendation, many developing countries such as Kenya, Jamaica, India and South Africa had struggled to obtain affordable access to tocilizumab.

In South Africa, despite an expert panel finding that tocilizumab reduced deaths, the recommendation was for the drug to not be used because it is "not affordable at the current offered price".

At a cost of around $2,000 per patient, this life-saving therapy is largely out of reach for African populations, according to WHO's regional director for Africa, Matshidiso Moeti.

WHO has also issued a non-conditional recommendation for the use of a combination of neutralizing monoclonal antibodies (casirivimab and imdevimab) in non-severe COVID-19 patients at the highest risk of severe disease and in severe and critically ill patients with seronegative status.

In a statement on 24 September, WHO called for equitable access and urged "producing companies and governments to address the high price and limited production of the Regeneron antibody combination".

Meanwhile, news reports on Merck's molnupiravir have raised hopes that this medicine will offer outpatient antiviral therapy for newly diagnosed cases of COVID-19, curtailing its spread. At the same time, however, there is apprehension that Merck's intellectual property monopolies will affect affordable access globally.

Supply constraints

Cepuch highlighted that MSF had engaged with Roche (manufacturer and patent holder) to procure 6,000 vials of tocilizumab forecasted to be needed for three months in its projects, but had "hit a deadend".

"Roche has said from the beginning that they would never be able to meet the demand that would come with COVID, and they say that they're facing a global stock-out, but we don't hear any high-income countries really complaining, so we know where the shortages lie, and that is with … low- and middle-income countries [LMICs] and [countries in] low resource settings where there's really very little access to tocilizumab," Cepuch said, stressing on the struggle to procure tocilizumab in India.

"Roche is allocating on a six-week basis to avoid hoarding, but they say that the future allocation framework will be better, but we don't have any visibility on that."

On the patent landscape, Cepuch explained that primary patents expired in 2017 but secondary patents have been filed.

Roche has announced that it would not assert its patent rights in LMICs but this leaves out key manufacturing countries such as South Korea. "We have asked them to not assert their patent rights anywhere but they have not responded to that request," Cepuch said.

(Hetero, an India-based company, has obtained approval from India's drug regulator to launch a biosimilar version of tocilizumab.)

"The price per dose, historically for rheumatoid arthritis indications, is anywhere from $600 to over $3,000," Cepuch pointed out. For instance, the price ranges from $410 in Australia and $646 in India to $3,625 in the US per 600 mg dose for COVID-19.

Cepuch, however, added that "studies have been done on monoclonal antibodies in general, [that] would estimate that with large-scale production, you could get cost of production to $60 per dose of 600 mg".

Manufacturing costs of monoclonal antibodies are often below $100 per gram when production is on a large scale.

Cepuch also shared that Roche had agreed to assist WHO's Access to COVID-19 Tools Accelerator (ACT-A) in countries where tocilizumab is not registered, but "apparently there are only few vials from Roche for these 58-plus countries and island states" (i.e., 4,500 vials to be distributed among all these countries). She added that the price per vial is still not confirmed and that the negotiations are conducted bilaterally between Roche and the ACT-A consortium.

The molnupiravir supply is being snapped up at high prices, a "great example of pandemic profiteering".

On casirivimab and imdevimab, Cepuch said, "We have poor visibility on the manufacture from Regeneron. ... [T]here's really no clarity on ... procurement channels ... or how allocation would be done and ... there's not yet any indication of biosimilars under development."

She added that, according to media reports, most doses have been bought up by just a few countries, with the US having already purchased three million doses at about $2,000 per treatment.

Cepuch also pointed to access challenges for potential new treatments (yet to be recommended by WHO). For instance, baricitinib has been granted emergency use approval (EUA) by several jurisdictions. According to an MSF blog, "A recently published trial (COV-BARRIER) showed that baricitinib – even when used without remdesivir – is associated with a 40% decrease in the risk of death among severe cases, meaning that one death can be prevented for every 20 patients treated with baricitinib. These new results led to a July 2021 update in the EUA by the US Food and Drug Administration [FDA], now allowing the drug to be used without remdesivir and thus making it simpler to treat patients."

Eli Lilly holds the patent or pending patents which expire in 2029 in many countries that have been hit hard by the pandemic, and the patent term could even be extended in some countries.

Cepuch explained that Eli Lilly has granted a voluntary licence to Indian generics companies to produce the drug locally. However, the generics cannot be exported to other countries if these countries are not included in the licence, which she described as a big barrier.

The generic price is also significantly much lower in India at $0.54 per tablet versus Eli Lilly's price of $44 per tablet. Bangladesh is also an important source of generics for baricitinib.

With respect to molnupiravir, Cepuch said it could be interesting for "test and treat strategies, so this is where the importance of the access to diagnostics as well comes in".

Merck has granted a non-exclusive voluntary licence to eight Indian generics companies for supply to 104 LMICs. However, patent applications are pending in many developing countries that are excluded from being supplied under the licence. Merck's patent application is also opposed in India.

(According to Brook Baker, Senior Policy Analyst at Health GAP, "Middle-income countries excluded from the licence had 30 million infections in the first half of 2021, and 50% of all infections in LMICs. Even if the eight Indian generics make it to market and can satisfy this demand in licensed territories, Merck will be unable to meet the remaining 70% of global need.")

Cepuch pointed to how the molnupiravir supply is being snapped up at high prices, a "great example of pandemic profiteering".

She said that the US FDA has procured three million treatment courses at about $700 for a five-day course, while studies show that the cost of production is about $20 with a 10% profit margin. Indian generics companies that are not part of Merck's voluntary licence and that are planning to launch at risk are expected to price it at $13, according to media reports.

Leena Menghaney, also from the MSF Access Campaign, contributed to the discussion at the webinar, arguing that to fight infectious diseases simply by going down the route of prevention is insufficient; treatment also has to be prioritized. Hence, the proposed TRIPS waiver should extend to therapeutics as there are many IP barriers currently coming to the forefront.

Menghaney called a glowing *New York Times* feature on the molnupiravir voluntary licence "a really inferior piece of reporting". She said the licence is extended to cover territories where there are no patent barriers, and where there are patent barriers, there are no licences. "So, I think really the voluntary licence needs much more shredding apart than we have done," she said.

(Merck has since signed a voluntary licensing agreement with the Medicines Patent Pool that encompasses 105 countries. This is only one country more compared with the coverage under its deal with the eight Indian generics companies, and the new agreement raises the same concerns in relation to its restrictive effect on access to molnupiravir. See the article "Medicines Patent Pool license strengthens Merck's market control and undermines the Pool's core principles" at https://www.twn.my/title2/intellectual_property/info.service/2021/ip211101.htm.)

With regard to existing flexibilities under the TRIPS Agreement, Cepuch said that with patent opposition, "there's always a risk of failure, it takes a long time and a lot of technical and financial resources" (as oppositions have to be done on each application in each country).

As for voluntary licences, they "just continue to feed into the monopoly situation; [they exclude] producers and other manufacturing countries where they already have manufacturers that are ready and capable to produce these types of medicines".

"The TRIPS waiver obviously would allow countries to export and import generics without any fear of state-to-state dispute settlements or infringement claims regarding pending patent applications, new patent applications and other IP," Cepuch said.

While compulsory licensing is also an option, she said, again it has to be done on a country-by-country basis and sometimes it is difficult to assess pending applications and what is incoming as well.

Challenges for access

Michelle Childs referred to DNDi's policy report titled "Another Triumph for Science But Defeat for Access" referring to positive lessons from COVID-19's "big global response and there's been a lot of funding which has enabled major scientific progress, and we have seen the rapid development of vaccines and some diagnostics, and that has the potential to transform not just COVID but also other infectious diseases."

However, Childs added, "We have accelerated to the status quo, which we're calling in the report the unfinished business in global health of ensuring equitable access. And this is in relation to the vaccine apartheid that we are seeing and also lack of access to diagnostics for a variety of reasons, and we want to see if we can avoid that, in relation to therapeutics."

COVID-19 tools "should be developed as far as possible as global public goods".

Childs stressed that "we need therapeutics for all stages of COVID, not just because of the lack of access to vaccines, but also for those people who can't or won't take vaccines, and also for the possibility of vaccine-evading mutations."

She said "there is a particular need to look at developing therapeutics for people with mild to moderate COVID, particularly in countries or regions which have very limited intensive care units, because you want to try to avoid the disease progression".

On the hopeful interest in Merck's molnupiravir, Childs expressed caution that "we don't enter into science by press release, and we need to see the details", adding generally that there still remains "insufficient political and financial attention paid to therapeutic research ... research is still fragmented and it's focused primarily on high-income countries, and even the Merck drug is really focused on a limited subset of people."

She further said that "ACT-A has really not yet been able to really focus on some of the IP barriers and ... it's unclear if treatments which are developed will be affordable and, more importantly, that there will be sufficient supply". COVID-19 tools, she said, "should be developed as far as possible as global public goods, because we have seen as DNDi that IP can act as a barrier to development and to access".

Childs also said that "when you're looking at the treatments, you have to ask yourselves: will they be developed for, and fitted for, remote and resource-limited settings? Although the Merck drug is interesting, it is predicated on the fact that you will be able to have rapid diagnostic tests and get people on treatment within five days. And that may not be possible in a number of resource-limited settings, which means that you are going to be looking to need probably a combination of drugs, which may be an antiviral and may be an immune-suppressing drug, and the problem with that is that traditionally, companies have been unwilling to spontaneously collaborate to share their drugs, to test them in combination, and we've seen that both in HIV and in hepatitis, where combination drugs were needed. So there's a real question about whether IP or other barriers would stop the ability for combinations to be tested and developed."

"'Test and treat' is working on the basis that you have access to rapid diagnostic tests, and we are seeing already that there is a huge disparity between the availability and use of rapid diagnostic tests," she said, adding that there are a variety of reasons for that, including IP.

She also expressed concerns that voluntary licences "tend to exclude the same countries, particularly middle-income countries, who have the ability also to manufacture and help themselves. So we really need to find a way to ensure that there is access for those countries."

Childs highlighted three ways to course-correct to address the challenge of access:

1. Governments, particularly those that fund research and development (R&D), should use their leverage to negotiate clear and transparent terms and conditions that ensure

sharing of research data, knowledge and technology on a non-exclusive basis, enabling adequate production scale-up to ensure sufficient supply, equitable allocation and affordability.

2. Governments should support a temporary (TRIPS) waiver on IP for COVID-19 technologies, which would support increased access to such technologies globally by removing any risk of IP infringement for all stakeholders. A waiver must cover all forms of IP (not only patents) and apply not only to vaccines but also to all COVID-19 medical technologies, including therapeutics and diagnostics.
3. Companies owning COVID-19 technologies also need to increase their contributions and commit either to not enforcing their existing IP or to sharing relevant know-how, technology and IP by non-exclusively licensing it to interested entities.

Specifically on the TRIPS waiver, Childs called on governments to support a waiver not just for vaccines but also for therapeutics, diagnostics and all of the health tools, adding that "it's not unsurprising that South Africa and India, countries that have had experience of dealing with infectious diseases, put forward this proposal, because they recognize that with any infectious disease you need to have all of these tools".

She further emphasized that the waiver should cover "the ability to ensure combinations" and that "depending on the technology, IP waiver may be the thing that is needed." This is "to ensure that you can have scale-up. Because there are a number of companies, [as] we've seen with antivirals, that may not need technology transfer but may be actually intimidated about scaling up because of the fear of legal repercussions because of the monopolies from IP ... it's important that governments have all of the tools that they need in order to be able to lift these barriers".

Childs also drew attention to DNDi's Moonshot initiative, a spontaneous international open science collaboration to develop antivirals for global equitable access. This initiative crowd-sourced ideas for molecular compounds from over 150 scientists globally which are available in the public domain.

She said that "because of necessity, they wanted to move quickly and they wouldn't have time to negotiate all of the agreements and to lift any intellectual property barriers, so they agreed to work together in an open science approach but they have now agreed, as a central part of this project, that they want to see if they can develop a new antiviral which is going to be IP-free, so that it could be direct to generic from the start, and ensuring that it can be equitably and affordably available as a global public good".

"This involves a number of institutions from countries that are blocking the waiver and from countries all over the world. And it shows that there is a clear role for research institutes, but also funders, both public and private, to support ways in which you can remove IP barriers, and to develop and to ensure treatments that can be global public goods," Childs said.

Key role of therapeutics

In her presentation, Reshma Ramachandran reinforced the importance of therapeutics and diagnostics as a critical part of building an arsenal against COVID-19 from a clinical perspective.

She stressed the key role of therapeutics in the US for patients who are unvaccinated, under-vaccinated populations that are immuno-compromised as well as for the continued concern with effectiveness of vaccines due to emergence of variants and global inequities in access.

She emphasized the extensive public investment by the US in diagnostics and therapeutics. In October 2020, nearly $3 billion was allocated for COVID-19 therapeutics just through Operation Warp Speed. The US National Institutes of Health (NIH) have set up the Rapid Acceleration of Diagnostics (RADx) and Accelerating COVID-19 Therapeutic Interventions and Vaccines (ACTIV), investing personnel, financial and other resources in the R&D of therapeutics and diagnostics. The US FDA has also engaged in the development process by allocating resources and personnel towards hastening the review of these different products, through its own Coronavirus Treatment Acceleration Program (CTAP).

Ramachandran pointed out that across various therapeutics authorized by the US FDA – tocilizumab, sotrovimab, bamlanivimab and etesevimab, casirivimab and imdevimab (REGEN-COV), baricitinib (Olumiant), remdesivir (Veklury) – the US government has provided significant amounts of public funding from Operation Warp Speed, NIH, the Biomedical Advanced Research and Development Authority (BARDA) and the Defense Advanced Research Projects Agency (DARPA).

She added that molnupiravir was initially discovered at Emory University through significant NIH funding, before being licensed to a non-profit organization within the university called Drug Innovation Ventures at Emory (DRIVE) in 2017, and that these initial grants were again funded through NIH and another government agency called the Defense Threat Reduction Agency.

An exclusive licensing agreement was then signed with Ridgeback Biotherapeutics, which subsequently gave exclusive rights to Merck. The US government "does have claim over a number of the key patents underlying this drug as well", Ramachandran said.

In terms of monoclonal antibodies, apart from shortages seen by MSF and in other countries, there are also shortages of different types of monoclonal antibodies announced by the US FDA, she added.

"We have been seeing continued supply shortages, including in high-income countries, remdesivir, for instance, last summer ... and currently we're seeing this with monoclonal antibodies, so the idea of the TRIPS waiver is being an effective tool to overcome these supply shortages," Ramachandran said. "We do need to make sure that there is going to be an equitable and adequate supply for countries worldwide, and that low-income countries in particular are not pushed to the back of the line as we've seen with vaccines."

She stressed that the "TRIPS waiver can play a crucial role in terms of not only opening up supply, but also ensuring affordability and accessibility for countries worldwide", adding that the waiver can help to remove the chilling effect of actually doing comparator trials, and also to overcome procuring a very costly branded comparator.

Ramachandran said that "doses are charity but knowledge is definitely justice, and so we need mechanisms like the TRIPS waiver to ensure equitable access to the doses now but also for enabling adequate supply through expanding global manufacturing in the future". *(SUNS9441)*

Is WTO's MC12 paving the way for new trade negotiations?

The coming 12th Ministerial Conference of the WTO risks having its agenda stacked with fresh, contentious issues at the expense of addressing longstanding subjects of interest to developing countries.

by D. Ravi Kanth

GENEVA: A report issued by the chair of the WTO's General Council (GC) on 25 October suggests that the upcoming 12th Ministerial Conference (MC12) could pave the way for the launch of new trade negotiations akin to the Doha Round of trade talks that was launched back in 2001, said people familiar with the development.

Although the Doha Round still remains on paper, MC12, which takes place in Geneva from 30 November, could pave the way for launching negotiations on proposed WTO reforms, on controversial social clauses like labour and climate change, and on integration of the controversial plurilateral Joint Statement Initiatives (JSIs) into the multilateral trading system, said people who asked not to be quoted.

More importantly, MC12 could substantially undermine the multilateral architecture of the WTO as embodied in the Marrakesh Agreement.

While the draft Part 1 of the ministerial document of MC12 mentions the Marrakesh Agreement, it seems more like the proverbial shedding of crocodile tears, as one pillar of the WTO, namely, its dispute settlement system, may not be restored soon because of the US demand for a fundamental reform of the trade body.

As WTO member states race towards MC12, the developing countries are expected to face numerous difficulties on both process and substance due to the heavy-loading of the package of possible "deliverables" that are far from achieving convergence at this juncture.

Issues list

On 25 October, the GC chair, Ambassador Dacio Castillo from Honduras, provided a list of issues to be decided at MC12. The list includes: (1) fisheries subsidies; (2) agriculture; (3) WTO's response to the pandemic; (4) e-commerce work programme and moratorium; (5) moratorium on TRIPS non-violation and situation complaints; (6) work programme on small economies; (7) TRIPS waiver; (8) development; (9) services; (10) paragraph 4 of the underfill mechanism – follow-up to TRQ decision reached at MC10 in Nairobi in 2015; (11) preferential rules of origin – LDC proposal; (12) SPS (sanitary and phytosanitary) measures' declaration by a group of members; (13) LDC graduation – LDC proposal; (14) trade finance and debt servicing – ACP proposal; and (15) other areas.

Surprisingly, controversial issues concerning proposed WTO reforms and the restoration of the Appellate Body seem to be missing from the list. Perhaps they may surface under "other areas" at the eleventh hour of the four-day ministerial meeting, said people familiar with the issues.

All these decisions, according to the GC chair, "will come in Part 2 of the outcome document, whichever form it may take, [and] would reference or list separate individual decisions, work programmes, separate declarations or reports that are the subject of ongoing work in various processes – under the Trade Negotiations Committee and its subsidiary negotiating bodies, and the General Council and subsidiary bodies."

Many developing and least-developed countries are likely to be the worst affected due to the paucity of the negotiations and resources, and navigating through the issues appears to be a challenging task, particularly when they are excluded from the "green room" meetings of a select few WTO members. These meetings are already taking place on agriculture and fisheries subsidies, with only five or seven countries participating.

First part

In his report, the GC chair said that delegations are presently working on 10 draft paragraphs for Part 1 of the outcome document that cover (i) the context in which MC12 takes place; (ii) some broad political messages; and (iii) guidance from ministers on additional elements members may agree on.

There are a number of square brackets and alternative texts within the paragraphs. Importantly, he stressed that the entire text is in square brackets, indicating lack of consensus as yet.

The first three paragraphs of Part 1 "cover broadly some of the external and internal context, including the pandemic and other challenges that the world, the multilateral trading system, the WTO and the global economy have been facing."

The fourth paragraph reaffirms "the principles and objectives set out in the Marrakesh Agreement and underscores the critical role that international trade and the WTO play, for instance, in global economic recovery as well as in facilitating cooperation in relation to the protection and preservation of the environment."

The fifth paragraph speaks about "safeguarding and strengthening the open, inclusive, non-discriminatory, transparent and rules-based multilateral trading system and reaffirming the importance of development."

The sixth paragraph focuses on WTO accessions.

Crucially, the seventh to ninth paragraphs provide some "Ministerial guidance on specific elements, including WTO reform, dispute settlement and work in WTO bodies."

The seventh paragraph, for example, says that "to respond to emerging opportunities, address the challenges that the WTO is facing and ensure its sound working in all its functions, Ministers [commit] [agree] to undertake necessary reforms of the WTO, and instruct officials to take this work forward with the view to presenting reports periodically. Ministers undertake to review progress regularly and take appropriate decisions by the next Ministerial Conference. Subject to discussion on WTO Reform – European Union."

The eighth paragraph says that "Ministers acknowledge the [concerns surrounding] [unprecedented challenges] the two-tier Dispute Settlement System is facing and recognize the importance and urgency of addressing those

- [challenges] [including those related to Appellate Body] and commit to conduct solution-oriented discussions towards an improved and fully functioning] OR
- [concerns] in order to [improve the functioning of the] OR
- [challenges to ensure a fully functioning]

Dispute Settlement System accessible to all Members [, while preserving the essential features of a two-tier adjudication process]."

Mauritius, which is the coordinator of the African Group of countries, proposed the merger of paragraphs 7 and 8. The merged paragraph, which remains bracketed, states: "[To respond to emerging opportunities, and assist countries avail of such opportunities and to address the challenges that the WTO is facing and ensure its sound working in all its functions including the dispute settlement system, Ministers [commit] [agree] to pursue a solution-oriented discussion and undertake necessary reforms of the WTO as appropriate. They instruct officials to take this work forward and to periodically present reports thereon. Ministers undertake to review progress and take appropriate decisions at the next Ministerial Conference.]"

Brazil proposed an additional paragraph stating that "Ministers commit to revitalize the proper functioning of the WTO negotiating function and to strengthen its rule-making by facilitating trade functions."

The ninth paragraph states that "Ministers take note of the important work that is taking place in WTO Bodies and instruct officials to continue to carry this work forward and build on it and, as appropriate, work towards [delivering outcomes soon]. [Noting in particular:]"

The tenth paragraph says that "Ministers reaffirm their commitment to strengthen international collaboration and coherence of action between international organizations to restore trust, certainty and predictability in the world economy and effectively address current and future multi-dimensional challenges."

Inclusion of JSIs and climate change

In addition to these 10 paragraphs, Japan and other members of the informal plurilateral Joint Statement Initiatives group subtly included all their issues in Part 1 of the outcome document.

For example, Japan included a bracketed paragraph that states: "[Ministers take note of the recent outcome from COP 26 and acknowledge that climate change is among the most pressing challenges of our time. Ministers stress that international trade and the multilateral trading system should contribute to tackling climate change [and achieving global carbon neutrality]. Ministers reaffirm that measures to combat climate change should be WTO-consistent.]" COP 26 is the UN climate change conference that will take place in Glasgow on 31 October-12 November.

On digitalization, Japan proposed the following text: "[Ministers appreciate the positive impact that digitalization had on global trade during the pandemic. Ministers believe digital trade should be strengthened to sustain economic activity, promote development and open new opportunities to all our citizens and businesses for inclusive growth.]"

On the issue of a level playing field, which was finalized first at the trilateral process involving the US, the EU and Japan, and later by the Group of Seven (G7) leading industrialized countries, Japan has proposed: "[Ministers also commit to work to ensure a level playing field to foster an enabling business environment and to support the integrity and sustainability of the rules-based multilateral trading system.]"

On their part, the recently acceded members to the WTO proposed text which reads: "[We recognize the special situation of the Members acceded in accordance with Article XII of the Agreement Establishing the World Trade Organization who have undertaken extensive commitments at the time of accession, including in market access. This situation shall be taken into account in negotiations, with a view to address existing imbalances and achieving a level playing field.]"

Text proposed by Saudi Arabia states that "[Ministers take note of the G20 Ministerial Statement on Trade and Investment recalling Riyadh Initiative on the future of the WTO and the commitment to undertake the necessary reforms of the WTO.]"

Without naming these countries, the GC chair said that some members proposed the inclusion of other issues in the outcome document, which are the JSI plurilateral issues as well as the G90 issues. These issues include: (1) disciplines for micro, small and medium enterprises (MSMEs); (2) women's economic empowerment; (3) workers; (4) G90 on development; (5) contribution of the WTO to the Sustainable Development Goals; and (6) trade for peace/WTO G7+ accessions group.

In crux, unless the developing and least-developed countries remain united at MC12, they could face the ugly prospect of being reduced to irrelevance at the WTO once and for all. *(SUNS9447)*

COVID-19 pandemic stalls global labour market recovery, says ILO

The recovery in working hours since the COVID-19 outbreak has stagnated, says the UN labour body, with poorer countries being the worst affected due to low vaccination rates and fiscal capacity.

by Kanaga Raja

GENEVA: Global labour market recovery from the shock of the COVID-19 pandemic has stalled in 2021, with little progress being made since the fourth quarter of 2020, according to the International Labour Organization (ILO).

In its latest report on labour market developments, released on 27 October, the ILO said that global working hours in 2021 are estimated to remain significantly below the level attained in the last quarter of 2019 (the pre-crisis benchmark), at -4.5% (equivalent to 131 million full-time jobs) in the first quarter of this year, -4.8% (140 million full-time jobs) in the second quarter and -4.7% (137 million full-time jobs) in the third quarter.

However, this aggregate picture masks great divergence between countries. Working hours in high- and upper-middle-income countries tended to recover in 2021, while both lower-middle- and low-income countries continued to suffer large losses, added the ILO.

The ILO also said that progress in vaccination has emerged as a critical factor for labour market recovery. "In early October, the share of fully vaccinated people globally reached 34.5% – however, with considerable differences between high-income (59.8%) and low-income countries (1.6%)." Higher vaccination rates are associated with less stringent workplace restrictions, it noted.

"The current trajectory of labour markets is of a stalled recovery, with major downside risks appearing, and a great divergence between developed and developing economies," said ILO Director-General Guy Ryder. "Dramatically, unequal vaccine distribution and fiscal capacities are driving these trends and both need to be addressed urgently."

"At the ILO, we have already started to act," Ryder said. "Last June, the International Labour Conference adopted a Global Call to Action for a human-centred COVID-19 recovery, a roadmap that commits countries to ensuring that their economic and social recovery from the crisis is fully inclusive, sustainable and resilient."

"It is time to implement this roadmap, which is fully aligned with and supports the UN's Common Agenda and its Global Accelerator for Jobs and Social Protection," he added.

Increasing disparities in labour market

According to the ILO, the labour market situation in 2021 continues to be impacted by the evolving dynamics of the pandemic.

The rollout of vaccination campaigns has helped some countries combat the virus and open up, but this has been mainly concentrated in advanced economies, it said.

In early October, the share of fully vaccinated people globally reached 34.5%, but with large differences between countries. While high-income countries have the highest percentage of fully vaccinated people at 59.8%, the proportion is much lower at 14.6% in lower-middle-income countries and only 1.6% in low-income countries.

This "great unevenness in vaccination" is also reflected in regional figures, said the ILO report. In the Americas, Europe and Central Asia, and the Arab States, more than 40% of the population had been fully vaccinated by early October. Vaccination rates have followed a similar trend in Asia and the Pacific (38.4%) but are still lagging behind other regions, though with substantial differences across countries, while in Africa, progress in vaccination has been very slow (4.6%).

As vaccination rates have increased, workplace closures are currently on a downward trend, said the ILO. While most workers still live in countries with some form of workplace restrictions, the strictest form of closure (economy-wide required closures for all but essential workplaces) has nearly disappeared, affecting less than 1% of the employed globally in early October 2021, compared with a peak of 41% in April 2020.

Europe and Central Asia has seen a significant decrease in restrictions as vaccinations progressed in the course of 2021. In contrast, restrictions in Asia and the Pacific have become more widespread in recent months, with a large majority of workers residing in countries with some form of current workplace closure measures. At the same time, these measures have become increasingly targeted at specific areas.

Evidence shows that higher rates of vaccination are associated with less stringent workplace restrictions. Using a scale of workplace restrictions ranging from 1 (most stringent) to 5 (least stringent), the ILO said that an average of 4.2% of the population was fully vaccinated among countries with the most stringent restrictions, while the share was 13.2% among countries with the least stringent restrictions.

Stalled global recovery

The ILO report said that after some significant gains in the second half of 2020, the recovery in working hours has stalled during 2021.

During the third quarter of 2021, it is estimated that global hours worked (adjusted for population aged 15-64) were still 4.7% below the level of the fourth quarter of 2019, equivalent to the loss of 137 million full-time jobs. The first and second quarters of 2021 saw similar deficits in working hours (-4.5 and -4.8%, respectively).

The ILO said this global picture is of a "great divergence" between richer and poorer economies, which reflects, to a large degree, the evolution of the pandemic, and the uneven availability of fiscal stimulus and vaccines.

It noted that high-income countries have experienced a stronger but still incomplete recovery, with working hours still 3.6% lower in the third quarter of 2021 than the pre-crisis benchmark (though this represents an improvement on the 5.2% deficit observed in the last quarter of 2020).

In contrast, low- and lower-middle-income economies, which have the lowest vaccination rates combined with limited fiscal stimulus, suffered setbacks in recovery. In low-income countries, working hours decreased further, from a gap of 3.7% in the last quarter of 2020 to 5.7% in the third quarter of 2021. Lower-middle-income countries saw a similar deterioration in the gap in working hours from 5.6% to 7.4%, while working hours in upper-middle-income countries recovered at the beginning of 2021 but have stagnated since.

"This uncertain and unequal process of recovery is a matter of serious concern," said the ILO.

From a regional perspective, Europe and Central Asia came closer to the pre-crisis benchmark with a gap of 2.5%, followed by Asia and the Pacific at 4.6%. In contrast, Africa, the Americas and Arab States saw larger gaps of 5.6%, 5.4% and 6.5%, respectively.

The impact of the COVID-19 pandemic also resulted in unprecedented and volatile developments in global labour productivity levels, said the ILO.

The world's output per hour worked surged by 4.9% in 2020, more than double the long-term average annual rate of 2.4% registered between 2005 and 2019.

However, in 2021, there has been a sharp reversal in global labour productivity growth, with significant differences between countries. Global output per hour worked is projected to decline by 0.1%, with the strongest contractions in low-income (-1.9%) and lower-middle-income countries (-1.1%). High-income countries are expected to maintain slightly positive productivity growth.

According to the ILO, these trends point to a further widening in the "productivity gap" between the world's low- and high-income economies. In 2020, in real terms, the average worker in a high-income country produced 17.5 times more output per hour than the average worker in a low-income country. This is projected to widen to 18.0 in 2021, the largest gap since 2005.

The ILO said analysis from 26 countries shows that smaller firms have seen substantially larger declines in hours worked than larger firms. Establishments with 1-4 employees saw a decline in working hours of 12.1% and those with 5-49 employees registered a decline of 11.5%. Establishments with 50 or more employees experienced a decline of only 8.7%. "These developments in working hours and enterprise structure have translated into an uneven and fragile recovery in employment, unemployment and inactivity," said the ILO report.

Along with fiscal stimulus, vaccination has been a crucial factor in determining labour market recovery.

It said the latest global estimates and country-level data confirm that, overall, the crisis has resulted in a significant employment deficit, which persists in most countries. While unemployment has been gradually declining, inactivity has often stayed high, leaving the overall employment-to-population ratio well below the pre-pandemic benchmark.

Stimulus, vaccination and job recovery

The ILO noted that in response to the massive labour market disruptions caused by the pandemic, governments have launched fiscal stimulus programmes on an unprecedented scale, particularly in high-income countries.

"The capacity of high-income countries to deploy levels of financial resources unavailable in other countries has generated a major 'fiscal stimulus gap' which has in turn shaped the uneven trajectory of the recovery process."

The latest International Monetary Fund (IMF) estimates show that global fiscal stimulus put in place to respond to the COVID-19 crisis amounted to $16.9 trillion, which has been heavily concentrated in advanced economies (85.9% of global spending). Emerging and developing economies accounted for just 13.8% and 0.4% of the global stimulus, respectively.

Though the pandemic continues to disrupt labour markets, the majority of emerging and developing economies are unable to provide higher levels of fiscal support in 2021 and beyond, adversely impacting their recovery process. As of June 2021, half of low-income countries were already in debt distress or at high risk, said the ILO.

At the same time, concerns about inflationary pressures related to stimulus and significant global supply chain bottlenecks have also emerged, it added.

While care is needed in designing and adapting stimulus packages to improve their impact and efficiency in rapidly evolving circumstances, premature withdrawal of fiscal support would risk exacerbating labour market disruptions or slowing down job recovery. The evidence confirms the importance of continued strong stimulus, said the ILO.

According to ILO estimates, on average, an increase in fiscal stimulus of 1% of annual gross domestic product (GDP) is associated with a 0.3-percentage-point increase in working hours relative to the last quarter of 2019 in annualized terms. This is a larger effect than previously estimated, it added.

According to the ILO report, along with fiscal stimulus, vaccination has been a crucial factor in determining labour market recovery. "Vaccinations are key to opening up the economy and lowering the risk associated with everyday consumption and production activities. The enormous differences between countries in the rollout of vaccination [are] contributing directly to the highly uneven process of job recovery around the world," it said.

The ILO said that analysis of data from 28 countries over the first two quarters of 2021 shows that vaccination is positively correlated with the recovery in working hours. The estimates imply that, globally, an additional 10 percentage points in the share of the population becoming fully vaccinated is associated with a recovery in working hours of 1.9% (or the equivalent of 52 million full-time jobs). This means that during the second quarter of 2021, on average, for every 14 persons fully vaccinated, a full-time equivalent job was added to the global labour market.

This suggests that vaccination already substantially boosted the recovery and generated strong divergence across countries as early as the second quarter of 2021, said the ILO. "Estimates show that, if no vaccinations had taken place, global working-hour losses would have reached 6.0%, 1.2 percentage points higher than the losses actually recorded in that quarter." This difference is equivalent to an additional loss of 37 million full-time jobs. As expected, this estimated positive effect was largest in high-income countries (3.4 percentage points) reflecting their relatively high vaccination rates, while the effect is almost zero in low-income countries and negligible in the lower-middle-income countries (0.3 percentage points).

According to the ILO report, a two-speed recovery is projected for 2021 and beyond. The optimism that prevailed at the beginning of 2021 has faded under the effects of new waves of the pandemic, the appearance of new COVID variants and the slow and uneven rollout of vaccinations.

"Wide access to vaccines, combined with relatively strong fiscal stimulus, will likely enable high-income countries to record a faster recovery in working hours than the rest of the world. By contrast, low-income countries and lower-middle-income countries, which lack both, are likely to experience recurrent disruptions to the labour market and other damaging risks."

Globally, worsening prospects for the second half of this year have resulted in a significant downward revision to the overall projection for working-hour recovery in 2021. Compared with its level in the fourth quarter of 2019, the revised projection is for a deficit of 125 million full-time equivalent jobs in 2021, compared with an earlier projection of 100 million, said the ILO.

Even in the absence of a further wave of the pandemic, overall, the fourth quarter of 2021 is expected to see only a modest recovery in working hours.

Upper-middle-income and high-income countries will recover fastest and furthest, but working hours will remain substantially below their level of the fourth quarter of 2019 in low- and lower-middle-income countries.

"Addressing this working-hour deficit will require a surge in vaccinations, especially in developing countries."

The ILO said a more equitable distribution of vaccines in the fourth quarter of 2021 would enable low-income and lower-middle-income countries to sizeably reduce the gap in working hours with respect to upper-middle- and high-income countries.

The ILO said that such potential impacts can be demonstrated by comparing the "baseline" scenario (that is, one in which vaccination rollout follows the 2021 average pace recorded thus far and which assumes that there are no further downside economic risks, including in global supply chains and energy prices) and the "fair vaccination" scenario (in which vaccines are distributed equitably across countries, proportional to population).

This estimation shows that, in just one quarter, low-income countries would see their hours worked increase by 2.0 percentage points (relative to the pre-crisis benchmark) if they had equitable access to vaccines, effectively closing the gap in working hours with upper-middle-income and high-income countries. In lower-middle-income countries, the effect is estimated to be somewhat lower, equal to 1.2 percentage points. Nonetheless, this would allow these countries to reduce the current gap by roughly 40%.

According to the ILO report, this evidence suggests that taking steps to address inequality in vaccinations could bring rapid and substantial benefits to the global labour market, resulting in a fairer and more inclusive recovery.

Looking ahead

The ILO said that notwithstanding the resumption of global economic growth, overall recovery in hours worked is now flatlining significantly below pre-pandemic levels, and with very significant differences between countries according to income level.

The evidence is of a "great divergence" in the recovery paths of higher- and of lower-income countries caused above all by the major differences in the rollout of vaccinations and fiscal stimulus. Concerns over this trend which is leaving many behind in the recovery are compounded by the additional downside risks in respect of supply chain bottlenecks and disruption, energy, inflation and debt distress.

The ILO said corrective action needs to start with radically strengthened international action and cooperation to help lower-income countries to increase their rates of vaccination to levels comparable to those in the higher-income countries. In addition to saving lives, this would enable a more equitable and inclusive process of economic and labour market recovery and add to resilience by offering greater protection to all countries from risks of resurgent virus variants.

Similarly, international cooperation is the key to providing necessary financing of the recovery process. The limited initiatives undertaken to date, while welcome, are clearly insufficient, said the ILO.

In this regard, the recent, and unprecedented, allocation by the IMF of $650 billion in Special Drawing Rights offers a major opportunity. "Re-channelling these funds to the countries that need them, and to the purposes that advance human-centred recovery, stands as an immediate priority for the international community," the ILO said.

The ILO said the constraints on resources, and the multiple demands on them, against a background of increased debt and inflationary pressures, make it imperative to direct them to uses which maximize their positive impact on jobs and incomes and benefit particularly the hardest-hit by the crisis and the most vulnerable.

It said resisting the pressure for premature fiscal consolidation must be matched by national policies which ensure coherent strategies that provide for efficient investment in inclusive, sustainable and resilient recovery. *(SUNS9448)*

The global tax system is broken. We can't trust rich countries to fix it.

The world is finally recognizing the harms of corporate tax avoidance. But the OECD's solution to the problem is designed by rich countries, for rich countries. We need an alternative.

by Michael Galant

This article is reproduced from the Jacobin website.

Jordan's King Abdullah II, Ecuadorian President Guillermo Lasso, the UK's Elton John – politicians and wealthy elite from around the world were implicated in a massive exposé in the week of 3 October on the world of tax havens. The third in a series that began with 2016's Panama Papers, the "Pandora Papers" are a brutal reminder that the global tax system is designed to work for the few at the expense of the many.

But while the Pandora Papers leak rightfully grabbed headlines around the world, it may not have been the most consequential tax news that week. On 8 October, the Organization for Economic Co-operation and Development (OECD) announced that a global agreement to fight corporate tax avoidance had been reached. Yet as details of the plan emerged in the months leading up to the announcement, it became increasingly clear that the Global South is once again getting the short end of the stick.

The world's tax system is broken. Rich countries won't fix it. The Global North may be willing to turn away from the worst excesses of neoliberalism, but it does so at the South's expense.

The scourge of tax havens

From 2010 to 2019, Amazon, one of the biggest companies in the world, paid an effective tax rate of 13% – lower than that of your average nurse or teacher. In the same period, Apple managed to store a mountain of over $250 billion in offshore bank accounts. And in 2020, 55 of the biggest corporations in the United States, including FedEx and Michaels Stores, paid a grand total of zero dollars in taxes.

Since the 1980s, the unfettering of global capital and the rise of multinational companies have empowered both individuals and corporations to shift their wealth across borders in search of the lowest tax rates. This dynamic, much as with labour and environmental standards, has created a "race to the bottom" where countries are forced to compete to lower their taxes in order to attract private investment. In addition to a downward pressure on tax rates across the board, certain jurisdictions have found a niche in this ecosystem by taking the race to an extreme: not only lowering their taxes to rock-bottom rates but also creating a regulatory environment of extreme secrecy.

These tax havens or "secrecy jurisdictions" are often small, poor countries desperate for an economic model that will allow them to survive in a world economy that is decidedly unfriendly to aspirations of development. But the real offenders, those culpable for the system itself, are the wealthiest nations. Global North countries are not only home to many of those who make most use of the tax haven system, they also built the neoliberal world order from which it emerged, host the lawyers and accountants that facilitate its abuse, and are themselves home to some of the most egregious secrecy jurisdictions in the world (see South Dakota).

The details of global tax policy are esoteric, but the general upshot is clear: those with the resources get to play by a different set of rules than the rest of us, moving, stashing or disguising their finances away from the prying eyes of the public. In some cases, this secrecy allows them to hide the fact that they are breaking laws, but, more often than not, their abuses are entirely legal.

Taken together, the global tax system is a paradigmatic case of the neoliberal model of globalization: capital has been empowered to move swiftly between countries while democratic control has been systematically eroded. The results are insidious: trillions of dollars of lost tax revenue that could otherwise be spent on public health, education, climate action or development; wealth equivalent to 10% of world GDP sitting in untouchable and secretive hoards; a corrupt political elite shielded from scrutiny; critical matters of public interest, such as which private equity funds hold controlling stakes in government debt, shrouded in secrecy; and a deepening of extractive colonial relations between the Global North and South.

This is not a case of a few legal loopholes eating marginally into national tax revenue; it's a fundamental question about the democratic control of resources – and the siphoning of socially created wealth into the bloated coffers of the corporate elite.

By rich countries, for rich countries

Earlier this year, the Biden administration in the US announced its support for a solution: a global minimum corporate tax rate.

This was, by all accounts, a momentous shift. While Global South leaders have long called for action on tax abuse, and proposals for multilateral solutions had moved in fits and starts, leaders in the North had largely failed to move beyond rhetoric. The Biden administration's proposal was a stunning recognition of the disastrous neoliberal status quo, and a seemingly meaningful commitment to concrete action. In the words of Alex Cobham of the Tax Justice Network at the time, "If you blinked recently, you might have missed the idea of a global minimum tax rate for multinational companies, as it shifted almost imperceptibly from the wild margins of tax justice, to becoming the settled will of the world's richest countries." This would, even if implemented perfectly, be only a partial solution to one set of the many interlocking problems endemic to the global tax system, but it would be an important one.

With US support, things have moved quickly. After initial talks among the G7 and G20 major economies, negotiations have ultimately incorporated 140 countries and jurisdictions in a preexisting process led by the OECD – an organization of the world's richest nations. The OECD plan has two pillars. The first creates new measures to ensure that large, digitally based businesses pay more of their taxes in the locations where they actually do their business rather than where, through tricks of accounting, they claim their profits on paper. The second is the more ambitious global minimum corporate tax rate, which would put a floor on the global race to the bottom by ensuring that, no matter where a corporation shifts its profits, it must pay a certain minimum effective rate.

In theory, these are major steps forward. But the devil is in the details. Under the plan announced on 8 October, Pillar One limits its scope to only one hundred companies and sets a woefully inadequate 20-30% of profits for reallocation. Worse, the agreement would require countries to give up the taxes that they have already individually put in place on digital commerce. With these factors combined, Pillar One would leave many countries, especially lower-income countries, with *less* tax revenue than before.

Pillar Two, meanwhile, sets the minimum at an abominable 15%. Most egregiously, under the pillar's formula for distribution, countries in which the corporations are headquartered, rather than where they do their business, receive the lion's share of the recouped revenue. According to Tax Justice Network estimates, this would leave the G7 countries – with just 10% of the world's population and the bulk of the responsibility for the broken status quo – with a stunning 60% of the revenue.

Throughout the negotiation, the Global South has fought for higher taxation rates and a greater share of revenue. But time and again they have been sidelined or, worse, strong-armed into compliance. As it became clear that the process wasn't going in their favour, the G24, a grouping of the world's developing countries, and the South Centre, an independent policy think-tank established by and for the Global South, took the rare step of publicly calling for urgent changes. Argentina, in particular, has vocally decried the plan's inequities, while Kenya, Nigeria, Pakistan and Sri Lanka have refused to sign on.

In the end, though, most of the world has come on board out of a sense of resignation to the idea that even a flawed change is better than the status quo. The risk is that it's not – that the result of the OECD process will lock in this new system for years to come while leaving little incentive for Global North nations to come back to the table down the line. In short, in a process run by rich countries, rich countries won.

The post-neoliberal era?

If the global tax system is a paradigmatic case of neoliberal globalization, then the OECD tax deal is the shifting of the world order in miniature.

The Global South has fought for higher taxation rates and a greater share of revenue. But time and again they have been sidelined or, worse, strong-armed into compliance.

Reports of the death of neoliberalism were exaggerated to begin with, but to the extent that they're true – that Joe Biden and other Northern leaders are increasingly willing to curb the worst excesses of the neoliberal order – the OECD proposal reminds us that this turn away from neoliberalism is not the same as the emergence of a more equitable alternative. Rather, the reassertion of state power over global capital is in service of state-led economic nationalism and zero-sum exploitative relations over the South.

This dynamic is not limited to taxation. In response to the pandemic, wealthy nations have made large and, by the standards of the last few decades, unprecedented fiscal interventions to stave off economic collapse. The Global South has not been afforded the same chance. Debt, fear of credit ratings downgrades, and IMF loan conditions combine to restrain Global South nations from taking exactly the types of fiscal stimulus measures that Global North nations are now comfortably adopting, and the North has done little to change that. Similarly, Joe Biden's signature Build Back Better agenda and other Democratic Party policy priorities have put industrial policy back on the agenda for the United States. But that hasn't stopped the Biden administration from casting China's successful industrial policy regime as illegitimate. The majority of the Global South, bound by the conditions of IMF loans, the whims of financial markets and the rules of global trade, would never even get the chance to try.

Perhaps "US empire lives on" is not a novel insight. But the OECD tax policy debacle is a valuable reminder that simply turning away from neoliberalism is not enough. We must fight for an alternative.

Global justice on the South's terms

The OECD agreement has not yet gone into effect, and the road to implementation is rocky and convoluted. But the chances of salvaging tax justice from the deal are now gone – and a process in the hands of the wealthiest countries may have been doomed from the start. Since well before the current OECD process, Global South nations have fought to put the problem of tax havens on the agenda of the United Nations. Though far from perfect, this would establish a much more even playing field than a process led by a grouping of the world's richest countries. Launching a new global tax body under the United Nations – as things stand, a distant hope – would be a critical step towards ending the global scourge of tax havens and setting the world on a path to tax justice.

Whatever the specific form of the policy or process, it's clear that we won't get there if rich countries are dictating the terms. Even where leaders like Joe Biden may be willing to contravene the strictest of neoliberal doctrines, the alternative of economic nationalism and the reinforcement of neocolonial relations is equally unacceptable. Our task, as the Left in the imperial core, is not to convince our oligarchs that neoliberalism is not in the national interest. It's to build power for radical change in alliance with, and following the leadership of, the Global South. Tax justice is only the start. Exploitative debt burdens, the insidious power of the World Bank and IMF, the corporate-first trade regime, the stranglehold of the global intellectual property monopoly – the entire global economic architecture – must be transformed. Whether a decolonial Global Green New Deal, a Green New International Economic Order or a new vision entirely, we can build a global economy that works for the many – where aspirations of development are allowed to flourish, where corporate power is subordinated to democratic control, where the wealth created by the people remains with the people.

The leaders of rich countries can't be trusted to fix the broken world order. But, together with our comrades in the Global South, we can build a new one.

Michael Galant *helps lead the Economics and Trade Subcommittee of the Democratic Socialists of America (DSA) International Committee, and is a member of the Progressive International's secretariat.*

Putting the Third World First

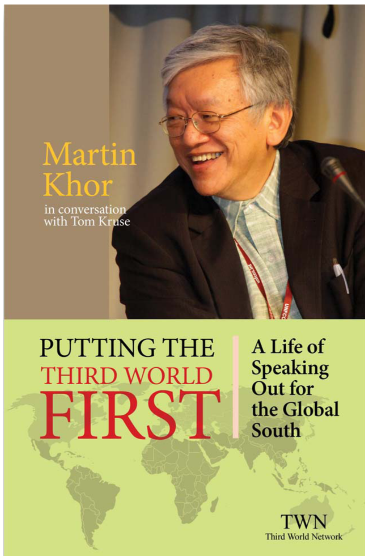
A Life of Speaking Out for the Global South

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.



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

For South, all roads in global economic governance lead to inequality

The custodians of the international economic order are failing to deliver the development financing so desperately needed by the South.

by Bhumika Muchhala

The October annual meetings of the International Monetary Fund (IMF), World Bank and G20 finance ministers illustrated that despite a historic debt crisis sweeping across developing countries and their urgent need for external financing for health and economic recovery, global economic institutions governed by rich countries do not possess the political will to deliver meaningful solutions.

The inadequacy of the G20's debt relief framework, which has failed to restructure sovereign debt since its inception, stands without change or any fresh effort to mobilize private sector participation in debt relief.

Despite the broad call to recycle Special Drawing Rights (SDRs) from rich to poor countries, the few countries that made commitments to do so are employing a conditional loan mechanism which will further drive fiscal consolidation measures in low-income countries.

Deprived of the policy independence and vaccines that allow advanced economies to enact massive fiscal stimulus programmes and open their economies, many developing countries are facing a cycle of deflation and despair.

The IMF's flagship *World Economic Outlook* (*WEO*) report confirms the entrenchment of global divergence between North and South by reporting that developed countries will return to pre-crisis growth projections in 2022 while developing countries' recovery will stretch to 2024, in a journey marked by "permanent economic scarring and revenue losses" for the South.

The *WEO* concludes that unemployment is a major driver of this gap and unemployment rates would be persistently higher if trouble with vaccinations leads to COVID-19 becoming "endemic."

A brand new (and conditional) loan to recycle SDRs?

In the months preceding the largest ever allocation of $650 billion in SDRs by the IMF on 23 August, a momentum to recycle SDRs from rich to poor countries was generated by a broad range of actors, including the UN, governments and civil society.

A milestone was achieved when leaders of the G7 leading developed countries committed to voluntarily channelling $100 billion of their unused SDRs.

Despite this amount falling short of the IMF's own conservative estimate of a $200 billion financing shortfall in low-income countries between 2021 and 2025, the move was welcomed in light of the unequal distribution of SDRs based on IMF members' quotas, where over 60% (or $400 billion) of the SDRs go to developed countries.

After France announced it will channel 20% of its SDR allocation to African countries, with a focus on vaccine donations, all eyes were on the annual meetings in October for announcements by other rich countries.

In a virtual panel, IMF Managing Director Kristalina Georgieva said that the "100 billion number is very achievable", alluding to several countries which had stated their intentions to channel SDRs but not yet committed exact amounts.

Given the urgency of fiscal space and external financing across developing countries, more details were expected.

The IMF was tasked by the G20, G7 and Fund membership to design a mechanism to recycle the funds. In response, it proposed two key pathways: scaling up the longstanding Poverty Reduction and Growth Trust (PRGT) concessional loan facility for low-income countries, and establishing a new Resilience and Sustainability Trust (RST) that would be accessible to middle-income countries.

While both proposals were accepted by the G20 and the G24 group of developing countries in the IMF, years of critique loom over the PRGT for its fiscal consolidation conditions, including by the Fund itself. Empirical research has long illustrated how the PRGT shrinks public expenditure for indispensable social services and employees in health and education and promotes regressive taxation measures that disproportionately hurt women and low-income communities.

Meanwhile, the RST, which is still being formulated and will be presented for approval to the Fund's Board in 2022, is the first loan facility to address balance-of-payments risks stemming from climate change and pandemics, featuring conditionality related to climate or pandemic preparedness designed and monitored in coordination with the World Bank.

There are three key concerns that already emerge in the little that is currently published or known of the Fund's design of the RST.

First, access to the RST will be contingent on having a conditional IMF loan programme already in place. According to one of the only published sources on the RST, it would likely "top up" a regular IMF loan programme.

Second, while many in the international community have asked the IMF to support countries with climate transition risks, including financing for a just transition, the RST should not be counted as climate finance. The latter is direct budget support for climate change mitigation and adaptation, while the RST addresses budget distortions that may arise from climate change.

Third, it remains to be seen whether the RST's stated objective of catalyzing private and other multilateral financing will involve creating an enabling environment for the vested interests of private finance in forging investable climate-oriented schemes that yield more for profit than for people.

In a letter to G20 finance officials and the IMF, over 280 civil society organizations and networks, including researchers and academics, called for a set of principles to govern the fair channelling of SDRs to developing countries. These principles include avoiding the attachment of policy conditionality and accrual of more debt, avoiding the double-counting of SDRs as aid, and ensuring access for middle-income countries that are often excluded from multilateral schemes.

The letter stressed the importance of recycling SDRs through grant funding that facilitates budget support for public services and a fair recovery that supports climate justice, and tackles economic and gender inequality, including the unpaid care burden that women bear and that the pandemic exacerbated.

A critical opportunity to progressively alter the basic tenets of development financing in the current global financial architecture has been missed by the Fund and its rich-country members.

G20 fails to address record high debt distress

As the G20's wholly inadequate debt moratorium concludes at the end of 2021, the World Bank reports that the debt burden of low-income countries rose to a record $860 billion and half of the world's poorest countries are in external debt distress as a result of the pandemic.

And yet, the G20's finance ministers have again failed to advance real debt solutions such as debt relief, debt cancellation and fair restructuring mechanisms for countries requesting debt reduction.

Indeed, no new relief scheme or possibility of a debt standstill was announced by the G20 finance ministers' communique, even with the imminent closure of the G20's Debt Service Suspension Initiative (DSSI).

Meanwhile, the G20 proved once again their lack of power to increase private sector creditor participation in debt reduction initiatives beyond mere reaffirmations.

At the IMF-World Bank spring meetings in April 2021, Mohamed El-Erian, President of Queens' College, Cambridge, and Chief Economic Advisor at Allianz, had said at a webinar that the Paris Club process of case-by-case debt treatments is "not enough to overcome coordination problems in the private sector; the Paris Club needs to impose more of a stick for the private sector."

The inability to regulate the private sector into debt relief participation points to how the "chutzpah" of bondholders is a direct outcome of the way G20 leaders and their central banks have nurtured private finance to become so powerful that they now find themselves unable to curtail its might.

The Jubilee Debt Coalition stated in a press release that the G20 are asleep at the wheel as the debt crisis intensifies in low-income countries, pointing out that the DSSI has suspended less than a quarter of debt payments, while the G20's Common Framework for Debt Treatments (CF) has restructured no debt.

In particular, private creditors received the largest amount of debt payments, $14.9 billion, and suspended just 0.2% of debt payments.

In early 2021, Chad, Ethiopia and Zambia applied to the CF for debt restructuring. So far, none have been successful, in large part due to private lenders' refusal to take part in debt reductions.

Meanwhile, the current rise in global interest rates will increase the cost of debt servicing, worsening debt crises and preventing both economic and health recovery in indebted countries.

In response to the wave of debt distress sweeping across the South, the UN Conference on Trade and Development (UNCTAD) has called for substantive debt relief and outright cancellation. The counterfactual, it states, is another lost decade for development marked by developing countries using their vital public finances for debt payments rather than for investing in pandemic and economic recovery.

Even the IMF's *Fiscal Monitor* report highlights limitations of the international debt architecture in supporting orderly restructurings as a core risk for global pandemic recovery.

In stark contrast to the G20, several developing countries at the 76th UN General Assembly in September called for debt cancellation, comprehensive debt restructuring and debt relief linked to middle-income countries or to the UN Sustainable Development Goals (SDGs). Small island developing states called for debt relief in the context of a new vulnerability index for the provision of multilateral support.

Against these segmented scales of political and economic power, a democratization of decision-making in the global debt architecture is increasingly urgent. As long as the multilateral response to the debt crisis generated by the economic fallout of the pandemic is governed by creditor countries, the decades-old imperative to establish a debt workout mechanism capable of carrying out timely and fair restructuring, including debt cancellation, will remain unmet.

Fiscal austerity continues to exacerbate global inequalities

At the IMF-World Bank annual meetings, the IMF's Georgieva underscored that health spending is a priority and that where fiscal space is limited, "lifelines should be increasingly targeted toward the most vulnerable groups."

However, in her own institution's *Fiscal Monitor*, an explicit priority is placed on reducing deficit and debt levels, "undertaking structural fiscal reforms (such as pension or subsidies reform) ... and committing to fiscal rules that lead to deficit reduction in the future."

The IMF's historical preoccupation with fiscal consolidation is a reflection of capital market and investor reasoning, in which the only path to securing access to low-cost borrowing for most developing countries is "strengthening the credibility of their fiscal policy."

Embedded within a financial architecture shaped by a short-term and speculative logic and pro-austerity bias, the South's public budgets are subject to private interests that are in diametric opposition to equitable and rights-based development.

The priority of securing the confidence of creditors is illustrated by Oxfam's finding that out of 107 IMF loans, 90 require fiscal consolidation measures across 73 countries.

Instead of facilitating public investment in health, education and social protection systems, medium-term policy advice in the loans seeks to cut and freeze public sector wage bills, and increase or expand value-added and general sales taxes.

As UNCTAD puts it, unless the autonomy and impunity enjoyed by global finance is seriously regulated, the potential of fiscal policy to play a structural role in sustained decent work creation and pursuing the right to equitable development is rendered defunct.

Deepening inequality and poverty across the South is a direct result of the failure of effective multilateralism. Between 65 and 75 million people have been thrown into poverty, the gap between the top 10% and bottom 80% is growing, and achieving the SDGs by 2030 is rendered close to fantasy in many developing countries. Women have been dealt the most unequal hand, experiencing at least $800 billion in lost income globally in 2020 while low-wage informal work and unpaid care work have increased beyond measure.

Ultimately, the principles of historical responsibility, distributive justice and interdependency of recovery must guide the centres of financial and economic clout to support rather than hinder health and economic recovery for the most vulnerable regions of the South.

Technocratic tinkering with power and resource asymmetries created by centuries of colonial history, and more recently by four decades of neoliberalism that has institutionalized a pathologically unequal financialized world economy, will no longer suffice. Structural change is indispensable, precisely because the counterfactual may well be a lost decade for the vast majority of the human race. *(IPS)*

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Inflation bogey blocking recovery

An undue preoccupation with inflation could put economic recovery at risk, caution *Anis Chowdhury* and *Jomo Kwame Sundaram*.

The bogey of inflation has been revived.

Dubious pre-pandemic economic progress, fiscal constraints and vaccine apartheid were bad enough. Now, ostensibly anti-inflationary measures also threaten recovery and sustainable development.

The International Monetary Fund (IMF) has revised downwards its latest global growth forecast. Its latest *World Economic Outlook* (*WEO*) report warns of a "dangerous divergence" between richer and poorer countries. This has been exacerbated by, but has also worsened, national fiscal disparities and the "great vaccine divide".

Meanwhile, there is growing talk of "stagflation" – rising inflation with slow growth and high unemployment, as in the 1970s. On its part, *The Economist* warns of harmful "wage-price spirals" aggravating vicious circles of rising inflation and wage demands.

But over 70% or 152 of 209 economists polled believe rising inflation worldwide is due to temporary supply chain disruptions. Heads of major central banks – such as the US Federal Reserve, Bank of England and European Central Bank – concur.

Although the IMF agrees, it also urges policymakers to "be on the lookout and be prepared to act, especially if ... prolonged supply disruptions, rising commodity and housing prices, permanent and unfunded fiscal commitments, a de-anchoring of expectations, combined with mismeasurement of output gaps [materialize]".

The IMF's October 2021 *Fiscal Monitor* urges governments to take all steps necessary to regain capital markets' and lenders' confidence, including by reducing budget deficits. But it also warns against "self-defeating", premature phasing-out of needed recovery measures. Thus, the "two- handed" IMF economists offer contradictory policy guidance.

Wrong diagnosis

But inflation is unlikely to persist.

First, labour market deregulation since the 1980s has long eroded workers' bargaining power. Hence, workers are now more worried about job security, badly eroded in recent decades.

Second, "decent" job creation remains weak in most rich countries after decades of "offshoring" and labour-saving innovation.

Unsurprisingly, then, labour shares of national income have been falling since the mid-1970s.

While jobs typically trail recovery, the current lag is "more severe" than before, notes the IMF.

Across the world, labour force participation and employment remain well below pre-pandemic levels, particularly for youth.

The *WEO* notes private investment fell in 2021's second quarter, with several new uncertainties responsible. Slower investment and growth also mean less tax revenue and higher debt-GDP ratios. Cutting spending will only make things worse.

Correct diagnosis should be the basis for choice of medication. Contrary to monetarist faith, inflation is not only due to excess money supply.

If supplies are blocked – for example, due to disasters, conflicts, curfews or transport restrictions – demand easily becomes "excessive". Inflation is often also due to big suppliers abusing their market power, with powerful firms raising prices with higher "mark-ups". Privatization and deregulation over the last four decades have strengthened these monopolies or oligopolies.

Blunt instrument

The *WEO* seems more concerned with inflation than employment as financial markets demand monetary tightening, interest rate hikes and fiscal austerity.

Bloomberg has urged emerging economies to "brace for rate hikes", with

Mexico, Brazil, Peru, Russia and others obliging, as *The Economist* anticipated.

The interest rate is a blunt tool. Inflation is reduced by raising interest rates, cutting growth and increasing unemployment – "tough medicine" indeed. Hawks emphasize how inflation erodes the poor's purchasing power, but deny that their prescriptions do worse.

One must also wonder how interest rate hikes are supposed to address actual problems. For example, in September 2021, global food prices shot up nearly 33% year-on-year, due to extreme weather and pandemic restrictions. Higher rates also certainly could not help when a severe drought hit hydroelectric power generation in Brazil.

Higher interest rates squeeze both private and government spending. Thus, rate hikes will likely trigger a vicious circle of further rate increases and general austerity, slowing recovery and raising debt-GDP ratios.

Raising interest rates in rich countries will also see more capital flight from developing countries and exchange rate depreciations. Already handicapped by vaccine inequity and constrained fiscal space, worsened by modest debt relief and pandemic support from rich countries, raising interest rates will set developing countries further back.

Debt misconstrued

Rising debt levels have understandably been an ongoing concern. In 2019, the World Bank warned that post-2008 global financial crisis (GFC) indebtedness was dangerous, noting all previous debt waves had ended in crises. With the pandemic, fears have been "looming" again of "catastrophic" debt crises in developing countries. As if governments had much choice, the *Wall Street Journal* warned, "Governments world-wide gorge on record debt, testing new limits".

The IMF's October *Fiscal Monitor* acknowledges "there is no magic number for the debt target. Macroeconomic theory does not prescribe a specific debt target; nor is there a clear threshold above which debt might become particularly harmful to economic growth."

This confirms earlier IMF and World Bank findings suggesting exaggeration of debt constraints. Rather, the focus should be on "the likely growth effects of the level, composition and efficiency of public spending and taxation".

Instead of fixating on overall debt levels, its composition – domestic vs external, public vs publicly guaranteed – deserves more attention.

In fact, debt-financed infrastructure, education, skill development and retraining programmes all enhance growth. IMF research found such infrastructure investment had large growth effects without even raising the debt-GDP ratio.

Deep-seated challenges

The predictable recommendation is "belt-tightening" via "austerity" and "higher interest rates" – bringing even more economic contraction. Typical structural reform prescriptions – such as more labour market liberalization, deregulation, privatization and tax cuts – only make things worse, while regressive tax cuts rarely generate promised growth.

Financialization in recent decades has encouraged more speculation, share buybacks, and mergers and acquisitions. Consequently, the real economy has suffered, with inflation rising as productivity growth falters. But inflation was kept in check by cheap imports and cheaper labour, even as profit margins and executive salaries rose.

But neoliberals have not hesitated to claim credit for taming inflation during the Great Moderation via fiscal austerity, debt ceilings and inflation targeting.

Despite fiscal austerity, debt has risen, especially since the GFC. Slower growth has also meant less revenue, further reducing fiscal space. Public investment cuts – particularly for services, infrastructure, research and development – have also hurt productivity growth.

Every economic crisis is different in its own way. The COVID-19 recession involves both supply and demand shocks. Output has fallen due to lockdowns and value chain disruptions. Demand has also declined with lower incomes, less spending, more jobs lost and greater uncertainty.

When provided, relief measures have sustained some demand. Pandemic restrictions have accelerated digitalization, but other changes are also needed. Reforms must build on COVID-19 transformations for a better future, for example, by promoting job-intensive green investments, worker reskilling and retraining.

The COVID recession thus offers an unexpected opportunity to "build forward better" to address deep-seated problems to build a better world. This must necessarily involve shedding biased and dysfunctional arrangements, managing markets, guiding private investments, workforce retraining, and investing in education, health and social protection. *(IPS)*

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