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Call to aid developing economies reeling from coronavirus blow

Rocked by the Covid-19 pandemic, the global economy could contract by 0.9% this year, the United Nations has forecast. While advanced economies are rolling out domestic economic stimulus programmes to cushion the hit, support is also needed for developing countries lacking the means to do so. Towards this end, the UN Conference on Trade and Development (UNCTAD) has proposed a coordinated rescue package for developing economies that would include liquidity injections, debt relief measures and use of capital controls.

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World economy may shrink by 0.9% due to Covid-19

The coronavirus pandemic could lead to a 0.9% contraction in the global economy, setting back not only growth but also progress towards sustainable development, says the UN.

by Kanaga Raja

GENEVA: The world economy could contract by 0.9% – instead of growing at an earlier projected 2.5% – in 2020 due to the Covid-19 pandemic, the United Nations Department of Economic and Social Affairs (UN-DESA) has said.

In a briefing released on 1 April, UN-DESA said that world output could contract further if currently imposed restrictions on economic activities extend to the third quarter of the year and if fiscal responses fail to support income and consumer spending.

"Urgent and bold policy measures are needed, not only to contain the pandemic and save lives, but also to protect the most vulnerable in our societies from economic ruin and to sustain economic growth and financial stability," said Liu Zhenmin, UN Under-Secretary-General for Economic and Social Affairs.

"While we need to prioritize the health response to contain the spread of the virus at all cost, we must not lose sight how it is affecting the most vulnerable population and what that means for sustainable development. Our goal is to ensure a resilient recovery from the crisis and put us back on track towards sustainable development," said Elliott Harris, UN Chief Economist and Assistant Secretary-General for Economic Development.

The UN report notes that the raging Covid-19 pandemic has triggered unprecedented restrictions not only on the movement of people but also on a range of economic activities, and the declaration of national emergencies in most countries in Europe and North America.

Growing demand for urgent healthcare and rising death tolls are straining national healthcare systems. The pandemic is disrupting global supply chains and international trade. With nearly 100 countries closing national borders during the past month, the movement of people and tourism flows have come to a screeching halt. Millions of workers in these countries are facing the bleak prospect of losing their jobs.

Governments are considering and rolling out large stimulus packages to avert a sharp downturn of their economies which could potentially plunge the global economy into a deep recession.

Fears of the exponential spread of the virus – and growing uncertainties about the efficacy of various containment measures – have rocked financial markets worldwide, with market volatility surpassing its peak during the global financial crisis and equity markets and oil prices plunging to multi-year lows. Large declines in asset prices and high financial market volatility will impact real economic activities via credit and investment channels.

Lower equity prices will increase the debt-to-equity ratios of highly leveraged firms, limiting their access to credit and increasing the likelihood of default and bankruptcies. The tightening of credit conditions could force firms to de-leverage rapidly, exacerbating a downturn. Banks may be forced to reduce lending, adding to downward pressures in the credit market. As corporate and consumer loan defaults rise, this would also result in a deterioration in bank balance sheets, further constraining banks' ability to extend credit, and increasing the fragility of domestic banking systems, said the report.

Growing restrictions on the movement of people and lockdowns in Europe and North America are hitting the service sector hard, particularly industries that involve physical interactions such as retail trade, leisure and hospitality, recreation and transportation services. Collectively, they account for more than a quarter of all jobs in these economies, it noted.

Impacts on developing countries

The adverse effects of prolonged

restrictions on economic activities in developed economies will soon spill over to developing countries via trade and investment channels.

A sharp decline in consumer spending in the European Union and the United States will reduce imports of consumer goods from developing countries. In addition, global manufacturing production could contract significantly, amid the possibility of extended disruptions to global supply chains. Many firms worldwide – particularly in the automobile, consumer electronics and telecommunications industries – are facing shortages of intermediate components as exports from China contracted at an annual pace of 17.2% in the first two months of the year. More severe and protracted production disruptions would affect a large number of developing economies that are deeply integrated in global supply networks, said the report.

Developing countries with highly concentrated trade exposures to the EU and the United States are particularly vulnerable to growth downturns in these two economies. For example, nearly 90% of exports from Cabo Verde and Sao Tome and Principe are destined for Europe. For Morocco and Tunisia, the figure is over 60%. If demand from the EU falls, these economies will suffer significant downturns. The same is true for the Dominican Republic, Haiti or Mexico, with more than half of their exports destined to one country – the United States.

The pandemic is also hitting the global tourism industry just as hard. As a growing number of countries close their borders, travels – both domestic and international – have come to a standstill, said the report. In February, China's air passenger traffic fell by 84.5% on a year-on-year basis, while Sri Lanka and Vietnam saw tourist arrivals contract by double digits relative to February last year.

More prolonged restrictions on international travel could severely hurt developing economies that are highly reliant on tourism as a source of foreign exchange revenue. In the Bahamas, Cabo Verde, Maldives and Vanuatu, tourism accounts for nearly 20% of gross domestic product (GDP) and nearly 60% of their foreign exchange earnings.

Small and medium-sized enterprises (SMEs) account for 80% of the global tourism sector which employs approximately 123 million people worldwide. Many tourism-dependent countries rely heavily on tourist arrivals from a particular country – the United States, for example, as in the case of many Caribbean economies. These economies would experience sharp increases in unemployment rates, affecting the livelihood of low-skilled workers and the more vulnerable segments of society that depend on income from tourism-related industries.

The recent collapse in global commodity prices is compounding the bleak fiscal outlook for many commodity-exporting economies, many of which have not fully recovered from the after-effects of the sharp commodity price decline in 2014-16.

Before the outbreak of Covid-19, world output had been expected to expand at a modest pace of 2.5% in 2020, the UN-DESA report noted.

Now, in the best-case scenario – with moderate declines in private consumption, investment and exports and offsetting increases in government spending in the G7 countries and China – global growth would fall to 1.2% in 2020, it said.

In the worst-case scenario, the global output would contract by 0.9% in 2020.

"The scenario is based on demand-side shocks of different magnitudes to China, Japan, the Republic of Korea, the United States and the EU, as well as an oil price decline of 50% against our baseline of $61 per barrel," said UN-DESA.

It assumes that wide-ranging restrictions on economic activities in the EU and the United States would extend until the middle of the second quarter. Global growth could plunge even further if restrictions on movements and economic activities in these economies extend beyond the second quarter.

In comparison, the world economy contracted by 1.7% during the global financial crisis in 2009.

The severity of the economic impact will largely depend on two factors: (1) the duration of restrictions on the movement of people and economic activities in major economies; and (2) the actual size and efficacy of fiscal responses to the crisis.

"A well-designed fiscal stimulus package, prioritizing health spending to contain the spread of the virus and providing income support to households most affected by the pandemic would help to minimize the likelihood of a deep economic recession," said the report.

Sustainable development prospects hit

The Covid-19 pandemic will not only suppress economic growth, it will also adversely impact sustainable development in the short run, according to the report.

In Africa, an outbreak of the pandemic is of extreme concern because of the fragility of countries' healthcare systems and because many of these economies already face significant public health challenges, particularly malaria, measles, HIV and tuberculosis. During the 2014-16 Ebola outbreak, many of the deaths were due to resources being diverted away from other diseases.

In Western Asia, the pandemic is likely to impact humanitarian action of the international community in Iraq, Syria and Yemen, where ongoing conflict still requires timely responses.

The pandemic is also likely to undermine poverty eradication efforts. A pandemic-stricken economy that grinds to a halt puts the employment of many people at risk – either in the form of lower income, less paid working hours, or outright unemployment.

The pandemic will have differentiated employment and income effects, even in most developed economies. Evidence suggests that those at the lower end of the income distribution will suffer the most, said UN-DESA.

With its detrimental effect on people's well-being, the Covid-19 pandemic worsens the deep-seated economic anxiety – fuelled by slower growth and higher inequality – that people around the world are experiencing.

Even in many high-income countries, a significant proportion of the population do not have enough financial wealth to live beyond the national poverty line for three months, causing many to fear for their economic security. In hard-hit Italy and Spain, an estimated 27% and 40% of the population, respectively, do not have enough savings to allow themselves not to work for more than three months, even if they are only living at the poverty line; and the number is an alarming 39% for the OECD average. In the United States, nearly 40% of households cannot pay for a $400 unexpected expense without borrowing or selling off some of their assets.

"Prolonged restrictions on economic activities – and the risk of losing jobs and income – would exacerbate pervasive economic insecurity and further erode the already-declining public trust in institutions, including multilateral organizations."

Unprecedented policy measures

In response to the escalating health emergency and rapidly deteriorating economic outlook, national authorities and multilateral entities worldwide are considering unprecedented policy measures, said the report.

Since the outbreak of the crisis, about 60 different monetary authorities have cut their policy rates, often at emergency meetings. The US Federal Reserve Bank lowered its target rate by 150 basis points to 0.0-0.25%, while the Bank of England cut its rate by 50 basis points to 0.25%. Emerging market central banks, especially in East Asia, Western Asia and Latin America, also implemented rate cuts.

While interest rate cuts and asset purchases can send important market signals, they will do little to stimulate economic activity in the short run, said the report. Central bank actions, however, still ease financial stress, ensure a continued functioning of financial markets, and provide loans for businesses and households affected by the crisis.

Once the social restrictions are lifted and market confidence returns, a prolonged period of very low interest rates could help support economic recovery, said UN-DESA. Importantly, medium-term monetary policy strategies will need to be aligned with new fiscal realities, including large deficits and higher debt levels.

Given the severity of the crisis and the limited effectiveness of monetary policy actions, many governments, especially in East Asia and in developed countries, have announced large stimulus packages to address the health, economic and social impacts of the pandemic. They are primarily targeted at enhancing capacities of national health sectors to ensure the availability of medical supplies, free and aggressive Covid-19 testing and enhanced healthcare coverage, and funding for research and development of vaccines and treatments.

At the same time, fiscal policy measures are aiming to expand paid sick leave and family leave, mitigating income losses with direct and indirect cash transfers and preventing business closures and bankruptcies. In the United States, only 74% of all workers have paid sick leave and only 45% have paid personal/family leave.

According to the report, direct wage or income support measures can play an important role in limiting the socioeconomic effects in the short run, while preserving the capacity to recover promptly. Such measures include tax deferrals, government-subsidized short-term work schemes, moratoriums on mortgage payments and direct cash payments. Importantly, social protection programmes need to reach the most in need during the crisis, with a focus on the elderly and those in vulnerable employment.

Strengthened international cooperation – complementing and strengthening national efforts – remains an imperative for fighting the pandemic. "As the coronavirus knows no border, the global health system is only as strong as its weakest link."

In this view, the collective interest of the global community is best served if information on good practices on fighting the pandemic is shared widely, intellectual property regimes that govern the use of vaccines are made flexible, and financial support for the World Health Organization is strengthened, said the report. (*SUNS9094*)

South needs $2.5 trillion support package to deal with Covid-19

With the worst of the coronavirus-induced economic shock likely yet to come, a UN body has proposed a rescue programme for developing economies comprising, among other measures, liquidity injections, debt relief and use of capital controls.

by Kanaga Raja

GENEVA: A $2.5 trillion support package is needed for developing countries facing unprecedented economic damage from the Covid-19 crisis, the UN Conference on Trade and Development (UNCTAD) has said.

In an update released in March to its *Trade and Development Report*, UNCTAD has proposed a multi-pronged strategy for developing countries to deal with the coronavirus shock. This includes a $1 trillion liquidity injection made available through the expanded use of Special Drawing Rights; a $1 trillion debt jubilee for distressed economies; a $500 billion Marshall Plan for health recovery; and the use of capital controls to curtail the surge in capital outflows, reduce illiquidity driven by sell-offs in developing-country markets, and arrest declines in currency and asset prices.

Richard Kozul-Wright, Director of the UNCTAD Division on Globalization and Development Strategies, noted that advanced economies have promised to do "whatever it takes to stop their firms and households from taking a heavy loss of income." But if leaders of the G20 major economies are to stick to their commitment of a global response in the spirit of solidarity, "there must be commensurate action for the six billion people living outside the core G20 economies", he added.

According to the UNCTAD report, projections of the potential impact of the Covid-19 shock on economies around the world for the year 2020 vary widely. However, there is broad agreement that the global economy will contract given the sudden stop to large swathes of activity and the resulting income loss in the manufacturing and services sectors across most advanced countries and China, combined with the adverse effects on financial markets, consumption (through both income and wealth effects), investment confidence, international trade and commodity prices.

For advanced-country governments, now scrambling to contain the economic impact of the Covid-19 pandemic, the challenge is compounded by persistent fragilities surrounding highly speculative financial positions, in particular, the already unsustainable debt burdens associated with highly leveraged corporate loans. These have been built up over the last decade of easy money and against a backdrop of heavily under-regulated "high-tech-cum-gig economies" and deeply ingrained income inequalities. In addition, the avalanche of cheap credit since 2008 has also spilled over to developing countries, creating new financial vulnerabilities and undermining their debt sustainability.

UNCTAD noted that in the past days a series of stimulus packages – unprecedented in both scale and scope – have been announced by the major developed economies and China to extenuate the mounting economic damage and respond to the health crisis.

Aside from financial injections to keep banking and corporate balance sheets on relatively stable footing, the critical measures to avert contractions of economic activity include government spending (particularly on healthcare), extended unemployment benefits and cash transfers.

Using its Global Policy Model, UNCTAD said it has estimated a boost to the national incomes of advanced economies and China of about $1.4 trillion in 2020, substantially smaller than the headline values of the packages.

"Although this will, in all likelihood, not prevent a global contraction this year, it should (hopefully) avert the recession turning into a prolonged depression. It should also contribute to stemming the fall in the prices of both financial assets and commodities and will partially alleviate the negative growth impact from the crisis on developing countries."

Developing countries, however, face distinct pressures and constraints which make it significantly harder for them to enact effective stimulus without facing binding foreign exchange constraints, said UNCTAD.

As these countries do not issue international reserve currencies, they can only obtain them through exports or sales of their reserves. What is more, exports themselves require significant imports of equipment, intermediate goods, know-how and financial business services.

The financial turmoil from this crisis has already triggered sharp currency devaluations in developing countries, which makes servicing their debts and paying for necessary imports for their industrial activity far more onerous.

Many developing countries were already slowing down in the final quarter of last year, with several entering recession. However, the speed at which the economic shock to advanced economies has hit developing countries – in many cases in advance of the health pandemic – is dramatic, even in comparison to the 2008 global financial crisis, said UNCTAD.

For example, net portfolio flows, both debt and equity, from main emerging economies amounted to $59 billion in the month since the Covid-19 crisis went global (21 February to 24 March). This is more than double the portfolio outflows experienced by the same countries in the immediate aftermath of the global financial crisis ($26.7 billion).

Concomitantly, the spreads on developing-country bonds have been rising sharply, while the values of currencies against the dollar have dropped significantly since the beginning of this year; again, in both cases equal to or faster than in the early months of the global financial crisis.

UNCTAD noted that commodity prices have also dropped precipitously since the crisis began. A fall in oil prices, which would be expected from a drop in global demand, has been amplified by disagreements among the main producers on how to deal with this, with Brent crude falling 63% in the year to date. In the last 25 years, similar declines occurred only after the global financial crisis. When other commodities are added to the analysis, the overall price decline has been 37% this year, with the other major falls concentrated in metals (with some notable exceptions) and mineral products.

"Things will get much worse before they get better"

"The economic fallout from the Covid-19 shock is ongoing and increasingly difficult to predict but there are clear indications that things will get much worse for developing economies before they get better," UNCTAD said.

First, the full effects of the health crisis have yet to hit many developing countries, and we have yet to reach the "end of the beginning" of the economic crisis in the advanced economies.

Following the collapse of Lehman Brothers in September 2008, the global economy registered five consecutive quarters of negative growth, albeit at a decelerating rate after the second quarter of 2009.

Even if the massive stimulus packages now being implemented prevent a long period of depression, they will not, as already suggested, avert a recession in the global economy this year.

Second, many of the conditions that produced a sharp bounceback in developing countries after 2010 are no longer present or a good deal weaker.

China's massive stimulus in 2009 and rapid return to double-digit growth had strong positive effects on demand for the exports of developing countries while the search for yield by Northern investors operating under the loose monetary policy adopted by leading central banks heightened their appetite for risky assets, producing a rapid rebound in capital inflows in emerging and other developing countries.

Moreover, confidence in the developing world was boosted by expanding South-South trade and financial links that had begun before the crisis hit, encouraging the idea that developing countries had "decoupled" from the economic troubles of developed countries.

"These conditions are unlikely to be repeated this time around. In addition, weakening state capacity, diminishing fiscal space and a rise in illicit financial flows over the past decade, place further constraints on effective recovery strategies in many developing countries," said UNCTAD.

Third, the strong recovery in developing-country trade that occurred in 2010 seems less likely this time.

Even if the damage to global supply chains is not irreparable, as lead firms recover from the crisis they will likely have to rethink their business model, including fewer links in these chains, and with more that are closer to home. Moreover, China has steadily diminished its dependence on external suppliers in its chains through an increase in domestically produced intermediate products.

At the same time, there has been too little diversification of economic activity in many developing countries over the past decade – with greater commodity dependence in many countries – leaving them more exposed than ever to new shocks and disturbances.

Fourth, the current fall of commodity prices has started from a lower value compared with what happened in the global financial crisis when the world economy was at the peak of the "super commodity cycle", and appears to be more broad-based.

Commodity prices have been well off their post-recovery highs since the price slump in 2016 but it seems unlikely that there will be the same kind of pick-up in prices seen between 2009 and early 2011 which was well ahead of the recovery in global output.

Fifth, new vulnerabilities have emerged that are likely to hold back growth. Emerging economies, in particular, have seen a rapid build-up of private debt in reserve currencies and increased penetration of their markets by non-resident investors, foreign banks and other financial institutions, as well as allowing their own residents to invest more freely abroad. There has also been a strong shift in the ownership of central government debt, including public external debt, from official to private creditors and shadow-banking actors.

"These trends heighten developing countries' external vulnerabilities and entail large transfers of resources to advanced economies through various financial channels," said UNCTAD.

Finally, developing countries' ability to build up international reserves as a buffer against macroeconomic shocks has been weakening.

In the aftermath of the global financial crisis, developing countries' international reserves increased steeply, precisely in response to an evident need for "self-insurance" in a volatile global economic environment. However, since the onset of the commodity price downturn in 2012, reserve holdings, while still high by historical standards, have fluctuated widely, reflecting multiple pressures on the ability of developing countries to maintain high reserve holdings.

"Given the massive expected impact of the Covid-19 crisis, reliance on such self-insurance is not an option, with reserves likely being drained very fast," said UNCTAD.

Transmission mechanisms

The analysis of the impact of the Covid-19 shock has been mostly concentrated on China and advanced economies, since they were initially more affected by the pandemic, account for three-quarters of world output and have the monetary and fiscal policy space to respond, UNCTAD noted. "However, since two-thirds of the world population live in the (remainder of the) developing world, the responses to the current shock must include dedicated actions for developing countries, at all income levels."

In general terms, there are three main transmission mechanisms or channels through which the Covid-19 shock can be expected to increase financial pressures on developing economies over the coming months.

The first channel is the pressure on government budgets from the public health crisis, said UNCTAD.

The social distancing necessary to stop the contagion has already led to economic shutdown in many developed and developing countries, affecting the majority of the world's population. A sharp, sudden fall in employment is already happening. While developed countries have the administrative capacity and (generally) the fiscal space to buttress their social protection systems and protect private incomes, in developing countries sharp contractions of incomes are all but inevitable along with falling fiscal revenues, said UNCTAD.

"Tighter fiscal space and weaker healthcare and social protection systems expose developing countries to higher human and financial toll while limiting their ability to respond, triggering a potentially dangerous vicious circle."

The second channel is international trade. Even after considering implementation of the effective $1.4 trillion stimulus by advanced economies and China, a rapidly slowing growth in these countries will take place through

2020. This will mean significantly lower demand for exports for other developing economies. The losses in export volume will be compounded by the sharp falls in energy and commodity prices, which still make up most of the goods that many developing countries export.

Altogether, UNCTAD has projected that developing countries as a whole (excluding China) will lose nearly $800 billion in terms of export revenue in 2020. Such a drastic fall in their foreign exchange earnings will add to the challenges already posed by currency depreciations vis-a-vis the US dollar, it said.

While imports will contract, by an estimated $575 billion, the overall drop in the trade balance of around $225 billion is not without consequences for their development needs, their structural transformation plans and their ability to generate output and capacity to continue to face external financial commitments.

"Moreover, other items on the current account, such as remittances, royalty payments and profit outflows are likely to add to the financing difficulties facing many developing countries over the course of the coming year."

The third channel is financial, UNCTAD said, noting that the flight to safety has already caused record capital outflows from emerging economies, triggering large currency depreciations against lead currencies and widening spreads.

"In countries with a high exposure to foreign debt, be it private or public, these trends put enormous pressure on their debt sustainability, by undermining future access to refinancing outstanding external debt obligations while driving up their value in foreign currency."

This comes against a background of a systematic build-up of financial and debt vulnerabilities in many developing countries over the past decade. Total developing-country debt stocks stood at 193% of their combined GDP at the end of 2018, the highest on record, compared with just over 100% in 2008.

In addition to rising debt-servicing costs since 2012, developing countries also already face a wall of repayments due on foreign-currency-denominated public debt over this year and the next, said UNCTAD. The total amount of sovereign debt repayments due at the end of 2021 is $2.7 trillion ($1.62 trillion in 2020 and $1.08 trillion in 2021). Of this, $562 billion are due for repayment by governments in low- and middle-income countries, with the bulk of this amount due this year ($415 billion in 2020 and $147 billion in 2021).

In "normal" times, much of this debt would be rolled over, adding to future debt burdens but providing vital breathing space to honour overall obligations. But with sudden stops to external refinancing possibilities, suspending sovereign debt repayments due over this and the next year, at the very least for low- and middle-income developing countries, is key to averting immediate and widespread debt crises, said UNCTAD.

"Clearly, the amounts that would be involved in suspending sovereign debt repayments in poorer developing countries are small change compared to the economic rescue packages hurriedly put together across the developed world," it added.

What can be done

Advanced economies have embarked on a dramatic change of policy direction in response to the crisis, said UNCTAD. "Measures that were unthinkable just a few weeks ago have been embraced and implemented in response to the scale of the crisis. So far discussion of what developing countries should and could do has, by contrast, been limited, particularly when it comes to international support," it added.

"In the current dollar-centric global system, the United States' Federal Reserve can extend its role as lender of last resort beyond the country's borders but it currently does so in a strategic way which favours a select group of countries."

As of 19 March, the Federal Reserve has currency swap programmes with nine central banks (enabling these to provide dollars to their own banking systems that lend and trade in dollars), including only three developing countries – Brazil, Mexico and Singapore.

This comes as the role of the dollar in the developing world has been increasing since the global financial crisis, largely due to developing countries' growing recourse to international financial markets to meet external financing needs. At the end of 2007 and the peak of the pre-crisis boom, developing countries' outstanding international debt securities – such as bonds, asset-backed securities and commercial papers issued by their governments and firms – denominated in dollar stood at $840 billion, or 70% of the total amount of $1.2 trillion. By end-2019, this figure had risen to $3.36 trillion, or 80% of the total amount of developing countries' outstanding international debt securities of no less than $4.2 trillion.

"While advanced country governments are preparing to send checks to their citizens and open emergency credit lines for their companies, this clearly is not an option open to most developing countries which are highly dependent on access to US dollars and which lack their own financial infrastructure and financial firing power to follow suit," said UNCTAD.

According to UNCTAD, it is therefore a matter of immediate urgency for the international community to coordinate appropriate economic rescue packages with a more global reach to address the looming financing gap which many developing countries are now imminently facing. These would have to include, as a minimum, the following measures:

(1) A coordinated global response to liquidity shortages to address immediate financing needs.

While the recent pledge by the G20 to inject $5 trillion into the global economy to limit economic losses from the Covid-19 crisis is welcome, how effective any such rescue package will be, and how much of it will reach developing countries, remains to be seen and depends on specific measures, said UNCTAD.

Furthermore, the International Monetary Fund (IMF) has signalled that it is willing to fully deploy its current $1 trillion lending capacity to help deal with the crisis. "However, not only is this likely to prove insufficient, but current lending facilities and financing instruments are complex, tied to inappropriate conditionalities under the circumstances and therefore difficult to access quickly, in particular for developing countries."

While the IMF has promised flexibility in this regard, an additional and faster avenue to address, at the very least, current liquidity shortfalls is through a much more expansive use of Special Drawing Rights (SDRs), the IMF unit of account and an international reserve asset, said UNCTAD.

Under current arrangements, this instrument suffers from the bias in the IMF's quota system that continues to heavily favour advanced countries. Even so, a serious step towards alleviating liquidity constraints, in particular in low-and middle-income economies, would be to ensure that around 730 billion SDRs ($1 trillion at the current exchange rate) reaches the international reserve accounts of developing countries fast.

This could be achieved through a new allocation of SDRs and an IMF "designated" reallocation of current and new but unused SDRs from advanced countries to poorer developing economies. The required new allocation of SDRs would, no doubt, have to be multiple times that agreed in 2009 (of 183 billion in SDRs or the equivalent of $287 billion at the time), depending on developing-country liquidity needs and options for a "designated" reallocation of existing and newly allocated SDRs.

(2) Capital controls should be endorsed by the IMF as a necessary, permanent and fully legitimate part of any policy regime and, wherever appropriate, introduced to curtail the surge in outflows, to reduce illiquidity driven by sell-offs in developing-country markets, and to arrest declines in currency and asset prices.

Implementation should be coordinated by the IMF to avoid stigma and prevent contagion, and which, in cooperation with other appropriate international bodies, should also be tasked with lending the technical support needed to ensure their effectiveness and extending advice on complementary measures needed to deal with related disruptions.

(3) Even if large liquidity injections to developing-country reserve accounts are critical to staving off financial and economic meltdowns and serial sovereign defaults in developing countries, it will be important to ensure that the medium-to-longer-term economic fallout from this global health crisis does not also result in destructive and widespread developing-country debt crises.

One such measure in this regard is temporary standstills on debt service payments, or a formal or informal agreement between a debtor and one or more of its creditors to suspend these payments for a given period of time to allow debtors to propose restructuring plans. During this time, creditors cannot seek legal remedies, a critical provision to keep non-cooperative and litigious creditors (or so-called vulture funds) in check.

(4) In addition to temporary standstills as a kind of emergency break, new debt relief programmes need to be agreed on as soon as possible. On 25 March, the World Bank and the IMF called on all official bilateral creditors to suspend debt payments from the world's 76 poorest economies currently in receipt of support from the International Development Association (IDA).

While a first tentative step in the right direction, more systematic, transparent and coordinated steps towards writing off developing-country debt, based on need rather than bargaining power, are critical, said UNCTAD.

(5) Official development assistance (ODA) must be ring-fenced in all donor countries. Despite a majority of donors having routinely missed agreed ODA targets in the past, and despite ODA flows being spread ever more thinly across additional donor-determined objectives, ODA remains a vital source of external financing for the poorest of developing countries.

Over the decade since the financial crisis, an additional $2 trillion would have reached developing countries had the 0.7% (of global national income) ODA target been met by the OECD's Development Assistance Committee (DAC) members, said UNCTAD.

"This, therefore, is the time for donor countries to finally honour their collective commitment and deliver ODA to developing countries in full and unconditionally."

As an extraordinary measure given the immediate situation, channelling a significant amount of the missing amount of ODA – for example, one quarter of that total – into a Marshall Plan for Health Recovery would be a fitting way to demonstrate the international solidarity needed to mitigate the crisis in developing countries, UNCTAD said. (*SUNS9092*)

Covid-19 will cause dramatic drop in FDI flows, says UNCTAD

Global flows of foreign direct investment could fall by up to 40% as a result of the coronavirus pandemic, UNCTAD has projected, revising downwards its earlier estimates in light of the escalating scale of the outbreak and associated containment measures.

by Kanaga Raja

GENEVA: The outbreak and spread of Covid-19 will cause a dramatic drop in global foreign direct investment (FDI) flows, the UN Conference on Trade and Development (UNCTAD) has said.

In an updated analysis released on 26 March, UNCTAD said that economic impact estimates and earnings revisions of the largest multinational enterprises (MNEs) now suggest that the downward pressure on FDI could be -30% to -40% during 2020-21.

In an analysis released earlier in March, UNCTAD had projected the negative impact from Covid-19 on global FDI flows to range from -5% to -15% in 2020.

In its latest updated analysis, UNCTAD said that projections of the economic impact of Covid-19 are becoming more serious by the day. "Early expectations that the impact would be felt first and foremost through the ripple effects caused by production stoppages and supply chain disruptions in East Asia – China in particular – and felt especially in economies that are closely integrated in global value chains are being overtaken by events."

It is now evident that pandemic mitigation efforts and lockdowns around the world will have devastating effects on all economies, independent of their links to global supply networks, UNCTAD said. The demand shock will thus be the biggest factor pushing down investment.

The trend in capital expenditures by firms and the trend in FDI usually react to changes in GDP growth with a delay, said UNCTAD. After the global financial crisis, capital expenditures (capex) by the top 5,000 MNEs dropped only in 2009. They declined by 13% on average in developed economies, from 15% growth in previous years – a net drop of almost 30 points. The decline was highest in the United States (-20%), the centre of the crisis at the time. The decline was much less pronounced in developing economies, where top 5,000 capex saw zero growth for one year (down from above 15% growth rates before). In line with capex of the top 5,000 MNEs, global FDI flows dropped 35% over the two years to the low point in 2009, with most of the decline again concentrated in developed economies.

The actual negative impact of Covid-19 could be significantly worse on several accounts, said UNCTAD.

First, it could be much more widespread, affecting FDI and capex in developing countries as much as in developed economies, or more.

Second, the impact could be much more immediate, as the demand shock is accompanied by forced interruptions and postponements of investment projects.

Third, while the pandemic is not a financial sector crisis, should it become one as businesses hit by the crisis are unable to meet financial obligations, it will have a further cascade effect on global investment flows.

The physical closure of places of business, manufacturing plants and construction sites is causing immediate delays in the implementation of investment projects. Some investment expenditures – for example, the fixed running costs of projects – will continue despite there being little or no new asset value created for project owners. Other outlays will be blocked entirely.

As an indication of the potential immediate impact of lockdowns, investment in fixed assets fell by 24.5% in China in the first two months of this year (as reported by the National Bureau of Statistics on 16 March). With the lockdown measures having taken effect only after mid-January and unevenly across China, it is likely that the peak effect is far higher, said UNCTAD.

Both greenfield investment projects and expansion investments will be affected by this, it added.

As new investment projects have a long gestation period and a life-cycle that can span decades, many projects will only be delayed. However, depending on the severity of the recessionary impact of the pandemic, projects could be interrupted or shelved indefinitely.

Announcements of new greenfield projects are likely to be delayed. Similarly, mergers and acquisitions (M&As) could see a slowdown.

Announced cross-border M&A transactions worldwide averaged 1,200 deals per month in 2019 (with all months above 1,000). They fell to 874 in February and 385 in March so far (until 20 March). They would be on course for a 50% decrease in March and, at this clip, a 70% decline from last year's levels in April.

UNCTAD also said that almost 80% of the top 5,000 MNEs (by revenues) have seen earnings revisions since 1 February (until 23 March). UNCTAD's first impact assessment based on data until 4 March showed average 9% downward revisions. The majority of MNEs have seen further revisions during the last two weeks, it said.

Expected earnings were further revised downwards especially in the energy, basic materials and consumer cyclical sectors; the travel and tourism industries have been among the worst hit.

The data by region show that developed economies have caught up just in the last two weeks, as mitigation and lockdown measures have gradually been put in place across Europe and North America, said UNCTAD. The average downward revision for developed-country MNEs is now 35%, with much of the difference caused by the significant weight of the energy industry among United States MNEs.

The demand shock effect in the sector is further compounded by the oil price war, resulting in an oil price drop in just one month from $50 to just over $20, and a downward revision of 2020 earnings forecasts in the sector by about -200%.

Downward pressure on FDI

UNCTAD said its reassessment of the impact on FDI of the Covid-19 pandemic is far more severe than the first projections, which were based on data limited to February and on earlier expectations that the primary immediate impact would be on East Asia, with spillover effects to other regions through global supply networks.

"Now the rapid worldwide spread of the pandemic and the implementation of mitigation and lock-down measures across much of the world have made a far larger demand shock and supply disruption inevitable and the consensus is that most if not all major economies will experience a deep recession."

UNCTAD said its new projection of downward pressure on FDI is based on: the decline in FDI and top 5,000 MNE capex experienced after the last global recession; a potential 50-70% decline in the cross-border M&A part of FDI for part of the current year; the immediacy of the projected decline in capex, based on the first data reported by China; and the mechanical effect of reduced MNE earnings on the reinvested earnings component of FDI.

Ultimately, the decline will depend on the severity and duration of the pandemic across different regions and countries, and the scope of the containment measures that governments are forced to put in place, it said.

Almost 80% of the top 5,000 multinational enterprises have seen earnings revisions since 1 February.

Importantly, it will also depend on the nature and scale of policy packages that most governments are now putting together to support their economies, which will determine the duration of the recession and the speed of recovery. Most of these packages are expected to include investment support measures, such as accelerated depreciation of post-pandemic capital expenditures (especially in Asia, where a larger proportion of GDP is tied to investment demand).

A further degree of uncertainty stems from the asymmetric effects of the different shocks that global FDI will absorb. The demand shock is expected to be deep, but if the policy response proves effective, recovery could be relatively quick when delayed investments are brought back on track. However, the negative impact of the pandemic on investment linked to global production networks could be more durable. The Covid-19 outbreak risks accelerating pre-existing trends of decoupling (the loosening of global value chain ties) and re-shoring driven by the desire on the part of MNEs to make supply chains more resilient, said UNCTAD. (*SUNS9092*)

CSOs call on WTO DG to halt fisheries negotiations

Fishers' groups and other civil society organizations from around the world have urged a suspension of the WTO negotiations on fisheries subsidies, denouncing the "non-transparent, non-inclusive and ad-hoc manner" in which the talks are being run amid the roiling corona-virus outbreak.

by D. Ravi Kanth

GENEVA: The World Trade Organization Director-General Roberto Azevedo must "immediately halt" the fisheries subsidies negotiations at a time when the Covid-19 pandemic is ravaging the world, a global coalition of over 150 fishers' groups and other civil society organizations (CSOs) said on 1 April.

Amidst the lockdowns in many countries and escalating loss of human lives due to the pandemic, the WTO DG and the chair of the WTO General Council, Ambassador David Walker of New Zealand, seem determined to press ahead with the fisheries subsidies negotiations through any route that is available, said several trade envoys who asked not to be identified.

Among the global, regional and national groups that called for halting the fisheries subsidies negotiations were the Arab NGO Network for Development (ANND); FIAN International; IBON International; Pacific Network on Globalisation; Social Watch; Society for International Development (SID); Third World Network; 11.11.11, Belgium; Attac, France; All Goa Responsible Fishers Association, India; Global Justice Now, UK; Consumers Association of Penang (CAP), Malaysia; IT for Change, India; and Transnational Institute (TNI), Netherlands. Several prominent individuals also signed on to the call, which was made in a 1 April letter addressed to the WTO DG.

After their recent telephone consultations with several trade envoys on rescheduling the WTO's 12th Ministerial Conference (the meeting that was initially due to be held in Nur-Sultan, Kazakhstan, in June had to be put off due to the Covid-19 outbreak), the DG and the General Council chair suggested that the fisheries subsidies negotiations nevertheless need to be concluded to comply with Goal 14.6 of the United Nations Sustainable Development Goals (SDGs).

However, they have ignored other items on the WTO agenda relevant to the SDGs on fighting hunger, such as a permanent solution on public stockholdings for food security in developing countries, pointed out several trade envoys who asked not to be quoted.

"It is shocking that the chair [of the fisheries subsidies negotiations] and the WTO secretariat want to conduct negotiations even as officials in Geneva and in capitals are locked up in their houses due to the Covid-19 pandemic," said one envoy.

Opaque negotiating process

Against this backdrop, the CSO letter called on the WTO DG to "immediately halt the ongoing fisheries subsidies negotiations at the WTO."

The CSOs reminded the DG that "countries are busy attending to the unprecedented health calamity posed by Covid-19, which represents a phenomenal challenge not only to our health but to the current and future economic, social, and political stability across our countries. Most countries are busy deploying their financial and human resources to fighting this monumental battle."

They expressed consternation that "in the middle of this, the WTO is continuing to negotiate an outcome on fisheries subsidies in the most non-transparent, non-inclusive and ad-hoc manner."

While "the aim to meet the SDG 14.6 target this year is laudable", they reminded the DG that "these are exceptional times."

Even as Geneva is under a lockdown and face-to-face negotiations are on hold, the chair of the fisheries subsidies negotiations, Ambassador Santiago Wills of Colombia, "is tabling texts at his own discretion", said the CSOs.

"[T]he lack of adequate consultations is introducing undue bias in the text written by the Chair with the support of the WTO Secretariat, which remains under the heavy influence of some advanced countries," the CSOs lamented.

In his first draft text circulated on 9 March on Overfishing and Overcapacity, the chair chose to place special and differential treatment (SDT), a key demand from a number of developing countries and Least Developed Countries (LDCs), under a placeholder, noted the CSOs. The chair ignored important proposals on SDT by India, the Africa, Caribbean and Pacific (ACP) Group and the LDC Group in drafting this text.

"This is clearly in contravention of the full mandate of Sustainable Development Goal (SDG) 14.6, which includes SDT while asking for disciplines on fisheries subsidies for IUU [illegal, unreported and unregulated] fishing and to control Overfishing and Overcapacity," the CSOs said.

Their letter laid bare the follies committed by the chair of the fisheries subsidies negotiations. "Apparently, because of strenuous objections by several developing countries, the Chair organized a 'virtual consultation' on the 20th of March to discuss proposals by India and LDC Group on SDT for both IUU and Overfishing & Overcapacity. But this had to be cancelled as many developing countries simply do not have the infrastructure and option to effectively join, especially given the situation in their countries.

"The Chair then invited responses through email by the 26th of March, which is also difficult for many Member States, especially from developing countries where human resources including those in the trade ministry, are now redirected to fighting the pandemic. Delegates may also not be able to communicate well with their capitals and decision-makers under this situation, given the expansive lock-downs in most countries.

"Needless to say, after receiving responses from Member States and then from the proponents by the 3rd of April, the Chair (with the support of the secretariat) will come up with another personal text."

The CSOs expressed grave concern

that the chair's opaque negotiating process "will presumably continue in this manner and may end in a General Council meeting in June-July in Geneva to conclude the negotiations. This process, which is pushed by some developed countries, will put the whole outcome in jeopardy."

"Unwarranted haste"

The letter pointed out that "this rush to conclude the negotiations in spite of the inability to hold direct discussions, when the Nur-Sultan June Ministerial Conference has been indefinitely postponed and all our countries and their people are battling the immense challenge of Covid-19, is baffling."

The CSOs stressed that "since the next Ministerial is most likely to be postponed to the middle or end of 2021, there is simply no rationale for continuing with the negotiations in such a haphazard and hasty manner."

They argued that "multilateral negotiations on an important issue such as fisheries subsidies, which is a critical livelihood issue for millions especially in developing countries, cannot be conducted in this manner."

This is more so "when the development concerns of the majority of WTO's developing and least developed country members are clearly not being taken on board."

"A biased and undemocratic process being conducted through emails with unwarranted haste will inevitably lead to a biased and unfair outcome and will further damage not only the development mandate of the WTO but the WTO's reputation as an institution for years to come," the CSOs said.

They called on the WTO and the chair to immediately halt the negotiations and ask member states to discontinue participating in this process "until it can be pursued in a transparent, inclusive and rational manner, which is not possible unless normalcy is restored across the globe."

"Our countries would be much better served if delegates focused on domestic and global needs in fighting the Covid-19 battle," said the CSOs. "In fact, the WTO can actually help, for example, by easing intellectual property rules imposed through the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and easing access to treatment for Covid-19 affected patients.

"And we can have at least a glimmer of hope left for a fair and rational outcome on fisheries subsidies that respects the full mandate of SDG 14.6, and in particular, Special and Differential Treatment, in the future."

The letter to the DG was copied to the chair of the fisheries subsidies negotiations, Ambassador Wills. (*SUNS9094*)

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Pandemic crisis: Dangers and opportunities

The devastating crisis unleashed by the coronavirus also presents a momentous opportunity to reorient the economy and society onto a more equitable and sustainable course, contend *Lim Mah Hui* and *Michael Heng*.

It is widely known that the Chinese word for "crisis" consists of two characters – *wei ji*. *Wei* stands for "danger" and *ji* stands for "opportunity". Every crisis is pregnant with danger and risks but also with opportunities – for some to make money, for others to learn valuable lessons, and for society to reorient or restructure its priorities, institutions and even the social system itself.

The Covid-19 pandemic could turn out to be the single biggest crisis in a century – a one-in-100-years event. It is a health crisis which, if not checked in its tracks, would be the most serious since the Spanish flu of 1918 that killed over 50 million people.

This crisis has further morphed into an economic and financial crisis as a result of globalization. Due to the high degree of economic, financial and transportation integration, countries have become so interconnected and interdependent that a breakdown or severe shock in one part reverberates through the whole system. That is why when Covid-19 hit China and forced a shutdown in certain regions, it delivered a supply shock to the world economy. Economists initially focused on the supply shock and hoped that when China recovered, the impact on the world economy could be minimized and a recovery would be swift. However, with air travel so prevalent, the virus was transmitted worldwide within a matter of weeks. In February only a few countries were affected, today 193 out of 195 countries are affected.

While the initial epicentre of Covid-19 was China, the aftershocks felt throughout the world are now more serious. The West, in particular Europe and the United States, have become the next pandemic epicentre. Already the number of deaths in Italy and Spain, as at this point of writing, is more than double the toll in China. Entire countries are in lockdown. This is not a demand shock but a demand collapse, the likes of which we have not seen for over a hundred years.

The repercussions are almost indeterminable. When businesses are closed, companies lose their revenue, workers are laid off, firms with interrupted cashflow slide into illiquidity and eventually bankruptcy, more workers get laid off, aggregate demand drops. The Federal Reserve Bank of St Louis predicted unemployment in the US could reach 32%, surpassing that of the 1929 Great Depression.

Monetary policies – setting the stage for crisis

Even though this economic crisis did not emanate from the financial sector, what happened in the sector over the last decade played a critical part in aggravating it.

Central banks in the US, Europe and Japan have lowered interest rates to near zero, hoping that this will encourage people to borrow, spend and invest. It is intended to reduce the debt burden, as the indebtedness of households and enterprises has been ratcheted up in recent years (see below). But the past few years have shown that this has little traction. It's like pushing on a shoestring. Worse still, the credit and liquidity are not going to the right places. Individual households with little financial resources and small businesses are shunned by banks. Instead, banks lent to corporations and financial institutions. Corporations gouged on this cheap money and the world debt-to-GDP ratio rose from under 200% to over 300%. Unfortunately, much of this debt did not go towards financing productive investment, with investment remaining stagnant as a percentage of GDP. Instead, it went towards inflating financial asset prices and financial engineering tricks such as share buybacks.

When companies buy back their own shares, demand pushes up price, and the number of stocks in the open market is reduced by the amount bought. With a lower denominator and the same earnings, EPS (earnings per share) is automatically inflated. The stock price is based on EPS; the higher the EPS, the higher the stock price and the greater the CEO's remuneration as the exceutives are rewarded based on share price performance. The average remuneration of CEOs in the US has risen 940% since 1978 while that of workers inched up by only 12%. CEOs made 287 times more than their average employees in 2018.

It is reported that the top 10 US airline companies used 96% of their free cashflow for stock buybacks, pushing share prices to record highs, instead of paying down debt and strengthening their balance sheets. This practice is ubiquitous and not limited to the airline industry. The moral hazard is that having depleted their cash, airlines are now seeking $200 billion in bailout funds from government. In 2019, corporations buying their own stocks constituted the dominant source of equity demand, more than households, mutual funds and exchange traded funds.

Causes of crises

Irrespective of the causes of financial crises, of which there are many, the one constant condition is excessive debt – companies and individuals borrowing in excess of their ability to generate the income to pay off the debt. The huge amount of liquidity unleashed by central banks created a mountain of debt leading to a big asset bubble. It is a dry powder keg waiting to explode.

For months economists had been debating what might trigger the financial crisis that was waiting to happen. Could it be the trade war between the US and the rest of the world, the US-Iran standoff, cyberwarfare, diversification of US Treasuries? Few, if any, anticipated that a bug invisible to the naked eye would be the agent to ignite the powder keg.

Significantly, all the major financial crises over the last few decades were not caused by consumer price or wage inflation, which the central banks watched over like hawks. They were caused by financial asset inflation, which is a direct result of the loose monetary policies described above. As usual, central banks kept their eye on the wrong ball. Not only that, they encouraged such behaviour with their asymmetric policies: on the one hand, allowing asset prices to rise, eschewing any state policy intervention and chanting the free-market mantra; and on the other hand, intervening to bail out or prevent declines in asset prices on the way down.

Despite the measures taken to strengthen the banking sector after the 2008 global financial crisis, other structural reforms did not occur. Banks' balance sheets were significantly strengthened thanks to public bailouts and stringent capital ratio requirements, but other parts of the financial system became more speculative, fragile and unregulated. Finance, which caused the 2008 crisis, was the big winner post-crisis as the structural fallout was not severe enough. Today the health and economic crises threaten a major financial crisis again.

Where do we go from here

We started this essay by stating that a crisis offers opportunities for us to do something different. It can be for the better or for the worse. Major crises are moments when classes in society engage in a contest for power to restructure the economy, politics and society. The failure of President Hoover to deal with the devastation of the Great Depression in the US led to the election of President Franklin Roosevelt (1933-38), who introduced major structural reforms in the economic, financial and political spheres. His "3 Rs policies" were relief, recovery and reforms. He implemented large-scale public works programmes to mop up unemployment, introduced a social security safety net which still exists today, tamed and regulated finance by separating investment banking from commercial banking via the Glass-Steagall Act, and set up regulatory watchdogs for the stock market such as the Securities and Exchange Commission. These led to the eventual recovery of the economy and, most significantly, to a well-regulated financial system that did not experience major financial crises for over 40 years. Government took on a bigger role in the economy.

The stagflation crises of the 1970s, triggered by oil price hikes and countered by accommodative monetary and fiscal policies, led to serious inflation and the demise of Keynesian policies. Discretionary policy by governments had become discredited by the failure to produce growth while reducing unemployment. As a result, President Reagan in the US and Prime Minister Thatcher in the UK resurrected neoliberal market ideology – the role of government was severely rolled back, and the private sector and the market took control. Liberalization, deregulation and privatization were the order of the day. Government's role was limited to creating conditions for business to grow and to fix the problems when market failures arise.

The financial sector was the main beneficiary of these policies. Finance became deregulated, banks merged and became "too big to fail". The US financial sector nearly doubled its size to account for 19% of GDP, but it took home 40% of total US corporate profits. Financial innovations exacerbated speculation, risk taking, volatility and fragility. Consequently major banking crises erupted approximately every 10 years with almost clockwork precision – from the US-Latin American banking crises in the early 1980s to the Asian financial crisis in 1998, the global financial crisis in 2008 and the imminent financial crisis in 2020. Finance, instead of serving the real economy, became its master as these crises originated in the financial sector; the tail is wagging the dog. In each of these crises, the financial players were bailed out at taxpayers' expense only to grow even bigger.

If there is any silver lining to this dark cloud, it is found in some of the unintended positive consequences of this crisis – carbon emissions that have been choking the world are down significantly, traffic congestion has lightened, the mountains of garbage generated have shrunk, communities have gotten together to help the more unfortunate, and nature is reclaiming its space. As one US celebrity who was infected said in an interview, it is nature's way of hitting back at what humanity has done to it. We were supposed to be the guardian and trustee of this earth but we abused it. Deforestation and the destruction of natural habitats have reduced the space between humans and wildlife, opening more chances for new pathogens to emerge. Epidemiologists have warned for decades about the potential and dangers of new pandemics. This is the most serious but unfortunately it may not be the last.

This multiple crisis – health, economic, financial and environmental – is a wake-up call for humankind to rethink its hyper-consumerist economy that prioritizes growth, and growth that benefits just a tiny segment at that. It offers us the opportunity to restructure society into one that is more socially and economically equitable, is more respectful of nature and our environment, and strikes a saner balance between non-materialism and materialism. Since the 2008 global financial crisis, there have been nascent efforts to move away from the obsession with GDP growth as the measure of a society's welfare and wellbeing. The small nation of Bhutan spearheaded the alternative concept of Gross National Happiness. But these movements are muted and sidelined. This crisis offers us the opportunity to bring them to the fore. Prime Minister Ardern of New Zealand recently said she would prioritize her people's wellbeing over growth.

Karl Polanyi published *The Great Transformation* over 70 years ago. His great contribution was in showing that markets had existed for thousands of years before the rise of industrial capitalism in the 18th century. Markets where goods and services are exchanged to meet social needs were also subordinated to social, political and cultural norms. But this arrangement was overturned when the market was deified to become the only organizing principle in society. Markets in society became the market society. This formed the basis of the neoliberal ideology that has dominated politicians and their policies over the last 40 years.

This crisis lays bare the myth of the invincibility of the market. The market has broken down in a big way and the state is asked to step in to resolve this crisis – from bailing out companies to paying wages of workers, cutting interest rates and guaranteeing soft loans to small businesses etc. US President Trump invoked emergency authority and directed companies to produce vital health equipment needed to fight the epidemic.

Once this is over, we should not be going back to business as usual. Markets will continue to exist and play a part in the economy. But they must be subordinated to society, regulated by the state to serve a greater good. The new economy must prioritize people's as well as nature's wellbeing over profit making for a few.

Dr Lim Mah Hui *has been a university professor and banker, in the private sector and with the Asian Development Bank.* ***Dr Michael Heng*** *is a former professor in Management Science. This article was earlier published in* The Edge *(Malaysia).*

Pandemic exposes fragile world order, thin veneer of civilization

The coronavirus chaos has revealed some unflattering truths about the very political, economic and social order it threatens to upend.

by Chakravarthi Raghavan

It is nearly four months since the SARS-CoV-2 virus, and the highly infectious Covid-19 disease it spawned, made its appearance and rapidly spread across the world, resulting in mass lockdowns, quarantines and isolation of individuals and families.

The initial outbreak and cases appear to have been detected in Wuhan, China, by medical personnel there, perhaps in September last year. And initially its novelty or extent was perhaps not known, and in any case it was not initially publicized and made known to the World Health Organization (WHO) in Geneva. Only around end-2019, when deaths began to occur, did China make it public and notify WHO.

The US and the West have accused China of failing to immediately recognize and notify WHO of this new coronavirus. However, it bears noting that it took the US, under the Ronald Reagan administration, three years, from the time medics in California discovered the new human immunodeficiency virus and the AIDS disease afflicting the gay community there, before it acknowledged and notified WHO and began adopting precautionary measures and promoting use of condoms. In the interregnum, AIDS had spread across the country, affecting both homo- and heterosexual couples, and across the globe too.

The origins of Covid-19, be it a natural mutation as many expert epidemiologists think, or a bio-experiment gone awry as some strategists in the West claim, and the role, if any, of WHO, remain to be independently investigated and made known. This however has not prevented everyone from jumping in and publishing their views on this, muddying the waters.

Before absolving this or that nation, critics might do well to look at past incidents of foreign-funded research projects under the alleged sponsorship of WHO and other UN system organizations.*

Extreme fragility

Covid-19 has brought to the fore the extreme fragility of the world order and the thin veneer of our civilization and its much-vaunted human solidarity, behind which the law of the jungle prevails.

Countries and their rulers present a sordid picture of attempting politics as usual, pointing fingers at each other and competing to find cures and vaccines for their exclusive use and thus to dominate global rivals and enable domestic enterprises to secure monopolistic profits, at the expense of human life.

In sharp contrast, however, research institutions and the scientists manning them across the world have set aside rivalries to be the first to make a breakthrough and publish the findings under their own names, and instead are joining hands to understand the nature and characteristics of this new virus and find vaccines and medicines to counter it.

In any case, weeks and months of strenuous efforts, and testing each potential treatment for efficacy and safety without external unscientific pressures and under strictly controlled conditions, lie ahead. Those political masters and/or business interests attempting shortcuts would do well to remember the thalidomide disaster that ensued in the past.

Meanwhile, after the Thatcher-Reagan neoliberal counter-revolution and four decades of deliberate dismantling of the state from the public health sector, medical personnel are trying to cope with lack of basic equipment and precautionary facilities for attending to the daily increasing influx of patients struck by Covid-19. As some doctors in Europe have helplessly confessed and bemoaned in private, they have been forced to disregard their Hippocratic oath and play God as to whom to treat and whom to allow to die.

As veteran Indian columnist and commentator T.J.S. George put it, "an invisible invader, ten-thousandth of a millimetre in diameter, can turn us into helpless nobodies" (https://www.newindianexpress.com/opinions/columns/t-j-s-george/2020/apr/05/can-we-feel-good-in-a-hospital-2125810.html).

Obstacles and distractions

Once China had made public information about the new virus and quickly made available to WHO and others the RNA from patients who had recovered (thus accelerating efforts to find vaccines), neighbouring countries (South Korea, Taiwan, Singapore et al) took note and put into effect quarantines, testing and tracing of patients and those whom they had been in contact with, to prevent and control community spread and infection. They have been reasonably successful.

Perhaps it has been the West's belief in exceptionalism and/or racial and cultural prejudices that stood in the way of learning from the experience of these Asian countries (see Mukul Kesavan, https://www.telegraphindia.com/opinion/fatal-exceptionalism-and-lack-of-humility-to-learn-from-the-asian-example/cid/1762064?ref=opinion_opinion-page). The US and Europe initially neglected the impending crisis, resulting in both emerging as epicentres of the pandemic, which is still spreading amidst predictions of intensification.

Still, despite many obstacles and distractions, and the attempts of non-medicals to influence state policies (the Giulianis and the Jared Kushners with US President Donald Trump), the scientists with their collaborative efforts will sooner or later find vaccines and medicines to counter Covid-19. For these treatments to be made available at affordable prices across the world, however, intense global civil society mobilization may be called for to prevail over the greed of Big Pharma and the attempts of political leaders to prevail over their rivals in other countries.

What will the world be like after Covid-19 is brought under control? What effect will there be on the international political, security, economic and social order? Will it be business as usual or something else?

How will it affect the current economic order, namely globalization [which Henry Kissinger suggested was US domination by another name (cited in C. Raghavan, *The Third World in the Third Millennium CE*, Vol. 1, pp. 224-25)]? Will it end as some in the Third World (like Filipino academic Walden Bello) think, or just go on as before?

Gautama, before he became and was acknowledged as the Buddha, responded to a query about the greatest wonder of the world thus: "Man is the greatest wonder, for he sees before him every day men becoming old and dying, but thinks he himself will be immortal" (cited in Raghavan, op. cit., pp. 224-25). (*SUNS9096*)

Note

* For the record, there are two reports dating back to the 1970s by the Public Accounts Committee of the Indian Parliament regarding foreign participation in health research projects in India: PAC Report 167 of 1975 (https://eparlib.nic.in/bitstream/123456789/4081/1/pac_5_167_1975.pdf#search=null%2005%20Public%20Accounts%20Committee) and PAC Report 200 of 1976 (https://eparlib.nic.in/bitstream/123456789/4132/1/pac_5_200_1976.pdf#search=null%2005%20Public%20Accounts%20Committee).

Disclosure: The writer was Chief Editor of the Press Trust of India when its Science Correspondent, K.S. Jayaraman, wrote the investigative reports leading to the two PAC reports.

Coronavirus proves need for free healthcare for all – now

As the HIV/AIDS epidemic has shown, and as the coronavirus crisis is showing, free healthcare for all is an imperative, insists UNAIDS Executive Director *Winnie Byanyima*.

The multi-layered crisis of the coronavirus epidemic has been a dramatic shock to everyone. But, to communities affected by HIV and AIDS, the crisis has not only brought a further shock to already vulnerable people, it has brought other reactions too – a troubling sense of deja vu, and a passionate, empathetic, fierce solidarity with all those affected by the coronavirus.

No two pandemics are the same. All require a specific, tailored response. But we also have a duty – when dangerous, unjust and unsustainable structural weaknesses are exposed by one pandemic, left unresolved, and then jeopardize the fight against a second pandemic – to ensure that we don't wait for the third.

Everyone involved in the fight against AIDS is determined to do everything we can to support all those affected by the coronavirus epidemic. We are by your side. We waited years for many of the breakthroughs we fought for, and we are still waiting for many others; we refuse to let leaders make you wait in this new crisis as they have made us wait. The time to fix the rips in our social fabric is now.

The HIV community has joined the emergency response in solidarity with those affected, and has joined too in insisting that leaders recognize that healthcare is a public good – that the health of each of us depends on the health of all of us. Healthcare must be provided to all, free of charge, funded by public revenue. Quality healthcare is a human right, not a privilege, and should never depend on how much money you have in your pocket.

Governments must provide publicly funded healthcare for all people, through progressive tax systems in which everyone, including the super-rich and large corporations, pay their fair share. Public health systems must deliver services that reach people most in need.

As part of this, governments must support services which are community-led and publicly funded. Cutting-edge medicines and healthcare must be delivered affordably and to scale, to everyone no matter where they live.

User fees are false economy and a grave injustice – they are a tax on the sick that increases mortality and morbidity, and exacerbates poverty and inequities. Decades of experience have shown that these charges deter people, especially low-income households, from using the health services they need, deepen poverty, and are highly inefficient and regressive ways to finance healthcare.

Their most obscene incarnation sees, in several countries, hospital wards turned into debtors' prisons of patients chained to their beds until their families sell assets or borrow from moneylenders to release their loved ones. Even in other, more "moderate" incarnations, user fees see families bankrupted or left landless and powerless by the costs of care, and people left to die because they can't afford the fees. Three people every second are pushed into extreme poverty from paying for healthcare.

Charging for healthcare does not only hurt those directly affected – it puts all of us at risk. Covid-19 won't be stopped if some people can't afford testing or treatment.

As former UN Secretary-General Ban Ki-moon noted in January, before this epidemic exploded: "Out-of-pocket health spending has been rising, meaning that more people are being impoverished because of health costs. This not only undermines achieving universal healthcare, it is also a threat to global health security. High private health spending also inhibits progress towards other Sustainable Development Goals including eliminating poverty, reducing inequality and achieving gender equality."

An opportunity

After the horrors of World War II, several European countries and Japan introduced universal healthcare. After the financial and AIDS crises hit, Thailand did. All these universal health coverage (UHC) reforms delivered massive health and economic benefits to the people.

Now, in this crisis, leaders across the world have an opportunity to build the health systems that were always needed, and which now cannot be delayed any longer. Countries don't have to be rich to provide free healthcare for all – as Sri Lanka has long shown. And the impact from removing fees is proven and profound.

Jamaica saw improved access to health services among children and teenagers after it changed its policy on user fees in 2007, with the poorest people benefiting the most. Sierra Leone showed that even in fragile settings, fee removals, properly planned and implemented, improve health systems and protect the vulnerable.

But globally the pace of progress is much too slow, and the impact of the Covid-19 pandemic is testimony that financial leaders have underestimated the economic risks of low investments in equitable health.

In addressing the current crisis, one major practical action that leaders can implement immediately is to launch truly universal, publicly financed healthcare reforms to cover their entire population – not only for Covid-19 services but for all services. This would cost around 1-2% of GDP in the short term, not enormous compared with some of the massive fiscal stimuluses already being planned.

The international community too has a profound moral obligation, and collective self-interest, in backing the expansion of universal healthcare by supporting moratoriums on debt repayments to free up resources of developing countries to invest in their healthcare systems.

As the UN Secretary-General has urged leaders to remember, "we are only as strong as the weakest health system in our interconnected world."

Bilateral donors and international financial institutions including the World Bank and IMF should also offer grants – not loans – to address the social and economic impacts of the pandemic on the poor and most vulnerable groups, including informal sector workers and marginalized populations.

Most low-income countries are already highly indebted; it is immoral to push them to take more loans to fight an existential threat that the whole world is facing. A broad and equitable debt relief process is urgently needed not only to respond to the Covid-19 crisis but to shorten the recovery period and create conditions for growth.

Before the coronavirus hit, defenders of the unfair and unsustainable status quo in health claimed that the current patchwork, fragmented and wealth-based system worked just fine. But the damage of that system has now been exposed to everybody. Health for all is central to resolving this pandemic.

The best time to provide health for all has already passed. And the second-best time is now. (*IPS*)

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