Third World ECONOMICS
Trends and Analysis

No. 716 1-15 February 2021 e-ISSN : 2716-5388

SDRs to the financial rescue?

Developing countries are in dire need of fiscal resources to tackle the raging COVID-19 pandemic. Special Drawing Rights (SDRs), the reserve currency created by the International Monetary Fund, may provide just the infusion of liquidity they so urgently require.

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

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New WTO Director-General leans towards Northern trade agenda

Ngozi Okonjo-Iweala has taken the helm of the WTO amid concerns over her stance on some contentious issues facing the trade body.

by D. Ravi Kanth

GENEVA: Several developing countries are alarmed over the trade agenda unveiled by the new Director-General of the World Trade Organization, Ngozi Okonjo-Iweala, that seeks, among others, to accelerate work on the non-mandated, informal Joint Statement Initiatives (JSIs) on electronic commerce and investment facilitation, trade envoys told the *South-North Development Monitor* (*SUNS*).

In her acceptance speech delivered at a special WTO General Council meeting on 15 February immediately after being appointed as the new DG, Okonjo-Iweala has also signalled that developing countries that currently avail of special and differential treatment (S&DT) in the WTO should consider withdrawing voluntarily from their S&DT entitlements, as done by some developing countries such as Singapore, South Korea and Brazil, said a trade envoy who asked not to be quoted.

In addition, she suggested that the WTO's Ministerial Conference, which takes place biennially, can be held annually, and argued for reforms to strengthen the WTO secretariat. She praised the secretariat for its high-quality work, suggesting that it could play an important role in the regular monitoring work.

Okonjo-Iweala has also expressed concern over the application of the consensus principle in arriving at decisions at the WTO, said another trade envoy who asked not to be quoted.

The first woman and the first African Director-General of the WTO, Okonjo-Iweala said she will not adopt a business-as-usual approach, indicating that her immediate work priorities include addressing the COVID-19 pandemic and what the WTO can contribute, galvanizing the fisheries subsidies negotiations, and restarting work on reforming the two-stage dispute settlement system, said trade envoys who took part in the meeting.

On reforming the dispute settlement system – which has been paralyzed by only one WTO member (i.e., the United States) through its blocking of appointments to the Appellate Body – the new DG turned the problem into one for all members, suggesting that members can agree on a work programme at the WTO's 12th Ministerial Conference (MC12) due to take place later this year, said trade envoys who asked not to be quoted.

New DG's priorities

At the special General Council meeting, the Council chair, Ambassador David Walker from New Zealand, provided an account of the DG selection process and explained the process adopted by the three-member "troika" – the General Council chair; the chair of the Dispute Settlement Body, Ambassador Dacio Castillo from Honduras; and the chair of the Trade Policy Review Body, Ambassador Harald Aspelund from Iceland – that had reached the decision to recommend the appointment of Okonjo-Iweala. WTO members unanimously confirmed Okonjo-Iweala as the new DG.

In her acceptance speech, Okonjo-Iweala highlighted her priorities, including advancing the informal JSI work on electronic commerce, investment facilitation and domestic regulation on trade in services. As regards WTO reforms, she suggested that the special and differential treatment for developing countries based on self-designation is a "divisive" issue. She echoed the US stand that S&DT should be voluntarily withdrawn by developing countries like some developing countries have done, said a trade envoy who asked not to be quoted.

Okonjo-Iweala also thanked the new administration in Washington for clearing the path for her appointment. Without the recent "swift" action by the Biden-Harris administration, it would not have been possible to become the DG, she said.

The previous Trump administration

had blocked her selection last year, despite the maximum support that she had received from other WTO members.

It is a "dawn of a new day", Okonjo-Iweala said, adding that the "real work can now begin" without any further delay.

Okonjo-Iweala, who will take office on 1 March, will have four years to steer the 164-member trade body, which is currently engulfed in a morass of systemic crises, said trade envoys.

Okonjo-Iweala said the DG leads from behind to achieve results, promising that she will remain proactive and will sustain members' trust in her. She said the WTO is about people, and addressing their concerns remains a main challenge.

She spoke about the underlying crises that the WTO is facing at this juncture, including the sudden drop in global trade due to the COVID-19 pandemic.

She said that she would strive hard to strengthen the "monitoring" function of the WTO.

She said removing export restrictions is her top priority so as to enable the smooth functioning of global supply chains.

Okonjo-Iweala also called for rejecting the unfolding phenomenon of "vaccine nationalism" globally, emphasizing that the facilitation of technology transfer within the multilateral trade rules must be explored. She made repeated mention in her address and at a subsequent press conference of the licensing decision by the AstraZeneca pharmaceutical company to share its COVID-19 vaccine know-how and technology with the Serum Institute of India.

She praised the World Health Organization's Access to COVID-19 Tools Accelerator (ACT-A) and the COVAX facility being implemented by WHO and Gavi the Vaccine Alliance.

She argued that the flexibilities under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) are sufficient to address the COVID-19 pandemic, particularly in ramping up production globally to address the shortages of vaccines and therapeutics that are being faced by developing countries.

She appeared to remain silent on the proposal by South Africa, India and several other countries to waive some intellectual property rights set by the TRIPS Agreement. The TRIPS waiver proposal seeks to temporarily suspend several provisions in the Agreement relating to copyrights, industrial designs, patents and protection of undisclosed information in order to scale up production of diagnostics, therapeutics and vaccines to combat the COVID-19 pandemic.

However, she lent her support to the trade and public health initiative being promoted by the Ottawa Group of countries led by Canada and the European Union on grounds that it could address some main challenges in providing medicines and vaccines affordably and equitably across countries.

At the press conference after her confirmation, she was asked pointedly about her stand on the TRIPS waiver. She said that she was aware of the proposal, suggesting that she would hold meetings with trade envoys for "brokering" an agreement on this issue.

> Okonjo-Iweala will have four years to steer the WTO, which is currently engulfed in a morass of systemic crises, said trade envoys.

When asked about the unfinished and unresolved Doha Development Agenda (DDA) trade negotiations that were started 20 years ago, Okonjo-Iweala said some issues are still relevant, pointing in particular to the issue of agricultural domestic support.

She argued that the WTO rulebook is outdated, calling for an update by completing the e-commerce negotiations to bridge the digital divide. However, she remained silent on the WTO's mandated 1998 e-commerce work programme, under which India and South Africa among others have called for a rethink of the existing moratorium on customs duties on e-commerce, said trade envoys who asked not to be quoted.

Okonjo-Iweala said that the "controversial" plurilateral JSI talks brought new energy, underscoring the need for accelerating this work, especially for the conclusion of a plurilateral agreement on domestic regulation on trade in services at MC12.

She also pointed to the need to negotiate on trade and environment, including an agreement on green goods (an initiative which is currently promoted by the EU along with other members of the Ottawa Group of countries).

Further, she proposed negotiations on non-mandated issues such as disciplines on industrial subsidies and state-owned enterprises as promoted by the United States, the EU and Japan among others.

On the revival of the dispute settlement system, she said that members must address the issues raised about the functioning of the Appellate Body.

Effectively, there is no prospect for an early restoration of the Appellate Body, said a trade envoy who asked not to be quoted.

"She is suggesting a work programme to be agreed at the WTO's 12th Ministerial Conference, and that could include a payment to the US to revive the Appellate Body," suggested a negotiator who asked not to be quoted.

Members' welcome

Almost all countries which took the floor during the General Council meeting praised Okonjo-Iweala, saying they hoped for resolution of outstanding issues under her leadership.

The US praised her as the first woman and the first African candidate to be appointed as the WTO DG, expressing confidence in her leadership and that it will not be business as usual.

India welcomed the new DG and reminded her of Mahatma Gandhi's famous comment made in South Africa: "Whenever you are in doubt, or when the self becomes too much with you, apply the following test. Recall the face of the poorest and the weakest man whom you may have seen, and ask yourself if the step you contemplate is going to be of any use to him."

On behalf of the African, Caribbean and Pacific (ACP) Group of countries, South Africa's Ambassador Xolelwa Mlumbi-Peter said, "Not only are we pleased that Dr Okonjo-Iweala will be the first woman to lead the WTO but the ACP Group is also honoured for the first time, there is a WTO Director-General from the Group."

Mauritius, on behalf of the African Group of countries, said members are ready to work closely with the new DG to accomplish important priorities that she has outlined. *(SUNS9287)*

Third World ECONOMICS No. 716, 1-15 February 2021

Developing countries call for text-based negotiations on TRIPS waiver

The WTO membership remain deeply split over a proposed waiver from intellectual property rules to tackle COVID-19, with advocates calling for drafting of the waiver decision to begin while opponents dispute the need for a waiver at all.

by D. Ravi Kanth

GENEVA: A large majority of developing countries at the World Trade Organization have joined forces to demand text-based negotiations on the proposed TRIPS waiver to combat the COVID-19 pandemic expeditiously.

Despite a groundswell of support for the waiver from international civil society organizations and pressure groups across the world, the likes of the United States, the European Union, Japan, Switzerland and Canada have said they will not enter into text-based negotiations on the waiver on grounds that the existing TRIPS flexibilities and the COVAX vaccine allocation facility can address the concerns raised by the proponents.

The TRIPS waiver seeks to temporarily suspend provisions in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) relating to copyrights, industrial designs, patents and protection of undisclosed information to ramp up production of therapeutics and vaccines globally so as to address the pandemic.

During an informal WTO TRIPS Council meeting held virtually on 4 February, the proponents of the waiver – South Africa, India, Pakistan, Tanzania on behalf of the African Group, Zimbabwe and Venezuela among others – urged their opponents to adopt an open mind to consider the waiver proposal on the concrete evidence they have provided as to why intellectual property rights (IPRs) remain the biggest barrier to boosting production across the world, participants said.

However, the US, the EU, Japan and Switzerland refused to give up their "theological" opposition to the waiver regardless of the evidence provided by the proponents, according to the participants, who preferred not to be quoted.

Interestingly, those opposed to the TRIPS waiver, particularly Canada, the EU, Japan and Switzerland, which are part of the Ottawa Group of countries, want WTO members to consider their trade and health initiative that calls for further trade liberalization and removal of export-related restrictions on healthcare products, said a participant who asked not to be quoted.

At a time when the EU has itself placed several export-related restrictions on the vaccines manufactured in its territory, those opposed to the waiver proposal have lost their credibility, the participant said.

Incidentally, Norway, one of the countries that is blocking the TRIPS waiver proposal, is apparently trying to chair the TRIPS Council this year when the new chairs of various WTO bodies are selected in March, said another participant who asked not to be quoted.

"Vaccine nationalism"

At the 4 February TRIPS Council meeting, the proponents of the waiver led by South Africa brought to centrestage the raging issue of "vaccine nationalism".

South African trade official Mustaqeem Da Gama said there is growing "vaccine nationalism" and "artificial scarcity" that prevents vaccines from being shared equitably among countries, according to participants present at the meeting. "A few countries [are] vaccinating the majority of their population … while others [are] vaccinating a few or none at all," he said.

"In this scenario," he said, "new variants will emerge that are immune to treatments and vaccines, and the world will face multiple waves and continuous cycles of lockdowns."

Another scenario "is that we agree that there will be no intellectual property monopolies over the technology and know-how that relate to COVID-19, and these are shared so that manufacturing can be ramped up, and supply of [vaccines and therapeutics] diversified with the aim to vaccinate everyone everywhere in the shortest timeframe with the most effective vaccines". This, he said, will "stop the virus circulating and countries can control the pandemic" immediately.

Citing World Health Organization (WHO) Director-General Tedros Adhanom Ghebreyesus's recent pronouncement that "the world is on the brink of a catastrophic moral failure," the South African delegate warned that "in failing to move this issue [the TRIPS waiver] forward quickly to text-based discussions and to reach a solution expeditiously, this organization [the WTO] is complicit in that failure".

Given the opaque licensing agreements and varying levels of prices being charged by Big Pharma in developing countries, Da Gama quoted the WHO head who said that "the international community cannot allow a handful of companies to dictate the terms or the timeframe for ending the pandemic."

The WHO chief also said that "vaccine nationalism combined with a restrictive approach to vaccine production is in fact more likely to prolong the pandemic – which would be tantamount to medical malpractice on a global scale," according to Da Gama.

Therefore, WTO members "need to enter into text-based discussions around a waiver and to allow the manufacturers and governments a time-limited freedom to operate so that we can leverage the global capacity that exists," Da Gama said.

He challenged the claims made by the opponents that even "if the waiver is approved tomorrow, there are no companies in the developing world that can produce any number of products relevant to COVID-19, including mRNA vaccines."

"This is gross misrepresentation of reality," he said, arguing that "in fact developing countries have advanced scientific and technical capability as would be demonstrated by the licensing agreements entered into by various pharmaceutical companies with the producers in the developing world."

"There is lack of sufficient policy intervention and transfer of technology on COVID-19 medical tools and technologies to developing-country manufacturers," he said, cautioning that "if this situation continues to prevail, production in the developing world will remain limited."

"We need to lift legal barriers and further leverage the existing capacity in developing countries," he stressed.

Da Gama pointed out that the co-sponsors of the TRIPS waiver proposal have debunked claims that the waiver will impede innovation and endanger investment in research and development (R&D). "If anything, what this pandemic has demonstrated is that it is completely possible to accelerate R&D primarily driven by public health and public funding."

"Those countries that continue to oppose the waiver most vociferously are indeed the ones that have secretly bought up the available production and continue to collude with pharmaceutical companies under the veil of secrecy," the South African delegate said.

Without naming the EU, Da Gama said "we have now seen the chicks come home to roost, where the veil of secrecy has been lifted and one member has taken measures to restrict exports from its territory." "Yet this member is a proponent of free trade and the non-application of export restrictions."

"This very member," continued Da Gama, "has posed pointed questions to the [proponents] yet does everything it can to undermine global solutions being sorted, even in light of the fact that it proclaims itself to be a major donor to such global initiatives [like COVAX]."

"Secrecy is at the heart of the matter, and even under these dire circumstances, while millions of lives of this member are at risk and vaccine supplies have been re-prioritized away from this member, it still refuses to face the situation," the South African delegate said.

He said the member concerned has "gone down a slippery slope … its export authorization scheme, which is de facto an export restriction, will have manifold implications for all of us and may launch an avalanche of further trade restrictive measures by other members."

Da Gama also pointed to "the shortage of production and supply caused by the inappropriate use of intellectual property rights by right holders themselves, who enter into restrictive agreements that serve their own narrow monopolistic purposes putting profits above life."

Citing the restrictions imposed by the EU, he said that it is a clear example of how manufacturing control "can concretely and artificially restrict supply options at the global level".

Da Gama urged members that are still questioning the need for the waiver to "have an open mind". "We need to act and act fast, given the inequality that we see in access to vaccines."

In their respective interventions, the proponents and supporters of the TRIPS waiver – India, Egypt, Nigeria, Jamaica on behalf of the African, Caribbean and Pacific (ACP) Group, Tanzania on behalf of the African Group, Zimbabwe, Kenya, Venezuela and Sri Lanka among others – drove home the message that the time has come for the opponents to demonstrate whether they are genuinely interested in ensuring equitable access to pandemic-related medical products and vaccines.

"We need to act and act fast, given the inequality that we see in access to vaccines."

Many proponents came down heavily on the EU for its recent decision to impose export controls, expressing their alarm over Brussels' action.

Even the industrialized countries have suffered a major hit due to the lack of transparency in the modus operandi of some pharmaceutical companies, the proponents suggested.

"Stonewalling" tactics

The opponents, however, stuck to their "stonewalling" tactics all over again, refusing to support the TRIPS waiver.

They said they share with all WTO members the objective of the global fight against the pandemic by rapidly developing and manufacturing safe and effective therapeutics and vaccines and by distributing them equitably around the world. They acknowledged however that the views on the waiver remain far apart.

The EU claimed that the TRIPS Agreement and the principles of the WTO's Doha Declaration on the TRIPS Agreement and Public Health and the so-called paragraph 6 mechanism can play an important role in balancing the protection of IPRs as well as access to new vaccines and medicines.

Brussels maintained its earlier stance that the concerns raised by the proponents can be addressed through a combination of licensing and expanding manufacturing capacity via manufacturing agreements as well as the framework of the TRIPS Agreement and the flexibilities it offers.

In the face of growing criticism over the EU's recent controversial actions, the EU official said that investment in manufacturing capacity is not only to guarantee vaccines for EU citizens but also so that vaccines are more rapidly available to everyone everywhere.

The EU admitted that Brussels was facing "significant difficulties" during these first weeks of 2021, expressing hope that there would be a turnaround in the situation, especially with more vaccines coming to the market and more production of the already approved vaccines.

The EU justified its export controls on grounds that there was a breach of contract that the pharmaceutical company (AstraZeneca) signed with the EU, as doses that were initially targeted for the EU may have been exported to third countries. It said this was clearly an unacceptable violation of legal obligations while delaying the vaccination of EU citizens.

The EU official said that to avoid such violations, the European Commission has decided that all vaccine manufacturers should declare their exports to third countries. These obligations are strictly targeted to vaccine manufacturers and are applicable until the end of March 2021.

In its statement, the US highlighted the Biden administration's response to COVID-19, including its commitment to providing generous funds to the COVAX facility being implemented by the Geneva-based GAVI the Vaccine Alliance. This includes $4 billion in COVID-19 supplemental funding that the US approved for GAVI to prevent, prepare for and respond to coronavirus, including for the procurement and delivery of COVID-19 vaccine doses to lower-income economies.

While underlining its commitment to working with international partners to ensure proper distribution and access to vaccines, the US reiterated that "the intellectual property framework provides critical legal and commercial incentives to drive private entities to undertake the risk and make the appropriate investments."

According to the US, IPRs ensure "efficient commercialization and rapid manufacturing of the product. Without effective intellectual property protection, the development and commercialization of those products would likely not have happened in an effective, efficient and timely way."

Other opponents of the TRIPS waiver such as Canada, the United Kingdom, Switzerland and Japan also restated their earlier positions, suggesting that there is no concrete indication that IPRs have been a genuine barrier to accessing COVID-19-related medicines and technologies.

The opponents said they are flexible on the presentation of a status report by the TRIPS Council to the WTO General Council, scheduled to meet on 1-2 March, based on the state of discussions, in a factual and succinct manner. They also said that they stand ready to engage in the discussions following the suggested format of small group consultations.

Given the impasse on advancing the TRIPS waiver proposal, the chair of the TRIPS Council, Ambassador Xolelwa Mlumbi-Peter from South Africa, acknowledged that differences in members' approaches to the waiver proposal remain.

She said that positions on the proposal have not changed significantly, while noting that a number of delegations indicated their openness to hearing concrete evidence of any IPR-related challenges that would be related to or arising from the TRIPS Agreement.

She said that members are eager to seek "consensual, proportionate and commensurate" solutions to any such problems where necessary.

She said the co-sponsors also indicated that they were ready to consider the contours, the scope and the timeframe of the waiver proposal, and that they would once again reach out to delegations individually for further discussions.

The chair said that she would convene a formal TRIPS Council meeting on 23 February to discuss a "neutral and factual" draft report to the General Council reflecting members' preference for continued consideration of the waiver proposal in the TRIPS Council. The draft report would be circulated to members in the coming days in order for delegations to provide any comments on the suggested language in writing, she said. *(SUNS9280)*

Agriculture talks in disarray over assault on development, S&DT issues

Concerns have arisen that the WTO talks on agricultural trade reform are veering into issues not under the negotiating mandate, at the expense of developing-country interests.

by D. Ravi Kanth

GENEVA: The Doha agriculture negotiations at the WTO appear to be in disarray due to a fresh assault on the core developmental issues raised by developing countries as well as on the special and differential treatment (S&DT) in Article 6.2 of the Agreement on Agriculture (AoA), negotiators told the *South-North Development Monitor* (*SUNS*).

In an apparent attempt to erase the Doha Development Agenda (DDA) mandate on agriculture and 20 years of negotiating work conducted by the successive chairs of the Doha agriculture negotiations, the Cairns Group of farm exporting countries is now targeting the *de minimis* subsidies being provided by the developing countries and Article 6.2 of the AoA without addressing the Aggregate Measurement of Support (AMS, the most trade-distorting farm subsidies) provided by the major farm subsidizers all these years, said negotiators familiar with the development.

With the new chair of the Doha agriculture negotiations, Ambassador Gloria Abraham Peralta from Costa Rica, and the facilitators seemingly having little institutional knowledge in conducting the negotiations, there is "utter chaos" in addressing the outstanding issues in the three negotiating pillars – domestic support, market access and export competition – according to the negotiators, who asked not to be quoted.

Apparently, the chair and the facilitators are not pursuing issues as per the original DDA mandate that was clarified in the July 2004 framework agreement, the 2005 Hong Kong Ministerial Declaration and the 2008 revised draft agriculture modalities, the negotiators said.

Without addressing the mandated issues in a holistic manner, the chair and the facilitators are jumping from one issue to another and targeting non-mandated issues such as the *de minimis* subsidies provided by developing countries and S&DT as set out in Article 6.2 of the AoA, the negotiators added.

The prospects for arriving at any outcomes in the agriculture negotiations at the WTO's 12th Ministerial Conference (MC12), which is likely to be held in Geneva in December, appear bleak due to unbridgeable differences, the negotiators said.

Different priorities

During a day-long meeting of the

Doha agriculture negotiating body on 5 February, a large majority of developing countries – China, India, Egypt on behalf of the African Group, Jamaica on behalf of the African, Caribbean and Pacific (ACP) Group, and Nigeria among others – demanded the immediate resolution of the mandated issues such as a permanent solution on public stockholding programmes for food security and the special safeguard mechanism for developing countries, according to the negotiators, who made their interventions in the meeting.

In sharp contrast, the Cairns Group led by Australia and Brazil sought to change the negotiating framework to issues such as curtailing the *de minimis* entitlements in Article 6.4 of the AoA and S&DT allowed for developing countries in Article 6.2.

The *de minimis* entitlements in Article 6.4(b) allow developing countries to incur up to 10% in subsidies in their domestic support commitments.

Article 6.2 states: "In accordance with the Mid-Term Review Agreement that government measures of assistance, whether direct or indirect, to encourage agricultural and rural development are an integral part of the development programmes of developing countries, investment subsidies which are generally available to agriculture in developing country Members and agricultural input subsidies generally available to low-income or resource-poor producers in developing country Members shall be exempt from domestic support reduction commitments that would otherwise be applicable to such measures, as shall domestic support to producers in developing country Members to encourage diversification from growing illicit narcotic crops. Domestic support meeting the criteria of this paragraph shall not be required to be included in a Member's calculation of its Current Total AMS."

The assault on special and differential treatment for the developing countries began in 2015, when the then US Ambassador to the WTO Michael Punke proposed the elimination of S&DT at a small group meeting, said a former trade envoy who asked not to be quoted.

That proposal of the US is now being advanced by the Cairns Group led by Australia and Brazil among others, the envoy said.

At the meeting on 5 February, many developing countries said the biggest element of imbalance is the AMS and not the *de minimis* subsidies, said participants familiar with the meeting.

Costa Rica, which is a Cairns Group member, had made a presentation on 4 February suggesting the need to address *de minimis* subsidies provided by members as well as issues concerning Article 6.2 dealing with S&DT in line with the proportionality principle.

However, China criticized the proportionality principle, saying that it is a "de facto punishment for members with large populations and large small-scale farmers."

Many developing countries said the biggest element of imbalance is the AMS and not the *de minimis* subsidies.

Nigeria said the proportionality principle is already contained in the *de minimis* rules as a function of the AoA, suggesting that any attempt to push this issue must be determined in per capita terms with the number of farmers, said negotiators who took part in the meeting.

India called for addressing the trust deficit first and resolving the outstanding concerns about the continuation of the AMS being availed of by the major subsidizers such as the US, the EU, Japan, Norway and Switzerland.

Brazil spoke about the need to fight "side by side" and allow flexibility on the domestic support issue, and also suggested the need to reduce global trade distortion entitlements by 50%.

It reversed its historical role of championing the G20 coalition, which had developed a framework for reducing the overall trade-distorting support of the developed and developing countries, saying that it will now align its interests with the Cairns Group of farm exporting countries, said a negotiator who asked not to be quoted.

Australia and New Zealand agreed with Brazil's "unity" thesis on fighting for domestic support. Canada said it would support an evidence-based approach in exploring the proposals and options.

The G10 group of farm defensive countries led by Switzerland supported the proportionality principle advanced by Costa Rica to tackle the most trade-distorting domestic subsidies while reiterating its opposition to any product-specific caps.

During the meeting, differences also came into the open on the reports provided by the facilitators, particularly on the issue of removing export restrictions on the procurement of food items by the World Food Programme (WFP) and trade-distorting domestic support, negotiators said.

Tanzania, which had opposed a draft WTO General Council decision in December last year on removing the export restrictions, noted that while the European Union could impose export restrictions on COVID-19 vaccines, developing countries are being asked to exempt WFP purchases from export-restrictive measures even though they have serious food security concerns.

At the meeting, the proponents for exempting WFP purchases of food items from export restrictions, led by Singapore along with 80 other countries, highlighted their joint statement issued in January.

The EU underscored the need to focus on the WFP exemption from export restrictions and across-the-board transparency.

India's specific concerns voiced last December on the linkage between export restrictions and the Bali peace clause on public stockholding programmes for food security remain unaddressed until now, said a negotiator who asked not to be quoted.

However, the facilitator dealing with the issue of export restrictions, Leonardo Rocha Bento from Brazil, insisted that he will continue with his work to accomplish an outcome at MC12, participants said.

The Cotton-Four (C4) countries led by Burkina Faso have demanded an outcome on the transparency aspects at MC12, while continuing their call for substantial reductions in trade-distorting subsidies for cotton, said a negotiator who asked not to be quoted. *(SUNS9282)*

Work begins on G90 proposals on improvements in S&DT provisions

Longstanding proposals to enhance implementation of special and differential treatment for developing-country members are now being considered at the WTO.

by D. Ravi Kanth

GENEVA: The chair of the Doha trade and development negotiations, Ambassador Kadra Ahmed Hassan from Djibouti, has kickstarted work on the 10 unresolved issues raised by the Group of 90 developing and least-developed countries (G90) on the "efficient and effective implementation" of existing special and differential treatment (S&DT) provisions in the WTO agreements.

However, the developed countries led by the United States, the European Union and Australia among others opposed discussions on the 10 issues on differing grounds, negotiators said.

At an informal open-ended virtual meeting of the negotiating group on trade and development on 8 February, the chair focused the discussion on exploring "how to move forward on 10 proposals submitted by the G90."

The chair intends to conclude the discussions on the 10 proposals so as to enable trade ministers to reach a decision at the WTO's 12th Ministerial Conference (MC12), which is likely to be held in Geneva towards the end of the year, said negotiators who preferred not to be identified.

In an email sent to members on 29 January, Hassan had said that she would convene five informal meetings of the Doha trade and development negotiating group in order to take up two issues at each meeting. She informed members that she would take up two issues – "Proposal 8 concerning the Enabling Clause and Proposal 10 concerning accessions" – at the 8 February meeting.

In order to have "a constructive and focused meeting," the chair said that she would like the discussion on each proposal to be guided by two questions: (1) On which elements of the proposal might convergence be found? (2) Where do the difficulties lie in the proposal and why, and how could these be overcome?

Hassan said it was her hope that "such a discussion will provide greater clarity to our work … and will allow a better appreciation of where the possible outcomes might lie."

The chair's approach has forced the developed countries to enter into serious discussions on these 10 issues, which they have otherwise obdurately opposed and refused to discuss, said a trade envoy who asked not to be quoted.

"A pressing need"

The 10 unresolved issues raised by the G90 with support from India and several other developing countries were pending from the WTO's 10th Ministerial Conference held in 2015. The issues pertain to: (1) Agreement on Trade-Related Investment Measures (TRIMs); (2) Article XVIII of the General Agreement on Tariffs and Trade (GATT) 1994 dealing with safeguard issues, particularly sections A and C; (3) GATT Article XVIII, section B, dealing with the balance of payments; (4) Agreement on the Application of Sanitary and Phytosanitary Measures (SPS); (5) Agreement on Technical Barriers to Trade (TBT); (6) Agreement on Subsidies and Countervailing Measures (SCM); (7) Agreement on Customs Valuation and decision on minimum values; (8) the 1979 decision on differential and more favourable treatment, reciprocity and fuller participation of developing countries, or what is referred to as the Enabling Clause; (9) Article 66.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) dealing with transfer of technology; and (10) accession (to the WTO).

The 10 issues were part of the implementation issues that developing countries, led by India's former trade envoy Ambassador S. Narayanan, had raised at the 4th WTO Ministerial Conference in Doha in 2001. The original long list of issues was reduced to 10 issues because of continued opposition from the developed countries.

For the past four years, the G90 has repeatedly argued that the 10 "S&DT proposals are designed to ensure existing S&DT provisions and rights are efficiently and effectively implemented."

The 10 issues, according to the G90's consolidated statement issued on 9 February, are "a pressing need to enable the social and economic transformation required to achieve the Sustainable Development Goals (SDGs) and to ensure that no one is left behind."

The G90 said that "the SDGs include several Goals and Targets related to international trade and the WTO, often focusing on the solution to challenges faced by LDCs [least-developed countries] and developing countries in this regard."

"These include, for example, Targets under SDGs 1, 2, 8, 10, 16 and 17," and "Target 10.a specifically mandates, 'Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements,'" the G90 noted.

Citing the findings in a UN Conference on Trade and Development (UNCTAD) report of 2019, the G90 said the worsening prospects of the global economy have only multiplied the challenges being faced by developing countries and LDCs.

"With trade tensions, a global slowdown and increasing financial markets volatility and recession, an immediate worry for many developing countries is that any sharp loss of confidence in their own currency coming after a rapid increase in external debt could expose them to much deeper deflationary pressures, as has already occurred in Argentina and Turkey," it said.

The Sustainable Development Goals Report of 2019 has emphasized that "the other defining issue of our time is increasing inequality among and within countries. Poverty, hunger and disease continue to be concentrated in the poorest and most vulnerable groups of people and countries".

The G90 said that the 10 proposals "should be viewed in this context" as "they aim to provide concrete means to contribute to the achievement of SDGs through socio-economic, industrial and structural transformation of LDCs and developing countries by operationalizing the existing S&DT provisions in the WTO agreements."

"Hence, they are in accordance with both the WTO Doha Mandate as well as the SDG targets," the G90 asserted.

It argued that the proposals "address specific challenges faced by LDCs and developing countries in the areas of industrialization and structural transformation (e.g. proposals related to TRIMs Agreement, GATT Article XVIII A and C, TRIPS Agreement, etc.), promoting their exports including through capacity building (e.g. proposals related to Enabling Clause, TBT Agreement, SPS Agreement, SCM Agreement, etc.), and meaningful integration of LDCs and developing countries in the multilateral trading system (e.g. proposals related to accession)."

"At the heart of these proposals are the policy and capacity constraints of LDCs and developing countries that prevent them from taking advantage of the opportunities of international trade and the multilateral trading system to enhance their levels of development," the G90 said.

The proposals by no means seek "blanket, permanent, unconditional carve-outs," the G90 clarified.

It said the 10 proposals "aim to seek the effective implementation of existing S&DT provisions, including through the provision of assured technical assistance and capacity building, policy space, commercially meaningful export opportunities, and implementation timelines."

Further, the proposals "seek to provide stability, predictability and transparency in the implementation of existing S&DT provisions, and thus strengthen the key hallmarks of the multilateral trading system," the G90 said.

Moreover, these proposals are "the result of careful and detailed deliberations among G90 members, taking into account the needs of members at different levels of development."

The largest group of developing and least-developed countries at the WTO said that the time has come to act "immediately towards ensuring WTO rules effectively enable developing countries and least developed countries to pursue policies of industrialization, structural transformation and diversification of their economies."

Two proposals discussed

At the 8 February meeting, the G90 elaborated its specific concerns with regard to the two proposals – on the Enabling Clause and accessions – discussed, said a negotiator who asked not to be quoted.

On the Enabling Clause, the G90 has proposed: "In formulating schemes under paragraphs 2(a) and (d) of the Enabling Clause as well as other non-reciprocal preference schemes, developed-country Members shall take into account the needs of developing and least-developed country Members by consulting with them, with a view to ensuring that their products of export interest are accorded meaningful market access. The Committee on Trade and Development will annually review the progress made in this regard and report to the General Council."

In the decision on the Enabling Clause reached during the Tokyo Round of trade negotiations in 1979, paragraphs 2(a) and 2(d) refer respectively to "preferential tariff treatment accorded by developed contracting parties to products originating in developing countries in accordance with the Generalized System of Preferences," and "special treatment on the least developed among the developing countries in the context of any general or specific measures in favour of developing countries."

On accession, the G90 said that "the WTO Agreement recognizes the need for a positive effort to ensure developing countries, especially the least-developed countries, secure a share in the growth of international trade that is commensurate with their level of economic development."

However, citing the hurdles and difficulties faced by the LDCs, which are often subjected to burdensome and "extortionist" demands, the G90 said "the limited human, institutional, financial and administrative capacity of LDCs makes LDCs' accession more challenging."

Consistent with the SDGs, the G90 said that "LDCs need a special & differential treatment in their accession process."

The G90 has proposed that, based on the 2002 LDCs Accession Guideline and a 2012 General Council decision, "while the LDCs are expected to offer reasonable concessions that are commensurate with their individual development, financial and trade levels, Members shall exercise a full restraint in seeking concessions and commitments from acceding LDCs."

Specifically, the G90 proposed, the developed countries shall "restrain from seeking concessions and commitments beyond the individual level of development and regulatory capacity of the acceding LDC, and, to restrain the lengthy accession process and facilitate a speedy and smooth integration of LDCs into the multilateral trading system, instrumentalize the Guideline as a minimum requirement to 'fast-track' accession procedure of LDCs".

At the meeting, Vanuatu, one of the newly acceded members, narrated the specific commitments it was forced to undertake in joining the WTO, said a negotiator who asked not to be quoted. Several other LDCs also shared their assessment of the burdensome commitments that they undertook in acceding to the WTO, the negotiator said.

The developed countries, which have fiercely opposed the G90's 10 proposals, remained silent during the discussion at the meeting on these two issues (i.e., the Enabling Clause and accession), the negotiator said.

In the face of the non-interventions by the major developed countries, the chair said that if there were no objections, she would recommend that these two issues be approved at MC12, the negotiator said.

Immediately, the US, the EU and Australia raised their flags at the meeting, saying that they had never agreed to these proposals, the negotiator said.

The US, which had refused to enter into any discussions on the G90 proposals in the past, apparently expressed dismay as to why these issues were being discussed, said another negotiator.

The EU said that the specific questions raised on the 10 issues had not been answered, while Australia is understood to have opposed the G90 proposals, the negotiator said.

Nevertheless, the developed countries have been forced to enter into discussions on the 10 proposals, the negotiator said.

A decision on these proposals is imperative at MC12, otherwise the WTO will lose its "credibility" and will be seen as a multilateral trade body working only for the interests of the developed countries and not the developing and least-developed countries, the negotiator said. *(SUNS9284)*

Expert cautions against JSI e-commerce negotiations

Rules on electronic commerce now under negotiation by a group of countries could impede digital industrialization in the developing world and thereby broaden the digital divide, according to a new study.

by D. Ravi Kanth

GENEVA: A senior economist with the United Nations Conference on Trade and Development (UNCTAD) has cautioned that the digital trade rules being negotiated by the members of the informal Joint Statement Initiative (JSI) group will "have high costs of compliance and can adversely impact trade competitiveness of developing countries in the digital economy."

In a 31-page research paper circulated on 15 February, Rashmi Banga laid out the case as to how the ongoing JSI negotiations to frame new digital trade rules will adversely impact developing countries that are already on the wrong side of the digital divide.

Significantly, the report came on the same day that the new WTO Director-General Ngozi Okonjo-Iweala underscored the need to accelerate the JSI negotiations on digital trade.

Speaking at a special General Council meeting on 15 February, Okonjo-Iweala said "the WTO rulebook is outdated, and its rules lag behind those of several regional and bilateral trade agreements which are incorporating a lot of innovations." She said "the rulebook must be updated to take account of 21st century realities such as e-commerce and the digital economy".

The new DG said that "the pandemic has heightened the importance and accelerated the role of e-commerce, which is expected to grow significantly in the coming years." "E-commerce offers important opportunities for inclusivity of MSMEs [micro, small and medium-sized enterprises] and women in international trade, especially in developing countries."

"To make it possible for some developing and least developed countries to participate in the e-commerce negotiations, we must partner with governments and other organizations to bridge the digital divide," said Okonjo-Iweala.

She said that "success in the e-commerce negotiations could provide an impetus for reviving more broadly the negotiations on trade in services, a sector of increasing importance in the economy of most members."

She further said that "plurilateral initiatives have brought new energy in the multilateral trading system," adding that "negotiating work on other joint statement initiatives – domestic regulation and investment facilitation – has continued fairly intensively despite the pandemic."

She said the JSI "participants need to pursue their efforts to build support and attract interest from a significant part of the WTO membership, including from developing countries with a view to concluding at least the domestic regulation by MC12 [the WTO's 12th Ministerial Conference, which is slated to take place later this year]."

Okonjo-Iweala's speech has caused alarm among developing countries as she is openly advocating an agenda that is inimical to the core interests of the developing countries, which want the multilateral system to be strengthened with multilateral initiatives such as the 1998 e-commerce work programme, said a trade envoy who asked not to be quoted.

Outside the WTO framework

In sharp contrast to the WTO DG's pronouncements on the JSI digital trade negotiations, UNCTAD's Banga said in her research paper that "while many developing countries are in the process of designing national policies to build their digital infrastructure in order to bridge the digital divide, there are ongoing efforts led by the leading digital economies in the North to have binding commitments through digital rules to curtail their existing policy and regulatory space." These digital rules, Banga said, "are mainly being pushed as 'e-commerce rules' with the aim to facilitate exports and operations of their big tech firms and digital and super digital platforms."

The JSI negotiations are being propelled by the United States and coordinated by Japan, Australia and Singapore. The most active participants are mainly the developed countries as well as China, Russia, Singapore and South Korea among others.

Even though trade ministers had agreed to "continue" the work under the 1998 multilateral e-commerce work programme at the WTO's 11th Ministerial Conference in Buenos Aires in 2017, a group of countries led by the US formed the plurilateral JSI on e-commerce with support from the then WTO DG Roberto Azevedo.

"While the WTO mandate covers the Work Program on E-Commerce, any initiative to negotiate e-commerce rules was recognized by this group of countries to be outside the WTO agreements and its mandates," said Banga.

However, she added, "some interested parties are misleading countries by referring to the Joint Statement Initiative (JSI) on E-Commerce as a 'Plurilateral Agreement which is being negotiated at the WTO'. Further, the JSI Consolidated Text which was released in December 2020 is titled as 'WTO Electronic Commerce Negotiations: Consolidated Negotiating Text – December 2020.'

"This is confusing for the policymakers since these negotiations between a group of countries are neither a part of the WTO negotiations nor is there any certainty that it will lead to a plurilateral agreement in the WTO."

Banga pointed out that "in the WTO it is the Ministerial Conference which exclusively decides by consensus to add or delete a plurilateral agreement to/from Annex 4 that lists all the plurilateral agreements in the WTO – and if the consensus fails, there is no recourse to default voting for it."

Digital trade facilitation

The issues being addressed in the JSI negotiations include: (1) enabling electronic commerce, including digital trade facilitation; (2) openness and electronic commerce, especially non-discriminatory treatment of digital products, particularly cross-border data flows; (3) trust and electronic commerce covering online consumer protection and personal data protection and privacy; (4) transfer or access to source code; (5) cross-cutting issues; and (6) market access in services.

To facilitate e-commerce, the members of the JSI are mandated to adopt a legal framework governing electronic transactions consistent with the principles of the UNCITRAL Model Law on Electronic Commerce 1996. The Model Law, noted Banga, does not define electronic commerce but has a wide scope as it includes current as well as future developments.

The negotiated digital rules will also make it mandatory for the members of the JSI to have laws with respect to electronic authentication, electronic signatures, electronic contracts and electronic invoicing.

While developing countries may want to encourage the application of electronic signatures, contracts and invoicing in their transactions, many of them, especially the least developed countries, may not have the capacity or technology to implement these laws, said Banga.

Apart from raising the costs of compliance, these rules will put the domestic firms in developing countries at a digital disadvantage as compared to the foreign firms which are already using these digital technologies.

Another proposal on electronic payments services mandates that each member of the JSI "shall accord to electronic payment services and services suppliers of another party/member within its territory treatment no less favourable than it accords to any other like services and services suppliers".

Further, "each member shall grant the electronic services supplier of another member the right to establish or expand commercial presence within its territory, including through acquisition of existing enterprises."

This proposal severely limits the flexibilities available to developing countries under the WTO's General Agreement on Trade in Services (GATS), Banga said. Members' obligations under the GATS apply only to trade in those services sectors for which members have voluntarily assumed obligations and commitments in their schedule of specific commitments.

It is also extremely important for developing countries to develop their own electronic payment services suppliers, which are extremely limited in number and size.

The proposal, if accepted, will allow the foreign firms to establish or expand their businesses including through acquisition of existing enterprises. This will allow the foreign services providers to disregard the existing national laws around mergers and acquisitions.

Under the section on digital trade facilitation and logistics, the rules being negotiated are stricter than those in the Trade Facilitation Agreement of the WTO, to which most of the developing countries are a party.

Banga warned that these rules entail costs depending on the level of development of the digital economy. Compliance costs will be high for the developing members which may not be able to afford these costs especially in the ongoing pandemic.

Protecting data

One of the most controversial digital trade rules being negotiated is under the section on flow of information or cross-border data flows.

The countries which have proposed rules around cross-border data flows are the US, South Korea, Canada, Japan, the EU, Brazil, Singapore, the UK and Chinese Taipei.

According to the proposals, no member shall prohibit/restrict/prevent the cross-border transfer of information, including personal information (including data, about an identified or identifiable natural person), by electronic means if this activity is for the conduct of business of a national/enterprise/investor/service supplier/organization or for the consumers to access, distribute and use services and applications.

Banga's paper highlighted the development implications of these restrictive rules. According to the paper, the role played by data in the digital revolution is now well understood by countries. While the importance of protecting personal data is accepted, it is important to understand that as the digital revolution is unfolding, the importance of protecting non-personal data is also growing rapidly.

One of the reasons for protecting non-personal data is that the latest research shows that by using reverse engineering and machine learning, non-identifiable data can re-identify individuals, i.e., non-personal data can be converted into personal data. The research demonstrates for the first time how easily and accurately this can be done, even with incomplete datasets. In the research, 99.98% of Americans were correctly re-identified in any available "anonymized" dataset.

In fact, free flow of cross-border non-personal data or "aggregate data" (as it is sometimes called) can also be economically costly for developing countries as it can accelerate their loss of existing trade competitiveness and hinder their digital industrialization.

While digital technologies offer huge opportunities, the first-mover advantages go to those enterprises/exporters which have the capacity to store and process data and build the software used in the digital technologies.

For example, with a market capitalization of $2 trillion in December 2020, Apple Inc. has become bigger than 82% of countries in the world which have GDP of less than $2 trillion. These include countries like Mexico, Indonesia, the Netherlands, Saudi Arabia, Turkey and Switzerland.

The paper pointed out that data centres store and process data and are the "factories" of the digital economy. Developing countries need to develop this key digital infrastructure to be able to store their data, which is rapidly growing in volume, as well as develop capacities to process data. New technological developments have greatly reduced the costs of setting up data centres.

According to the paper, while the proposals for "free flow of cross-border data" and "no restrictions on data localization" have come mainly from the developed countries like the US and the EU, these countries themselves promote data localization in their countries. Banga cited a 2016 study which identified 22 data localization measures still being used by EU countries where the countries impose restrictions on the transfer of data to another country. A further 35 restrictions on data usage have been identified which indirectly localize data within their countries.

It is also interesting to note that within the US, many states compete to attract investments in data centres by providing extensive incentives which include sales tax exemptions, tax breaks, property tax exemptions, grants and concessional loans. The paper has an annex which provides details of the data centre incentives provided by 22 states in the US.

In the face of lack of financial resources to provide positive incentives, data localization policies become an effective alternative tool in the hands of governments to attract investments in data centres, said Banga.

Data localization allows countries to have "full" access to their own data, while storing data in other countries may imply partial access to your own national data as the laws and regulations of the country where the data resides may apply and will need to be fulfilled before accessing your own data.

Tariffs on electronic transmissions

On customs duties on electronic transmissions, the JSI text proposes, based on the proposals of Japan, the US, Singapore, Hong Kong, Brazil, South Korea, New Zealand, Canada, the EU, Ukraine, the Russian Federation and the UK, that no member shall impose customs duties/fees/charges on electronic transmissions, including content transmitted, between members of the JSI.

The potential tariff revenue loss to developing countries resulting from this proposed rule, said Banga, has been estimated at around $10 billion per annum. Moreover, without customs duties, developing countries would be deprived of a policy instrument to regulate imports of luxury items which are digitally imported, such as video games, movies, music and printed matter.

Given the growth of 3D printing, a moratorium on customs duties on electronic transmissions can also jeopardize two decades of negotiated tariffs on industrial products under the General Agreement on Tariffs and Trade (GATT), as manufactured products will be 3D-printed within their national boundaries and their negotiated tariffs thus become meaningless.

Further, the protection given by developing countries to some of their domestic services sectors under the GATS may also be lost if a broad definition of "electronic transmissions" is accepted which includes services which are electronically transmitted.

Based on the proposals of Canada, Chinese Taipei, Japan, Mexico, Peru, Ukraine, the US, the UK, South Korea, Singapore and the EU, digital rules are also being negotiated around source code under the category of enhancing business trust in e-commerce. Source code is defined as algorithms or sequence of steps taken to solve a problem or obtain a result.

According to the paper, taking binding commitments on no source code transfer/disclosure/access would imply that developing countries will never be able to benefit from the presence of foreign digital firms or platforms in terms of digital technology transfers. This is a huge cost which developing members of the JSI will pay. This may lead to rising dependencies on foreign digital technologies as the operations of foreign digital players increase in their national territories, which will come with interconnected technologies.

Further, recent studies have shown that source codes and algorithms which are interconnected and learn from themselves (machine learning) can lead to many undesired outcomes, including discrimination based on income, colour and gender.

The paper recommended that "to regulate the digital players and their use of algorithms, developing countries must preserve their existing regulatory space by not taking any binding commitments on source code disclosures. Not knowing what kind of algorithms will be developed in the future, this regulatory space is extremely important for the governments."

Policy space

Banga concluded by warning that the COVID-19 pandemic has revealed the impact of the digital divide on widening global inequalities. The profits of big digital players based in developed countries have skyrocketed during the pandemic, while many small and medium-sized enterprises in the developing countries have been forced to shut down, creating massive unemployment and pushing millions of people into extreme poverty.

In this context, developing countries should urgently design comprehensive national digital policies. For this, they need at least the same policy and regulatory space as was available to the developed countries at the beginning of the latter's digital advancement.

Banga also suggested that developing countries would greatly benefit from discussions within the WTO e-commerce work programme on issues like bridging the digital divide, facilitating digital technology transfers, developing digital infrastructure and building digital skills, "rather than from negotiating on the digital rules outside the WTO." *(SUNS9288)*

East Asian economies leading global trade recovery

After a sharp fall in the first half of 2020, world trade flows picked up in the final quarter of the year, driven by growth in East Asia, according to a UN trade monitor.

by Kanaga Raja

GENEVA: Global trade recovered in the fourth quarter of 2020, reducing its overall decline for the year to about 9%, the UN Conference on Trade and Development (UNCTAD) has said.

In its latest Global Trade Update, released on 10 February, UNCTAD said that the recovery in global trade was led by trade in goods, while trade in services continues to lag.

East Asian economies have been

leading the recovery process with strong export growth and gains in global market share, it said.

Most manufacturing sectors recorded positive trade growth in the fourth quarter (Q4) of 2020, with the main exceptions being the energy and transportation sectors, it added.

"The recovery process has been uneven, with many countries lagging," said UNCTAD economist Alessandro Nicita.

According to UNCTAD, the economic and social disruptions brought about by COVID-19 greatly affected global trade during 2020. Overall, world trade recorded a drop in value of about 9% in 2020, with trade in goods declining by about 6% and trade in services decreasing by about 16.5%.

The effect of COVID-19 on global trade was most severe during the first half of 2020, with a drop in value of about 15%. Global trade began to recover in the third quarter of 2020 and more strongly in Q4 2020.

The recovery in the second half of 2020 was largely due to the rebound of trade in goods, while trade in services continues to lag substantially below averages, said UNCTAD. In Q4 2020, global trade in goods grew by about 8% on a quarter-over-quarter basis while trade in services stagnated at Q3 2020 levels.

According to UNCTAD, the projections for the first quarter of 2021 indicate a slowdown in the recovery of trade in goods (a 1.5% drop relative to Q4 2020) and a further decline for trade in services (a 7% drop relative to Q4 2020), largely because of continued disruptions in the travel sector.

"However, projections remain imprecise due to persisting concerns about COVID-19 and uncertainty about the magnitude and timing of stimulus packages in some major economies," said UNCTAD.

Global and regional trends

According to UNCTAD, in the first half of 2020, all major economies experienced significant downturns in both imports and exports of goods, with even heavier declines in the trade in services.

UNCTAD said although improvements were seen from lows earlier in the year, the value of trade remained lower for nearly all major economies in the third quarter of 2020 than in the same quarter of the previous year. However, growth of around 3% in Chinese goods exports was the exception to this trend.

In the fourth quarter of 2020, while trade in goods ameliorated substantially across many major economies, trade in services, in contrast, remained below averages.

Notably, exports of services from China, and to a lesser extent India, appear to have fared relatively better than other major economies throughout 2020, said UNCTAD.

UNCTAD said that the trade recovery in Q4 2020 is largely due to developing countries. The trade of goods from and to developing countries has recovered more strongly relative to developed countries, especially in relation to exports.

However, the positive trade growth of developing countries in Q4 2020 vanishes once East Asian economies are excluded, it added.

"The importance of East Asian economies in explaining the recovery in the trade of developing countries is even more marked when considering trade among developing countries (South-South trade)," said UNCTAD. While South-South trade has outperformed global trade, excluding the trade of East Asian developing economies results in South-South trade dropping significantly, even for Q4 2020.

UNCTAD also said that the trade recovery of Q4 2020 has been very different across geographic regions.

On a year-over-year basis, trade in goods originating from the East Asian region grew about 12% in Q4 2020, with goods imports increasing by about 5%.

In contrast, in Q4 2020, negative trends remained for goods exports originating from most other regions.

At the sectoral level, UNCTAD said that the trade recovery of the second half of 2020 has encompassed most sectors of goods, with the exception of the energy and transport equipment sectors. The value of trade in these two sectors was still about one-third lower in the second half of 2020 relative to the same period of 2019.

Notably, while the trade recovery in Q3 2020 was largely driven by sectors related to goods for which demand has increased because of COVID-19, i.e., textiles (including personal protective equipment) and (home) office equipment, the recovery has been much more broad-based in Q4 2020, with trade in most sectors recording positive growth.

Impact of COVID-19 on export competitiveness

According to UNCTAD, COVID-19 is having profound impacts not only on global demand but also on the relative competitiveness of countries.

"While exports have declined for most countries, some countries have gained in terms of global market share as their economies were able to better weather the challenges of the pandemic," it said.

The fall in global demand brought by COVID-19 has forced least competitive suppliers out of global markets, while enabling the most competitive suppliers to thrive during the recovery process, it added.

According to UNCTAD, during the pandemic, Vietnam, Uganda, China, Switzerland, Turkey and Taiwan (Province of China) have experienced relatively better export performance. On the other hand, Venezuela, Saudi Arabia, Colombia and Nigeria performed relatively worse.

COVID-19 has profoundly affected international trade because its effects have been very diverse across economic sectors, said UNCTAD. "The competitiveness of countries has changed across sectors, with some economies gaining market share in some sectors while losing competitiveness in others."

For instance, during the pandemic, China was able to capture market share in many sectors including in some of the most negatively affected sectors (transport equipment and road vehicles). However, its export competitiveness eroded in some of the sectors exhibiting an increase in trade during COVID-19 (e.g., communication equipment and office machinery). Vietnam, Thailand and Taiwan (Province of China) have been relatively better able to capture the additional demand in these sectors, said UNCTAD. *(SUNS9283)*

Third World ECONOMICS No. 716, 1-15 February 2021

SDRs as a response to fiscal SOS

The issuance of Special Drawing Rights would be a liquidity lifeline to cash-strapped countries struggling to deal with the COVID-19 crisis, write *Bhumika Muchhala* and *Alexander Kozul-Wright*.

Almost one year after the World Health Organization (WHO) declared COVID-19 a global pandemic, one of its striking revelations has been the disparity in the fiscal and monetary firepower available to developed compared with developing countries. Advanced economies (representing 39 countries) have spent an aggregate of $5 trillion in fiscal stimulus, while developing economies (155 countries) have been able to finance just $1.5 trillion.[1]

While this yawning gap illustrates the structural asymmetries in fiscal capacity (as well as the privilege of reserve currency status), it has also widened economic and social inequalities. In its January 2021 *World Economic Outlook*, the International Monetary Fund (IMF) stated that "the developing world is mired in severe challenges due to high debts, few financial resources and lack of access to vaccines."[2]

Access to liquidity for developing countries is a top priority. One of the most accessible and low-cost sources of liquidity is Special Drawing Rights (SDRs), a reserve currency that can be exchanged for cash. Created by the IMF in 1969 to support member countries' foreign exchange reserves, SDRs are based on a basket of five currencies (the US dollar, the euro, the Chinese renminbi, the Japanese yen and the British pound).[3] Unlike other IMF instruments, the SDR is a non-conditional, non-debt-creating resource. It is, in effect, a liquidity booster not dissimilar to quantitative easing.

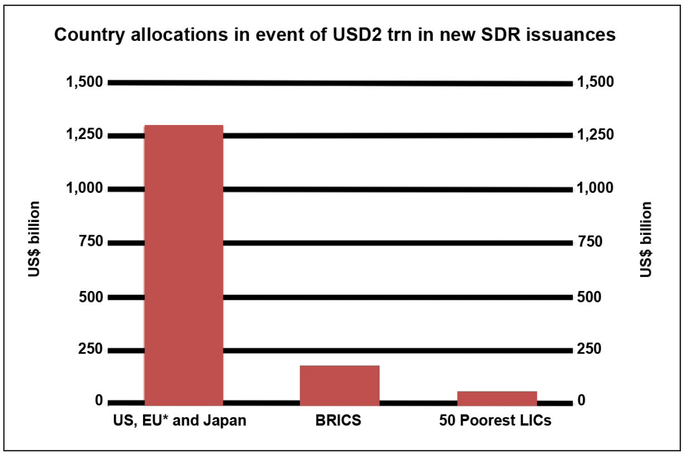
On 29 January, the Italian presidency of the Group of 20 (G20) major economies said that Italy will urge wealthy nations to support a new issuance of $500 billion of SDRs, describing fiscal support to low-income countries as "an absolute priority."[4] Just days before, UN Secretary-General António Guterres stated at the World Economic Forum that a new allocation of SDRs must form part of a worldwide fiscal relief campaign, "so that no one is forced to choose between providing basic services for their people or servicing their debts."[5]

The call for new SDRs has been consistently supported by IMF Managing Director Kristalina Georgieva, who proposed the idea to the G20 in March 2020 as a possible measure to assist developing countries. Economists, academics and civil society groups from around the world have also backed new SDR issuances.

Despite their broad backing, then US Treasury Secretary Steven Mnuchin vetoed SDR issuances at the IMF Board in April 2020. IMF decision-making is moot without US backing (due to the assignment of voting power in congruence with financial contribution and GDP size) and Washington has consistently demonstrated an unwillingness to aid countries considered to be political adversaries.

SDR allocation challenges

Concerns over allocation of SDRs have been fraught since they were first created. Countries receive SDRs according to their IMF quotas, or financial contribution shares, rather than fiscal need. This creates an inequity by which almost 60% of SDRs go to wealthy countries. On the flipside, countries with the greatest need receive the least.



Sources: IMF, Third World Network

* EU figures are dated 31 December 2020, so contain United Kingdom figures

Even with this imbalance, however, a new SDR issuance would offer significant fiscal contributions to low-income countries. For example, a $2 trillion issuance would generate $1.38 billion to Ethiopia, amounting to 50% of its health budget.[6] Cambodia would receive $1.62 billion, or 56% of its annual health costs.[7] Ghana, meanwhile, would stand to gain $3.82 billion, approximately 200% of its medical outlays.[8]

New SDRs would also provide liquidity to middle-income countries excluded from the G20's debt suspension initiative. Despite being home to more than 75% of the global population, and accounting for almost 96% of the external debt of all developing countries (excluding China and India), middle-income countries have so far not been granted access to G20 debt relief.[9]

Various proposals have been suggested to address the skewed allocation of SDRs. One such proposal would be for countries with no immediate need for their SDRs to voluntarily provide them to countries that do.[10] But the G20, as well as the IMF, note that there is near-total consensus about repurposing rich-country SDRs through concessional loan facilities, such as the Fund's Poverty Reduction and Growth Trust. Georgieva noted that roughly $20 billion of unused SDRs have already been reallocated to developing countries through concessional loans.[11]

Admittedly, this may sound like a pragmatic approach capable of winning favour with wealthy nations which might otherwise hesitate to voluntarily offer unconditional liquidity.

However, it is an unfortunate recourse for two reasons.[12]

First, it will almost certainly discourage wealthy countries from offering direct and unconditional transfers. While such transfers are technically possible within the Fund, there are legal barriers in several countries that require authorization from the national government.

Second, the challenge with reallocating SDRs through loans, even if concessional, is that they may come attached with the IMF's characteristic structural adjustment policies. These include, for example, austerity and privatization measures such as reducing public spending for social sectors or opening up public services to private ownership.

The pandemic has demonstrated that accessible and affordable public services, especially in health, education and social protection, are indispensable to human survival. This begs the question of whether the costs associated with IMF conditionality are a fair price to pay to meet the urgent need for fiscal liquidity. In April 2020, over 500 organizations and individuals signed a petition calling on the IMF to put an end to its history of requiring fiscal consolidation in exchange for low-cost loans.[13]

During the global financial crisis of 2008, the possibility of reformulating SDR allocations in line with fiscal needs was discussed. A new arrangement, it was argued, would include criteria such as development indicators, the need for foreign exchange reserves and the relative proportions of national income devoted to reserves.

The UN Conference on Trade and Development (UNCTAD) suggested that SDR issuances could be linked to the needs of developing countries by allowing the IMF to invest some of its SDR funds in the bonds of multilateral development banks.[14] Such a proposal was made by a UN panel of experts in the 1960s, before the liberalization of financial markets took off, and when access to capital market financing by developing-country borrowers was very limited.

New momentum

The recent confirmation of Janet Yellen as US Treasury Secretary has raised hope for international cooperation on sustainable development financing and debt assistance for poor countries.

In a press conference on 19 January, Georgieva mentioned that the IMF leadership had requested that SDRs remain firmly on the table as a possible emergency tool.[15] On 14 January, a petition organized by dozens of international humanitarian, development and policy organizations urged US President Joe Biden to act swiftly on a global response to the COVID-19 pandemic, in particular by directing the US Treasury to support an allocation of $2 trillion worth of SDRs.[16] Organizations signing the letter included the AFL-CIO (the largest federation of unions in the US), Global Citizen, the American Friends Service Committee, Amnesty International USA, Bread for the World, the Iowa Farmers Union, Jobs With Justice, NETWORK Lobby for Catholic Social Justice, Oxfam America, Partners in Health, T'ruah: The Rabbinic Call for Human Rights, and the United Methodist Church – General Board of Church and Society, among many others.

To soothe the liquidity crunch resulting from the global financial crisis, $250 billion in SDRs were issued in 2009. Due to the greater economic impact from COVID-19, numerous economists have called for new issuances ranging from $500 billion to $4 trillion. Legislation to issue $2 trillion in SDRs passed the US Congress House of Representatives twice in 2020.

The bill, "Robust International Response to Pandemic Act",[17] also calls for the relaxation of fiscal targets and opposes the approval or endorsement of any loan, grant, document or strategy that would lead to a reduction in healthcare spending or any other expenditures that would impede the ability of a country to prevent (or contain) the spread of, or treat persons who are infected with, the virus.

Former US Treasury Secretary Larry Summers and former British Prime Minister Gordon Brown, who supported the 2009 SDR issuance, called for $1 trillion-plus in new monies. They noted that "if ever there was a moment for an expansion of international money known as Special Drawing Rights, it is now."[18] With the G20 opting for a low bar of $500 billion, an opportunity may be missed to provide financing commensurate with the depth of the pandemic's economic, social and humanitarian costs.

Yet another way that liquidity could be generated is, as consistently proposed by many civil society organizations, for the IMF to sell its gold reserves and other assets in its General Resources Account, estimated at $140 billion, for cash. This too was advocated during the 2008 crisis.

The above was first published as a Third World Network Briefing Paper (February 2021).

Notes

1. United Nations Conference on Trade and Development (UNCTAD) figures. Not all fiscal stimulus has been 'real' (e.g., tax deferrals, which have to be repaid later). In addition, not all fiscal stimulus has yet been deployed.
2. International Monetary Fund, *World Economic Outlook Update*, January 2021, see: https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
3. See IMF, "Fact Sheet – Special Drawing Right," 24 March 2020, at https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR
4. "Italy G20 presidency to push for debt relief, new IMF drawing rights," Reuters, 29 January 2021, see: https://tbsnews.net/world/italy-g20-presidency-push-debt-relief-new-imf-drawing-rights-193822
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7. IMF figures for SDR allocations 2020. Latest World Bank figures (2018) for annual health expenditure.
8. IMF figures for SDR allocations 2020. Latest World Bank figures (2018) for annual health expenditure.
9. UN Economic Commission for Latin America and the Caribbean, "Costa Rica Presents a Proposal for a COVID-19 Economic Relief Fund," 25 September 2020, see: https://www.cepal.org/en/pressreleases/costa-rica-presents-proposal-covid-19-economic-relief-fund#:~:text=In%20the%20framework%20of%20the%2075th%20United%20

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13. See:https://medium.com/@Oxfam/the-imf-must-immediately-stop-promoting-austerity-around-the-world-49a8d7ba7152
14. UNCTAD, *Trade and Development Report 2009: Responding to the global crisis*, see: https://unctad.org/system/files/official-document/tdr2009_en.pdf
15. International Monetary Fund, "Joint Press Conference by IMF Managing Director Kristalina Georgieva and IMFC Chair Magdalena Andersson," 19 January 2021, see: https://www.imf.org/en/News/Articles/2021/01/19/tr011821-transcript-of-joint-press-conference-by-imf-managing-director-and-imfc-chair-andersson
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A Clash of Climate Change Paradigms

Negotiations and Outcomes at the UN Climate Convention

By Martin Khor and Meenakshi Raman

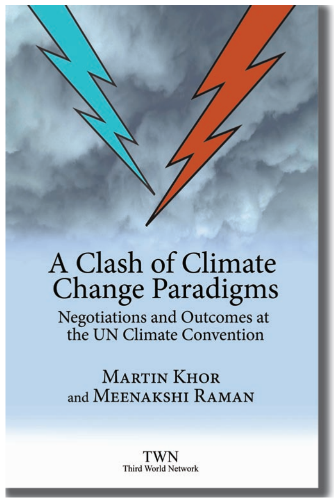
Climate change is the biggest problem facing humanity and the Earth. To address it requires fundamental changes to economies, social structures, lifestyles globally and in each country.

International cooperation is crucial. But to achieve this is difficult and complex, because there are many contentious issues involved, not least the respective roles and responsibilities of developed and developing countries.

This book is an account of the outcomes and negotiations at the UN Framework Convention on Climate Change (UNFCCC). It covers the Convention's annual Conference of Parties (COP) from Bali (2007) to Paris (2015), where the Paris Agreement was adopted, to 2018 where the rules on implementing Paris were approved, and to Madrid (2019).

The two main authors took part in all the COPs analysed except the 2019 COP. The book thus provides a unique ringside view of the crucial negotiations and their results at the UNFCCC as the different countries and their groups grappled with the details on how to save the world, and who should take what actions.

This brief account will be useful, even indispensable, for policy-makers, researchers, civil society activists and all those interested in the climate change issue.



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