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UNCTAD flags adverse economic outlook

The world economy is expected to register slower growth and could even plunge into recession as monetary tightening measures in the developed countries bite, according to the United Nations Conference on Trade and Development (UNCTAD). However, a shift in course is still possible, UNCTAD says, putting forward a policy agenda aimed at not only addressing immediate economic challenges but also fostering structural transformation towards sustainable development.

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THIRD WORLD ECONOMICS
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World economy to grow 2.5% in 2022, but prospects look dim

Misguided monetary and fiscal policy actions in the advanced economies risk tipping the world into recession, with dire consequences for developing countries, cautions a UN development body.

by Kanaga Raja

GENEVA: The world economy is expected to grow 2.5% in 2022, but prospects are worsening, with growth expected to decelerate further to 2.2% in 2023, the UN Conference on Trade and Development (UNCTAD) has said.

In its *Trade and Development Report 2022* (TDR), released on 3 October, UNCTAD said that monetary and fiscal policy moves in advanced economies risk pushing the world towards global recession and prolonged stagnation, inflicting worse damage than the global financial crisis (GFC) in 2008 and the shock from the COVID-19 pandemic in 2020.

According to the TDR, the estimated 2.5% growth in 2022 is less than half the growth rate of 5.6% in 2021, when economic activity resumed after the sharpest recession in living memory.

Part of the growth deceleration this year was to be expected, as countries used up their idle capacity once vaccine programmes were rolled out and lockdowns eased, it said. "Further increases in global real interest rates are expected to reduce world output growth in 2023, compounded by political divisions that continue to block compensatory fiscal action in advanced Western economies and by foreign exchange constraints that do the same in many developing economies."

UNCTAD expects the world economy to grow just 2.2% in 2023, but with risks of a further drop if financial conditions deteriorate in leading economies and contagion hits emerging economies.

If such a low-growth scenario persists for two or more years, world output will be on course for a slower expansion than after the GFC, itself sub-standard for many economies, it said.

"Our projections point to a worrisome trend whereby the slowdown in activity is unable to provide decent jobs, is inadequate to generate incomes to overcome inherited (and excessively large) debt burdens, is too unstable to offer long-term prospects for economic development and is deepening the inequalities of income and wealth that had become entrenched even before the pandemic hit," said UNCTAD.

A year of serial crises

According to the TDR, after a rapid but uneven recovery in 2021, the world economy is in the midst of cascading and multiplying crises. With incomes still below 2019 levels in many major economies, growth is slowing everywhere. The cost-of-living crisis is hurting the majority of households in advanced and developing countries. Damaged supply chains remain fragile in key sectors. Government budgets are under pressure from fiscal rules and highly volatile bond markets.

Debt-distressed countries, including over half of low-income countries and about a third of middle-income countries, are edging ever closer to default. Financial markets are jittery, as questions mount about the reliability of some asset classes. The vaccine rollout has stalled, leaving vulnerable countries and communities exposed to new outbreaks of the pandemic.

Against this troubling backdrop, climate stress is intensifying, with mounting loss and damage in vulnerable countries which lack the fiscal space to deal with disasters, let alone invest in their own long-term development. In some countries, the economic hardship resulting from these compounding crises is already triggering social unrest that can quickly escalate into political instability and conflict.

The resulting policy challenges are daunting, the TDR said, especially in an international system marked by rising distrust. At the same time, the institutions of global economic governance, tasked since 1945 with mitigating global shocks, delivering international public goods and providing a global financial safety net, have been hampered by insufficient resources and policy tools and options that are "rigid and old fashioned".

The TDR said that even as growth in advanced economies slows down more sharply than anticipated in last year's report, the attention of policymakers has become much too focused on dampening inflationary pressures through restrictive monetary policies, with the hope that central banks can pilot the economy to a soft landing, avoiding a full-blown recession. Not only is there a real danger that the policy remedy could prove worse than the economic disease, in terms of declining wages, employment and government revenues, but the road taken would reverse the pandemic pledges to build a more sustainable, resilient and inclusive world.

The pandemic caused greater economic damage in the developing world than the global financial crisis. Moreover, with their fiscal space squeezed and inadequate multilateral financial support, these countries' bounceback in 2021 proved uneven and fragile, dependent in many cases on a further build-up in external debt.

The immediate prospects for many developing and emerging economies will depend, to a large extent, on the policy responses adopted in advanced economies, said the report. The rising cost of borrowing and a reversal of capital flows, combined with a sharper than expected slowing of China's growth engine and the economic repercussions from the war in Ukraine, are already dampening the pace of recovery in many developing countries, with the number of those in debt distress rising, and some in default.

"With 46 developing countries already severely exposed to financial pressure from the high cost of food, fuel and borrowing, and more than double that number exposed to at least one of those threats, the possibility of a widespread developing country debt crisis is a very real one, evoking painful memories of the 1980s and ending any hope of meeting the Sustainable Development Goals (SDGs) by the end of the decade."

Response to inflation

The acceleration of inflation beginning in the second half of 2021 and continuing even as economic growth began to slow down in the final quarter of the year has led many to draw parallels with the stagflationary conditions of the 1970s, said the TDR. Despite the absence of the wage-price spirals that characterized that decade, policymakers appear to be hoping that a short sharp monetary shock – along the lines, if not of the same magnitude as that pursued by the United States Federal Reserve (the Fed) under Paul Volcker – will be sufficient to anchor inflationary expectations without triggering recession.

"Sifting through the economic entrails of a bygone era is unlikely, however, to provide the forward guidance needed for a softer landing given the deep structural and behavioural changes that have taken place in many economies, particularly those related to financialization, market concentration and labour's bargaining power," said the TDR.

The origins of this latest wave of inflation are, in fact, unique. The successful rollout of vaccines in advanced and some developing countries and the easing of COVID restrictions, combined with continued government support for households and firms, saw demand pressures running ahead of supply responses during the first half of 2021, creating bottlenecks, including in some key markets such as automobiles. The surge in inflation from the end of last year belied hopes that this would be a shortlived inconvenience. However, the evidence does not suggest this surge has come from a further loosening of fiscal policy or wage pressure, but instead derives largely from cost increases, particularly for energy, and sluggish supply response due to a prolonged history of weak investment growth.

"These have been amplified by price-setting firms in highly concentrated markets raising their mark-ups to profit from two rare opportunities – in 2021, the surge in demand due to the global recovery, and in 2022, the surge in speculative trades related to a wave of global concern over the availability of particular sources of energy, with no substantial changes in overall demand or supply."

Under these circumstances, the TDR said, continued monetary tightening – through rising central bank rates and the normalization of their balance sheets – will have little direct impact on the supply sources of inflation and will instead work indirectly to re-anchor inflationary expectations by further reducing investment demand and preempting any incipient labour market pressures. A more immediate impact could be a sharp correction in asset and commodity prices, from cryptocurrencies to housing and metals.

With financial entanglements since the GFC becoming increasingly global, complex unanticipated shocks, including outbreaks of financial panic or extreme price volatility, or a combination of external triggers, are a present danger, said the TDR. Monetary tightening poses additional risk to the real economy and the financial sector: given the high leverage of non-financial businesses, rising borrowing costs could cause a steep increase in non-performing loans and trigger a cascade of bankruptcies. With direct price and mark-up controls ruled out as politically unacceptable, and if monetary authorities are unable to stabilize inflation quickly, governments might resort to additional fiscal tightening. This would only help precipitate a sharper global recession.

Finally, the TDR said, what does seem likely is that the impact of Fed tightening will be more severe for vulnerable emerging economies with high public and private debt, substantial foreign exchange exposure, a high dependence on food and fuel imports and higher current-account deficits. According to one recent estimate, an increase in United States interest rates of 1 percentage point reduces real gross domestic product (GDP) by 0.5% in advanced economies and by 0.8% in emerging economies, after three years.

These effects are comparable to the domestic effects of a one-percentage-point increase in the United States interest rate, which lowers the United States GDP by almost 1% after 11 quarters. More drastic increases by 2 to 3 percentage points would, therefore, depress the already stalling economic recovery in the emerging economies by another 1.6 to 2.4 percentage points.

The TDR said disruptions to

global supply chains, armed conflicts in key commodity-producing regions, slowing economic growth, turbulence in stock markets and accelerating inflation suggest a resemblance to the stagflation of the 1970s. Accordingly, the recommended policy action is aggressive monetary tightening, which is supposed to preemptively anchor inflationary expectations and avoid the steep economic costs associated with a prolonged period of interest rate increases, such as the world painfully experienced between 1979 and 1981 when the Fed introduced a series of rate increases amounting to almost 9 percentage points.

These policy recommendations, along with calls for fiscal policy to address investor concerns by cleaning up public finances, closely resemble the dominant policy recommendations of the early 1980s, and these proved disastrous, particularly for developing countries, in terms of economic growth, inequality and poverty.

The TDR said the primary cognitive blinder hindering adequate understanding of the key lessons from past crises is still the widely shared belief and confidence in monetary policy's singular ability to reduce output volatility and ensure stable and lasting growth in market economies in a neutral manner without affecting potential output growth of the economy under consideration.

In fact, the aggressive monetary tightening of the early 1980s provoked deep distributional shifts within and across countries, and repeating that approach today could be equally damaging. Moreover, while echoes of the 1970s are audible in current conditions, there are important differences between then and now – and these, the TDR said, should caution us to avoid drawing direct policy lessons.

First, the recent commodity price increases, when measured in real terms, have so far been smaller than in the 1970s. Second, the energy intensity of GDP has declined considerably since the 1970s, reducing the inflationary impact of higher energy prices. Another notable difference is that core global inflation in 2022 is driven by fewer sectors than it was in the 1970s. In 1979-80, global headline inflation (a broader measure) and global core inflation (which excludes volatile items such as food and energy) were similar: 15.2% and 15.3%, respectively. But in 2022, the global core inflation rate is 2.8%, whereas the global headline inflation rate is much higher, at 7.5%.

Third, and insufficiently emphasized in many of the theorized parallels between the two periods, nominal wage growth is not keeping up with consumer price index (CPI) inflation; hence, real wages in developed and developing countries alike are stagnating or declining, ruling out a wage-price spiral as the inflationary lubricant.

Fourth, a final structural difference between the 1970s and the current conjuncture concerns the significantly higher levels of indebtedness today in both developed and developing countries and for both private and public sectors, with much of the developing-country debt denominated in foreign currency and short-term. In 1980, total debt of the emerging market and developing economies (EMDEs) stood at 65% of their GDP; half of this debt was sovereign debt and the other half was private-sector debt. When the Fed tightened monetary policy in the late 1970s and early 1980s in response to rising inflationary pressures in the United States, it triggered the "Third World" debt crisis. Today many emerging economies are facing even tighter financial conditions against a backdrop of high debt. Fifteen EMDEs already experienced a downgrading of their sovereign debts in the first five months of 2022. Monetary tightening by the Fed thus has a considerable risk of triggering a new chain of financial crises in EMDEs.

Finally, far more central banks are independent today than in the early 1980s, with clear mandates to prioritize inflation targeting and follow "transparent" monetary policy rules. Some assessments say this "revolution" in monetary policy is better placed to anchor inflation expectations, with core inflation becoming less sensitive and more resilient to (unexpected) inflation shocks.

What is missing in this narrative, said the TDR, is that commercial banks have become progressively less important financial actors in the intervening years, and a variety of non-bank financial institutions have emerged as credit providers in a loosely regulated market environment. This evolving "shadow banking" system, largely ignored (or worse yet, encouraged) by the authorities in the run-up to the GFC, greatly complicates the transmission of monetary policy. More than a decade later, shadow banking poses renewed risks to financial stability, in advanced and developing countries alike.

The large role of the shadow banking sector means central banks have limited capacity to control credit expansion in large segments of the financial system. That is even more true for central banks in many developing economies, as they have more fragile financial systems, higher debt denominated in foreign currency and greater exposure to commodity price shocks. In fact, many of them began to raise interest rates already in late 2021, but the inflationary pressures have not abated, and the financial vulnerabilities have continued to build.

Today, the TDR said, inflation is caused by a mixture of disruptions in global supply chains, high (container) shipping costs, the impact of war on key sectors, higher mark-ups, commodity-market speculators and the ongoing uncertainty of an evolving pandemic. In this situation, central banks cannot bring inflation down at a socially acceptable cost.

Instead, supply-chain disruptions and labour shortages require appropriate industrial policies to increase the supply of key items in the medium term; this must be accompanied by sustained global policy coordination and (liquidity) support to help countries fund and manage these changes.

"In the meantime, policymakers should seriously consider alternative paths of action to lower inflation in socially desirable ways, including strategic price controls, better regulation to reduce speculative trades in key markets, targeted income support for vulnerable groups and debt relief."

If monetary tightening in the advanced economies continues over the coming year, however, a global recession is more likely, and, even if it is looser than the 1980s, it will almost unavoidably harm potential growth rate in the developing economies, said the TDR. The permanent damage to economic development in these countries will not only be substantial but will also leave the ambition to achieve a better world by 2030 dangling by the most precarious of threads.

Growth prospects

Two and a half years after the COVID

shock, with many parts of the world economy still fighting the pandemic, a new round of shocks has complicated the policy landscape, the TDR said. The V-shaped COVID shock and recovery left many global supply chains disrupted, triggering wide inventory fluctuations and multiple production bottlenecks. In the first phase of the pandemic, the demand for goods soared, and the demand for services collapsed. Then, as countries eased their health-related restrictions on the economy, the demand for services recovered even as the demand for goods remained high. The two processes put upward pressure on both producer and consumer prices, even before the war in Ukraine, pushing inflation in advanced economies above established monetary targets and in many emerging and developing economies to a level not seen since the first Gulf War in the early 1990s.

Starting in mid-2021, the inflationary pressure led some countries to begin tightening monetary policy to fight the secondary effects of the unbalanced recovery. Monetary tightening gained momentum in the beginning of 2022, when the start of the war in Ukraine triggered another adverse global supply shock. Fuel and food prices, which were already rising, shot up further. For oil, this was clearly the consequence of speculative trades, as the price increases far outpaced any changes in supply and consumption. Supplies of some key grains and fertilizers were disrupted, and consumer prices accelerated everywhere. As of mid-2022, even previously low-inflation economies were facing inflationary pressures, dangerously close to double digits, which, in the absence of other policy measures, forced their central banks to raise short-term interest rates, at a pace not experienced in decades.

In the second half of 2022, higher short-term interest rates and the end of any remaining COVID-related fiscal and financial stimuli are expected to further constrain income growth across much of the global economy, leading to a "growth recession" – conventionally defined as annual global output growth below 3% at both market and purchasing-power-parity prices. This echoes what happened after the GFC, when many countries were quick to adopt austerity budgets, dampening the budding economic recovery. But unlike then, today's situation is led by monetary tightening, with the threat, against a backdrop of higher debt levels and inequality, of greater macroeconomic volatility and more country heterogeneity (making the consequences of the Fed's rate increases vastly different from country to country).

The TDR said that compared with early 2021, when the economic policy debate revolved around a shared ambitious policy agenda of inclusive recovery and the building of resilience to future shocks, the prospect of coordinated policy programmes that would make the global economy fairer and more sustainable has dimmed. With the partial exception of the United States, plans for the energy transition have been largely put on hold, while countries scramble to increase supplies of coal, oil and gas in order to contain fuel and electricity prices, especially in Europe. High food price inflation and exchange rate volatility have undermined the livelihoods of millions of people, especially in low- and middle-income countries, upending any plans to tackle high levels of inequality.

Many liquidity-constrained economies are now allocating their limited fiscal space to emergency price subsidies, sacrificing public investment in infrastructure and welfare programmes, while advanced economies are once more warning of a fiscal cliff and raising the spurious claim of the expansionary effects of austerity. Finally, the war in Ukraine and the growing United States-China rivalry are pushing the world towards a conflictual multipolar configuration, diminishing the hope, at least for the moment, of a more cooperative global order.

These policy trends notwithstanding, a path to overcome the current economic setbacks and achieve the SDGs is still available, maintained the TDR. It requires simultaneously dealing with the urgency of the cost-of-living crisis and the necessity of advancing structural transformation towards a greener economy, while addressing a deteriorating growth outlook by boosting productive investment and expanding redistributive measures to bolster local markets and boost the confidence of firms and households.

The TDR said that based on the United Nations Global Policy Model, the world economy is expected to grow 2.5% in 2022. The downward revision from last year derives from three factors:

i) The policy stimulus enacted in 2020 and 2021 proved less effective than expected. In particular, in the bounceback from the recession, the fiscal and financial stimuli turned out to be smaller than expected, with a weaker impact on growth. This made the subsequent policy tightening (both fiscal and monetary) more recessionary than it would have been had the recovery been stronger.
ii) The supply response of key goods and commodities was insufficient to match the post-lockdown demand surge. This outcome is unsurprising; many governments were reluctant to boost public investment and employ an active industrial policy, thus leading to a situation where the "policy tapering" underway (to liquidate excess central bank assets) was compounded by the interest rate hikes meant to counter inflationary pressures.
iii) Unexpected headwinds coming from the war in Ukraine brought down growth in the Russian Federation and Ukraine and also triggered a swing in commodity prices (mostly abated by now) and are now acting as an adverse supply shock in both advanced and developing economies.

The TDR said that the ongoing war in Ukraine and geopolitical tensions are adding to economic anxieties. Today's growth performance points to a troubling pattern observed in the post-GFC decade, in which the timing and size of policy responses were such that the recovery lost steam over time. UNCTAD's assessment is that the trend is worsening, with growth expected to decelerate further in 2023, to 2.2%.

For developing economies, the deceleration is particular cause for alarm. Excluding China, the group is projected to grow 3.0% this year, below the pre-COVID average of 3.5%, and diminishing the room for rising per capita incomes. China will slow down too, an estimated 4.2 percentage points less than 2021, although it is projected to continue growing faster than other countries, at almost 4% in 2022, and to accelerate in 2023, one of the few countries expected to do so.

The TDR said that the current macroeconomic and financial conditions place developing economies in a vulnerable position, as they are exposed to ever more frequent shocks from commodity markets, capital flows, inflationary bursts, exchange rate instability and debt distress. Meanwhile, South-South trade has weakened, and friend-shoring, increased market concentration, reduced policy space and a North-centred climate policy weaken developing countries' position in global value chains.

Developed economies are projected to grow 1.7% in 2022 and 1.0% in 2023. On average, this is 0.5 percentage points below the mean of the pre-COVID period and 0.9% below the pre-GFC mean. The slowdown is particularly marked in the United Kingdom and the European Union, especially in France, Germany and Italy.

While the global increase in inflation has sparked concerns about economic overheating in some economies, in most G20 economies, real GDP is expected to be below its pre-COVID trend by the end of 2023. Projecting average 2016-17 growth into the future, UNCTAD argued the world economy will still be over 3 percentage points below its pre-COVID trend in 2023, with no sign of the gap closing any time soon.

On the downside, it said, a lasting war in Ukraine, persistently high inflation, a Volcker-like shock to real interest rates and heightened financial turbulence could push the world economy into a deeper recession, followed by a long stagnation, with macro-financial complications in many developing countries and some developed ones, especially in Europe, where the energy crisis is likely to bite hardest and the combination of currency union and fiscal disunion magnifies the risk premium paid by some governments in times of crisis.

The TDR said the COVID pandemic led to a sudden stop and a gradual reopening of the world economy, causing serious disruption to global supply chains, trade logistics and key international prices. The first part of the shock was clearly deflationary, especially for urban services, with a combined fall in demand and supply. Then, as the economy started to adapt to health-mandated lockdowns, the demand for goods recovered, creating supply and logistical bottlenecks around the world which registered as price swings.

It said the increase in world inflation has also been driven by a deep V-shaped fluctuation in commodity prices. As of mid-2022, the monetary tightening in the United States and the deceleration in world output seem to have stopped the global inflationary trend in commodities. There is still much uncertainty surrounding the consequences of the war in Ukraine for food and fuel prices, but with high interest rates and slower demand growth, the most probable scenario for 2023 is a further, if more gradual, fall in commodity prices. However, because the starting point of the dis-inflationary trend is very high, the relative prices of commodities in terms of world per capita income will continue to be high in the short term. In fact, despite its recent fall, the commodity food price index in June 2022 was still 64% above its pre-COVID value. The war in Ukraine and the economic sanctions against the Russian Federation have also caused a major shock in Europe, with a record increase in electricity and fuel prices in 2022 and the risk of rationing later in the year.

Developing-country vulnerabilities

According to the TDR, the extent to which the global economy is fragmenting and the consequences for its growth and stability are pressing questions for policymakers everywhere – and there are no clear answers. A discernible trend is the emergence of a rigid and fragile global economy after the GFC. If this trend continues and becomes reinforcing, the damaging consequences for developing countries are likely to be significant.

The vulnerability of developing countries stems from the way the key international markets on which many depend have become both more concentrated and more volatile. Over the decade and a half since the GFC, many developing countries have seen their external financial positions deteriorate, first gradually and then, particularly since the COVID shock, more precipitously. As of mid-2022, the IMF assessed 55% of Poverty Reduction and Growth Trust (PRGT)-eligible countries to be at high risk of or already in debt distress – compared with fewer than 30% in 2015. Overall, the IMF has warned that around six out of 10 low-income countries and three out of 10 emerging market economies are at or near debt distress.

The TDR said three immediate factors have been critical in pushing these countries further towards the financial precipice. First and foremost, after many perfunctory announcements over the past 10 years, United States monetary policy has now embarked on a decisive tightening cycle that has seen the US 10-year Treasury yield increase almost sixfold between mid-2020 and mid-2022. Given the continued dominance of the US dollar in the world economy, this threatens to reverse the global economic recovery, not least through balance-of-payments crises in the developing world prompted by dollar appreciations against their currencies and, therefore, also an increase in the dollar-denominated values of their external debt obligations and higher borrowing costs. Second, price hikes in some commodity markets add to inflationary pressures on a global scale. This has negatively affected developing-country commodity importers but has benefited some developing-country commodity exporters. Third, the COVID-19 pandemic lingers on in many countries, including high debt burdens left by the pandemic in developing countries that remain unresolved.

The combination of these factors has resulted in renewed net negative capital flows from developing countries since September 2021, bringing to a halt the rebound of net capital flows to developing countries observed since the last quarter of 2020, said the TDR.

It said the overall outlook for developing countries remains subdued for now. According to the most recent data available for (selected) developing countries, the flight-to-quality from developing economies continued unabated during the second quarter of 2022, reaching levels comparable to those following the onset of the pandemic by end-June.

This is also borne out in the data on emerging market sovereign bond spreads. These spreads – an important indicator of sovereign financial risk and distress – have risen sharply between September 2021 and July 2022, following the United States Fed's more aggressive stance on monetary policy normalization in response to concerns about domestic inflation. Contrary to earlier episodes of steeply rising emerging market sovereign bond spreads in the wake of the GFC and at the height of the COVID-19 pandemic, when 10-year US Treasury bond yields actually fell, the current episode is clearly driven by emerging market bond spreads moving in tandem with the 10-year US Treasury yield curve – a clear indicator of the central role played by the tightening monetary policy cycle in the United States in mid-2022.

Worst hit by these deteriorating financial conditions, the TDR said, are primarily frontier economies that already suffered from severe balance-of-payments constraints and high external vulnerabilities from well before the onset of the COVID-19 pandemic. Thus, for example, low- and middle-income countries, whose external sovereign bonds traded in distressed territory in June 2022, had already seen their bond yields rising to above 10 percentage points relative to the most common benchmark – the yield on 10-year US Treasury bills – in mid-2019 (including Egypt, Turkiye, Pakistan, Uganda and Zambia).

Predictably, said the TDR, these developments have also resulted in widespread currency depreciations across developing countries in the first half of 2022. In addition to widening spreads of developing countries' external sovereign bonds, domestic currency depreciations further increase the servicing costs of debt denominated in foreign exchange. In all, 90 developing countries recorded nominal depreciations of their currencies against the dollar, of which 34 exceed 10%. Countries with major depreciations are either net food importers and/or those with longstanding high external vulnerabilities.

A more sustainable agenda

According to the TDR, in the decade following the GFC, an opportunity was missed to put the world economy on a more stable, sustainable and inclusive growth path. Once the panic had been extinguished, the banking system propped up and growth somewhat restored, advanced-country governments immediately began to cut spending, while central banks continued to prime financial markets with continued purchases of assets from private actors (quantitative easing). With this backing, non-bank financial institutions greatly expanded their portfolios, while large corporations indulged in share buybacks and acquired rival companies. Yet weak capital formation, wage stagnation and unchecked wealth and income inequality held back a strong and inclusive recovery. Rising levels of indebtedness in developed and developing countries alike and across all sections of the economy kept economies ticking, although financial stress mounted, even before COVID struck.

The recent supply-driven rise in inflation has pushed many governments into a somewhat muddled strategy. The emphasis is on interest rate hikes, tempered to varying degrees by tax breaks and subsidies and combined with a disjointed mixture of military build-up and cuts to social programmes, in the hope that "cooling down" some parts of the economy will restrain wage growth and stop runaway prices. The promise is a soft landing in advanced economies and a return to pre-COVID normalcy. In developing countries, fiscal consolidation looks less ambiguous: it will likely be more contractionary in hope of stabilizing financial markets, curbing capital outflows, halting devaluation and boosting investor confidence.

While interest rate hikes can fight temporary inflationary pressures and help contain expectations, they also add to household and business costs. In this sense, they will cause damage to the productive economy and increase exposure to future supply-side shocks, perpetuating the line of policy action that privileges financial markets over non-financial businesses. This is especially concerning as the current policy mix does not consistently include a strategy to eliminate production bottlenecks, raise investment rates, increase productivity and re-balance budgets in a progressive direction, said the TDR.

In theory, coordinated monetary action by the International Monetary Fund (IMF) and leading central banks can help reduce the risk of financial shocks and, if a shock does occur, limit contagion. But if recent history is any guide, the most probable scenario, particularly for developing countries, is one in which policy action is "too little, too late", taken only after crises have erupted and with a strong bias to creditor interests.

The world is facing a systemic crisis and only systemic action can solve it, the TDR stressed. Focusing solely on a monetary policy approach – without addressing supply-side issues in trade, energy and food markets – to the cost-of-living crisis may indeed exacerbate it. Under current supply-chain challenges and rising uncertainty, where monetary policy alone cannot safely lower inflation, pragmatism will need to replace ideological conformity in guiding the next policy moves. The challenge is complicated by the legacy of 40 years of predominantly neoliberal economic policies in the main economies of the world that have left state capacity and international coordination in poor condition.

With a focus on linking immediate macroeconomic policy challenges to boosting investment in the SDGs and drawing on suggestions made in past reports, the TDR said policy programmes, appropriately tailored to local economic circumstances, should be built around the following elements:

i) Containing inflation (not cutting wages): Policymakers should avoid an undue reliance on monetary tightening and foreswear a premature return to austerity budgets. The alternative to a damaging rise in interest rates to bring down inflation requires a pragmatic mix. First, while subsidies to ease the cost of living are important in the short term, price and mark-up controls are paramount, as they also allow for overdue increases in real wages. This requires a reinforcement of anti-trust measures and a reconsideration of regulation in specific markets. These policies can be bolstered at a regional level, so that single countries are shielded from external constraints such as exchange rate movements and capital flows.

ii) Managing growth (not mismanaging booms and busts): Monetary and fiscal rules need to be better adapted, not just to respond to shocks, but also to support much-needed structural changes in the economy, such as industrialization in developing countries and the energy transition. Maintaining sustained job creation and industrial upgrading will require governments to have sufficient fiscal space for the necessary investments and ongoing support measures. Liquidity creation should always be allowed for development projects that guarantee, in the medium to long term, higher income and tax revenues. This will require not only rethinking the independence of central banks from any development and social goals but also considering, where appropriate, new regional arrangements.

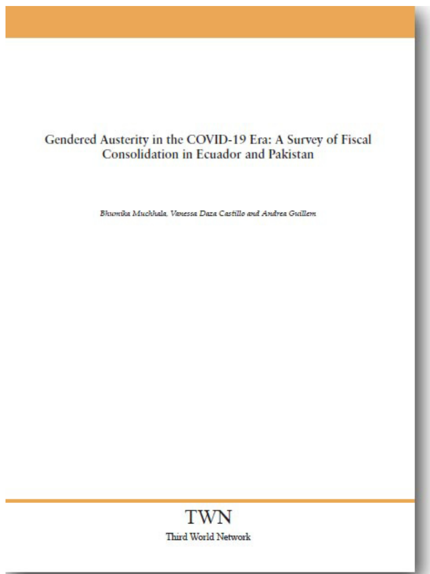
iii) Investment first (second and third): There needs to be higher public investment in economic and social infrastructure to boost employment, raise productivity, improve energy efficiency and reduce greenhouse gas emissions, in an internationally coordinated effort around common global objectives. But crowding in private investment will also require taming financial institutions to make sure they serve the broader social good. Industrial policies will also be required to target desired sectors and guide investment, along with better-capitalized public banks committed to lengthening the investment horizon of private businesses, including through the productive leveraging of reinvested profits.

iv) Levelling up: While anti-trust measures and income policies to boost productivity growth can help achieve more equitable distribution of income, redistributive policies can help mitigate unbalanced outcomes. These include the reinforcement of public service provisions and progressive tax reform, such as wealth and windfall taxes, together with a reduction of regressive tax cuts and loopholes. Clamping down on the use of tax havens by firms and high-wealth individuals will require legislative action at both national and international levels. Interim efforts in this direction could include a global financial register recording the owners of financial assets throughout the world.

v) A new Bretton Woods: In an interdependent world, calling for greater ambition from domestic policymakers requires rethinking global economic governance from a development perspective. Almost eight decades on from the foundational conference in New Hampshire, the international financial architecture is struggling to address the imbalances and inequities of a hyper-globalized world order. A stable multilateral monetary and financial system will require more timely balance-of-payments and liquidity support, a swap facility open to all, a public credit rating facility and rules for managing sovereign debt crises. A bolder agenda to scale up public development finance will require an increase in base capital of multilateral financial institutions along with a reassessment of their lending headroom and priorities, combined with stronger price and quantity-based controls and incentives to ensure that complementary private finance flows towards productive transformation. *(SUNS9660)*

Gendered Austerity in the COVID-19 Era: A Survey of Fiscal Consolidation in Ecuador and Pakistan

by Bhumika Muchhala, Vanessa Daza Castillo and Andrea Guillem



Austerity is gendered in that the power relations that shape the distribution of resources and wealth as well as the labour of care and reproduction turn women and girls into involuntary "shock absorbers" of fiscal consolidation measures. The effects of austerity measures, such as public expenditure contraction, regressive taxation, labour flexibilization and privatization, on women's human rights, poverty and inequality occur through multiple channels. These include diminished access to essential services, loss of livelihoods, and increased unpaid work and time poverty. This report examines the dynamics and implications of gendered austerity in Ecuador and Pakistan in the context of the fiscal consolidation framework recommended by International Monetary Fund (IMF) loan programmes.

Available at https://twn.my/title2/books/pdf/GenderedAusterity.pdf

Third World ECONOMICS No. 753, 16-31 August 2022

COVID-19 having profound impact on right to development

A report by the Secretary-General and the human rights chief of the United Nations documents how the COVID-19 pandemic has set back progress in realizing the right to development.

by Kanaga Raja

GENEVA: The COVID-19 pandemic has continued to have profound impacts on enjoyment of all human rights including the right to development, exposing and exacerbating the pre-existing and systematic inequalities within and between countries, according to a report by the United Nations Secretary-General and the United Nations High Commissioner for Human Rights.

In their report to the 51st regular session of the UN Human Rights Council taking place on 12 September-7 October, they said the health crisis and the resulting social and economic crises have reversed gains in well-being and human development and shone a light on the structural consequences of decades of underfunded or dismantled public services and policies related to economic and social rights.

The report said the rollout, access and availability of COVID-19 vaccines have further revealed and exacerbated stark inequalities within and between countries.

It said the world faces a great challenge and an opportunity to change course, learn the lessons from the ongoing COVID-19 crisis, and promote a just, green and sustainable recovery through increased and effective international cooperation.

The report noted that the year 2021 marked the 35th anniversary of the Declaration on the Right to Development. "Through the Declaration, Member States defined development as a comprehensive economic, social, cultural and political process that aims to constantly improve the well-being of all peoples and individuals based on their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom."

The report said the right to development requires national and international development policies that support an enabling environment in which all human rights and fundamental freedoms can be fully realized.

"The implementation of the Declaration on the Right to Development implies effective international solidarity and cooperation in providing countries with appropriate means to foster their comprehensive development and overcome the obstacles to achieving it."

It also entails fair distribution of the benefits of development, including wealth and income, and equal opportunity in access to basic resources and services; the sharing of technological and scientific innovation; and financial support for development.

According to the report, the pandemic revealed that states could have better confronted the challenges posed by COVID-19 had they advanced further in meeting their commitments in a manner consistent with the principles enshrined in the Declaration on the Right to Development. That would have resulted in stronger health systems, fewer people living in extreme poverty, less gender inequality, a healthier natural environment and more resilient societies.

Progress reversed

According to the report, the pandemic has dramatically reversed progress on sustainable development, exposing and exacerbating inequalities within and between countries, undermining their fiscal space and their capacity to mobilize resources to realize the right to development, as well as economic, social, cultural, civil and political rights.

"The global health, human rights and socioeconomic crisis affected everyone, but particularly women, children, persons with disabilities, indigenous peoples, migrants, persons living in poverty and other marginalized groups."

The report said that developing countries, particularly the least developed countries, were severely affected by the adverse socioeconomic impacts of COVID-19 owing to the fragility of their health and social protection systems, limited financial resources and vulnerability to external shocks, and those impacts have been compounded by the current food and energy crisis.

Small island developing states suffered price shocks and loss of exports, investment and remittances, along with a rapid plummet in tourism. That added to the long-term adverse effects on the full enjoyment of human rights caused by climate-change-related sudden-onset natural disasters and slow-onset events.

The number of extremely poor people is expected to increase by up to 224 million globally, and around 114 million jobs have been lost and foreign direct investment, trade and remittances have decreased.

The report said 60% of the least developed countries and other low-income countries are at high risk of, or in, debt distress. The estimated impact of the pandemic on the world's economy has been forecast at $22 trillion by 2025.

The report said disparities in growth prospects for 2022 will persist between developed economies and low-income countries, despite downward revisions during the first quarter of 2022.

"The lingering effects of the pandemic, coupled with the impacts of climate change and the current energy and food crisis, are likely to further increase poverty and exacerbate vulnerabilities. The multidimensional crisis increasingly affects people and countries in vulnerable situations."

The report said those countries are the most in need of additional financing for development, including official development assistance (ODA) and other forms of economic cooperation. "Inclusive business models and arrangements that enhance human rights, technical assistance and technology-sharing are also key to overcoming such obstacles."

The report said that the global financial system has failed to adequately support the economies weakened by the financial crisis, compounded by the pandemic, and that this has also underscored the divergent fiscal space of countries to confront the crisis and comply with their human rights obligations.

Third World ECONOMICS No. 753, 16-31 August 2022

"Eighty percent of the unprecedented fiscal and monetary measures to cushion the socioeconomic impact of the pandemic were adopted by the governments of developed countries, while many developing countries faced increased fiscal constraints."

The report said that advanced economies were able to invest around 28% of their gross domestic product (GDP) into economic recovery, whereas middle-income countries could invest only 6.5% and the least developed countries just 1.8% of their smaller budgets, creating a divergent global response and recovery.

The Secretary-General has warned that lopsided investment is leading to a lopsided recovery, deepening inequalities between countries and undermining global trust and solidarity.

"This uneven capacity to respond has placed many developing countries in a weakened position to respond to the impacts of today's multiple and cascading crises, including the lingering COVID-19 pandemic, rising food and energy prices, alongside the escalating climate emergency."

That makes effective international cooperation even more essential to providing the most affected countries with appropriate means and facilities to foster their comprehensive development, said the report.

It said although official bilateral and multilateral development assistance increased in 2021, it continued to be insufficient and far below the ODA target of 0.7% of gross national income (GNI) and 0.15-0.20% to the least developed countries, while an increased proportion of ODA was provided as loans and with tougher lending terms.

The High Commissioner has repeatedly advocated for greater efforts in support of developing countries, including through development assistance, concessional loans, debt relief and lifting of sanctions, to allow them more fiscal space to ensure adequately resourced services for the protection of human rights, including the right to development during the crisis and in the recovery.

Sovereign debt burdens

The report also said sovereign debt burdens were identified as a major challenge for states to mobilize resources to respond to the pandemic, particularly as many countries were already facing heavy debt burdens.

Forty-four percent of the least developed and other low-income developing countries were at high risk of or in debt distress by January 2020. Since then, severely decreased revenues, together with high levels of expenditure relating to emergency response, have increased debt levels. By December 2021, about 60% of the least developed and other low-income countries were at high risk of or in debt distress.

The report noted that private sector participation in various debt relief programmes, including the Debt Service Suspension Initiative and the subsequent Common Framework for Debt Treatment, also remained absent, despite the high percentage of sovereign debt owned by the private sector.

"Debt burden and debt services constrain the ability of indebted countries to mobilize resources for meeting their human rights obligations and achieving development," the report underlined.

"The cancellation of debt service obligations in 25 countries, amounting to $964 million between April 2020 and December 2021, was an important step provided by the International Monetary Fund (IMF) but has not gone far enough in providing the relief needed to support an inclusive, resilient and sustainable recovery."

The Secretary-General has repeatedly called for a reformed global financial system that works for all countries, particularly those most affected by the pandemic.

"A global financial system that was fit for purpose implied urgent debt restructuring and reforms of the long-term debt architecture, better functioning of the Common Framework for Debt Treatment, with the full engagement of private sector creditors and credit rating agencies, the alignment of private finance and credit rating methodologies with the 2030 Agenda for Sustainable Development and climate objectives, and the expansion of the Debt Service Suspension Initiative to all countries that needed it."

Supported by the World Bank and IMF, the Debt Service Suspension Initiative implemented by the Group of 20 (G20) temporarily suspended government-to-government debt payments by 48 of the 73 countries eligible for funding by the International Development Association so that they could refocus their resources on fighting the pandemic and its impacts. Between May 2020 and the expiration of the initiative in December 2021, it provided more than $12.9 billion in relief to those 48 countries.

The proportion of debt payments that were suspended, however, was uneven between countries. As of March 2022, only three countries had participated in the Common Framework for Debt Treatment established by the G20 to help countries restructure their debt and deal with insolvency and liquidity problems.

Debt suspensions that have been implemented will defer repayments, often leaving countries with difficult choices between servicing creditors or fulfilling human rights, including the rights to life, health, food, education, social security and development, said the report.

With interest rates expected to rise globally, countries will face increased pressure to service their debt. A recent review of loan agreements with international financial institutions revealed a push for the adoption of austerity measures in the future, the report said.

"The fiscal impacts of debt burden, coupled with increased pressure to service their debts, will limit the ability of States to respond to the crisis and come on top of decades of social under-funding. A recent analysis projected that over 150 countries would undertake budget cuts in 2022."

Austerity measures have historically led to retrogression in the enjoyment of economic, social and cultural rights and the right to development, with disproportionate impacts on women and the most marginalized, said the report. "They often target health, education, infrastructure investment and poverty reduction efforts. Proposed budget cuts and austerity measures following the pandemic should therefore be carefully assessed in terms of their impacts on human rights."

States and international financial institutions should adopt countercyclical policies with the aim of promoting more equitable and sustainable development, the report suggested. "They should also follow recommendations by the Committee on Economic, Social and Cultural Rights, the guiding principles on human rights impact assessments of economic reforms and those on debt and human rights to ensure consistency and policy coherence with their human rights obligations."

One of the lessons from the pandemic is that countries financing human-rights-related public policies and services become more resilient to crises over time, thereby entering a virtuous cycle of investing in quality services, which also renders them more affordable, said the report. As a result of such services and support, including in the fields of education and health, people have better economic opportunities over the long term and government revenue is higher, including through taxation.

Vaccine inequity

The report said that more than two years after the pandemic emerged, important progress has been made in the development of vaccines and medicines against COVID-19. "The COVID-19 vaccines were significant scientific achievements in the fight against the virus and contributed to a sharp reduction in deaths worldwide."

However, although vaccine coverage in all countries was considered the only sustainable way out of the acute phase of the pandemic, the rollout of COVID-19 vaccines was "grossly uneven, revealing and exacerbating existing stark inequalities."

Universal and equitable access to COVID-19 vaccines that are safe and effective is an essential element of the right of everyone to the highest attainable standard of physical and mental health, the right to development and the right to enjoy the benefits of scientific progress and its applications, the report emphasized. It also remains one of the strongest determinants of countries' ability to control the pandemic and move towards a sustainable recovery.

However, as of June 2022, fewer than 18% of adults in low-income countries had been vaccinated with at least one dose, compared with over 70% in high-income countries, stated the report. Many developing countries continued to lack sufficient access to full vaccination against COVID-19, even as some countries were administering booster shots and later started lifting most protective measures. Some high-income countries have secured over 200% more vaccine doses than they need to achieve potential coverage.

The report said that vaccine inequity has been one of the driving forces behind the uneven recoveries between high-income and developing countries. That approach has been both economically and epidemiologically self-defeating, with the estimated cumulative cost of delayed vaccination alone amounting to $2.3 trillion by 2025 and developing countries bearing the burden. New variants are more likely to emerge among largely unvaccinated populations, with profound implications for the rights to health, work, education and social security globally.

"The concentration of manufacturing capacity for vaccines, therapeutics, diagnostics and protective equipment in a reduced number of countries has also contributed to unequal access," said the report.

Vaccine production was highly concentrated in a few countries, with little transparency regarding the contracts or input markets. Even some vaccines produced in Africa were shipped to countries that had already vaccinated most of their populations, evidence of financial considerations being placed before rights-based analysis and the vulnerability of unvaccinated populations in countries producing vaccines.

At the same time, of the more than 4.7 billion COVID-19 tests administered globally by early February 2022, only around 22 million (0.4%) were in low-income countries.

The Access to COVID-19 Tools Accelerator, launched in April 2020 by the World Health Organization (WHO) and partners, and its COVID-19 Vaccine Global Access (COVAX) Facility originated as global solidarity initiatives to speed up the development of vaccines, diagnostics and therapeutics, and to facilitate coordinated and equal access to them. Although the Accelerator has facilitated the research and development of COVID-19 tools and has enhanced equitable access to those, it was hindered by export bans, the prioritization of bilateral deals by manufacturers and countries, and challenges in scaling up vaccine production by some key producers.

By the end of 2021, only 92 out of 194 states had reached the achievable target of 40% vaccination of their population owing to limited supply to low-income countries for most of the year and problems such as vaccines arriving close to their expiration and without key parts such as syringes. In at least 20 countries, supply chain and distribution issues also affected rollouts. Vaccine hesitancy and misinformation also affected vaccine rollout. By mid-February 2022, 116 countries were unlikely to reach the target of 70% of their population vaccinated by mid-2022.

The report said unequal access to vaccines across and between countries contradicts states' human rights obligations, including their duty to cooperate, and undermines advancement towards the Sustainable Development Goals. The production and distribution of vaccines should be guided by international cooperation and solidarity and therefore follow global public health considerations rather than individual interests.

"Lack of consistency with the principle of equitable and fair distribution of the benefits of development, which is a core principle of the right to development, has negatively impacted COVAX from fulfilling its objective of ensuring equal access to vaccines for all, particularly those populations most in need," said the report.

"States have an obligation to take all necessary measures to the maximum of their available resources, including through international cooperation, to guarantee access for all persons to vaccines and COVID-19 treatments."

All businesses, including pharmaceutical companies, have a responsibility to respect human rights, refraining from causing or contributing to adverse impacts on the rights to life, health or development, said the report. Meeting that responsibility requires undertaking appropriate human rights due diligence to identify, prevent, mitigate and address any risk or actual human rights impacts of their activities and operations.

The report added that states have the obligation to protect people against human rights abuses by third parties, including businesses. They must take appropriate steps to prevent, investigate and punish such abuse and provide redress through effective policies, legislation, regulations and adjudication. "That obligation encompasses States' control and influence over the conduct of corporations within their territory or under their jurisdiction, including extraterritorially. States should also consider the impact of decisions regarding the pricing and distribution of vaccines with regard to discriminatory access for people in marginalized situations."

Fair distribution of vaccines in accordance with the right-to-development principles would have saved hundreds of thousands of lives and could have prevented some of the mutations that have spread rapidly around the world, said the report.

"Delayed vaccination exacerbates the impact of the COVID-19 pandemic, which may result in a lost decade for development, push an entire generation of young people into poor education and unemployment, reduce countries' resilience to new crises and increase the risks of social protests at the human rights consequences of pandemic-related measures," it added.

Green recovery

Many of the same persons, groups, peoples and countries that are disproportionately impacted by the COVID-19 pandemic have also been severely affected by the triple planetary crisis of climate change, biodiversity loss and pollution, said the report.

However, it said, rights-based environmental action has not been a sufficient focus of COVID-19 response and recovery efforts. In fact, the 2021 Production Gap Report found that G20 countries had directed almost $300 billion in new funds towards fossil fuel activities since the beginning of the pandemic. That is more than the funds directed towards clean energy and three times as much as the $100 billion in annual climate finance pledged by developed countries to support the needs of developing nations, a pledge made in 2010 that, as of 2022, has not yet been met.

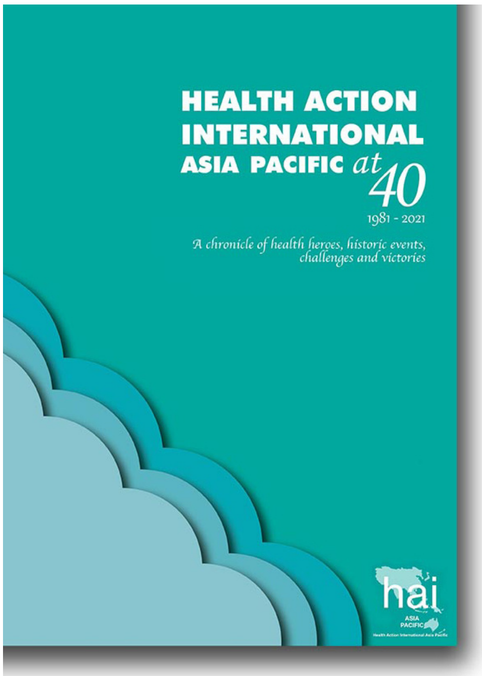
The international community must align its actions with its commitments, the report said. *(SUNS9657)*

Health Action International Asia Pacific at 40 (1981-2021)

A Chronicle of Health Heroes, Historic Events, Challenges and Victories

Prepared and edited by Beverley Snell

Published by Third World Network, Health Action International Asia Pacific, International Islamic University Malaysia, Gonoshasthaya Kendra, and Drug System Monitoring and Development Centre



This book commemorates the 40th anniversary of Health Action International Asia Pacific (HAIAP), an informal network of non-governmental organisations and individuals in the Asia-Pacific region committed to resistance and persistence in the struggle for Health for All Now.

HAIAP is the regional arm of Health Action International – upholding health as a fundamental human right and aspiring for a just and equitable society in which there is regular access to essential medicines for all who need them. HAIAP works with governments, academic institutions and NGOs at community, national and regional levels on issues such as promoting the essential medicines concept, equitable and affordable access to essential medicines, rational use of medicines, ethical promotion and fair prices. While promoting awareness of the impact of multilateral agreements, particularly TRIPS and GATT, on access to affordable healthcare and essential medicines, HAIAP advocates for poverty eradication and action on other priority themes relevant to countries in the Asia-Pacific region.

Available at https://twn.my/title2/books/HAIAP%20at%2040.htm

DG's budgetary demand raises questions on "integrity" of proposals

The WTO Director-General's recent budgetary proposals throw up concerns relating to the trade body's negotiating agenda and its operations, writes *D. Ravi Kanth*.

GENEVA: The World Trade Organization's Director-General (DG) Ngozi Okonjo-Iweala has raised a demand for increasing the WTO budget for 2023 by 15.25 million Swiss francs (CHF), ostensibly for the TRIPS Council negotiating processes on COVID-19 diagnostics and therapeutics, controversial WTO secretariat reforms based on the recommendations of consultants McKinsey & Company, as well as for pursuing non-mandated "critical emerging issues."

According to the DG, the "critical emerging issues" for further negotiations include "trade and health, supply chain disruptions, trade and climate change, and trade and women's economic empowerment."

The 49-page "WTO Mid-Term Budget Review" sent to members on 23 September, seen by the *South-North Development Monitor* (*SUNS*), contains proposals that may be inconsistent with several provisions of the Marrakesh Agreement that led to the establishment of the WTO in 1995. It raises serious questions about the underlying intentions and integrity of the DG's demand for additional funds, said people who asked not to be quoted.

COVID diagnostics and therapeutics

The DG's budget proposal on COVID diagnostics and therapeutics appears to have put paid to prospects for reaching agreement on this issue by 17 December as mandated in a decision by the WTO's 12th Ministerial Conference (MC12) in June.

Paragraph 8 of that decision states: "No later than six months from the date of this Decision [i.e., by 17 December], Members will decide on its extension to cover the production and supply of COVID-19 diagnostics and therapeutics."

Okonjo-Iweala said that a budget increase of CHF15.25 million is meant, among others, for "data and analysis on COVID therapeutics and diagnostics to support discussions related to MC12 decision. This work will require additional analytical resources."

Effectively, the DG's proposal seems to be an indication that the negotiating processes on diagnostics and therapeutics in the WTO's TRIPS Council will be guided by "additional analytical resources" instead of members negotiating based on their proposals and available evidence, said a person who asked not to be quoted.

Further, the DG appears to be echoing views by Switzerland, Japan and the US that more evidence is needed for continuing the negotiations on diagnostics and therapeutics – a demand that will certainly delay the negotiations, the person said.

Non-mandated issues

The DG justified her proposal for the additional CHF15.25 million – which would increase the WTO's overall budget for 2023 to CHF212.45 million – on several grounds that could go against the Marrakesh Agreement, said people familiar with the budget review.

Among the functions of the WTO as set out in the Marrakesh Agreement, the trade body "shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the agreements in the Annexes to this Agreement. The WTO may also provide a forum for further negotiations among its members concerning their multilateral trade relations, and a framework for the implementation of the results of such negotiations, as may be decided by the Ministerial Conference" (Article III.2).

However, the DG's budget proposal apparently intends to pursue non-mandated negotiations on digital trade, trade and health, supply chain disruptions, trade and climate change, and trade and gender, among others.

The DG said, "At our very successful MC12, Members gave us the mandate not only to implement the outcomes in the areas of fisheries subsidies, intellectual property, and food security, but also to continue negotiations in those and other areas and to explore critical emerging issues, such as trade and health, supply chain disruptions, trade and climate change, and trade and women's economic empowerment."

There appears to be no multilateral mandate yet on any of these issues and their fate is expected to be decided at the 13th Ministerial Conference. Thus, for the DG to seek funds for the negotiations on these non-mandated issues is somewhat misleading and confounding to the problems being faced by members, said an analyst who asked not to be quoted.

The DG also emphasized the need to carry out further work, including negotiations on food security. She also briefly mentioned the mandated issues such as the permanent solution for public stockholding programmes for food security, the agricultural special safeguard mechanism for developing countries, and improvements in several special and differential treatment provisions in various WTO agreements. However, she remained silent on how she intends to carry these negotiations forward, said people who asked not to be quoted.

The DG also appears to have turned a blind eye to the termination of the 1998 moratorium on customs duties on electronic transmissions. According to the MC12 decision on the moratorium, ministers agreed to "reinvigorate the work under the Work Programme on Electronic Commerce, based on the mandate as set out in WT/L/274 and particularly in line with its development dimension. We shall intensify discussions on the moratorium and instruct the General Council to hold periodic reviews based on the reports that may be submitted by relevant WTO bodies, including on scope, definition, and impact of the moratorium on customs duties on electronic transmissions. We agree to maintain the current practice of not imposing customs duties on electronic transmissions until MC13, which should ordinarily be held by 31 December 2023. Should MC13 be delayed beyond 31 March 2024, the moratorium will expire on that date unless Ministers or the General Council take a decision to extend."

The DG did not disclose how she intends to intensify the negotiations on this issue of vital importance to developing countries, which have suffered a fiscal loss to the tune of billions of dollars in lost revenue as a result of the moratorium, according to UN Conference on Trade and Development (UNCTAD) figures.

The DG said the WTO secretariat has been loaded with more work in the areas of "intellectual property, government procurement and competition, integrated work at the intersection of trade and health, especially collaborative technical assistance."

These initiatives are plurilateral initiatives which are not on the core agenda of the WTO, said a trade envoy who asked not to be quoted.

"McKinseyization" of secretariat

Without revealing what has been achieved in the reform of the WTO secretariat based on recommendations by the consulting firm McKinsey & Company, and the additional costs that this has imposed on WTO members, Okonjo-Iweala raised "the need for increased budgetary resources for 18 additional staff posts so that the secretariat can create more value and deliver desired output to members."

Recently, she selected the former chair of the Doha fisheries subsidies negotiations, Ambassador Santiago Wills of Colombia, to head the secretariat's Council Division even though he lacked the requisite 15 years of experience, said a member who asked not to be quoted. The appointment reportedly generated resentment among some industrialized countries which felt that it caused a conflict of interests, the member said.

Moreover, the DG wants to create new positions even though the secretariat is overstaffed, the member said, adding that the secretariat has apparently absorbed 30 staff members of the Appellate Body secretariat who practically do not have a lot to do. (The WTO's Appellate Body is currently inoperational due to a lack of members.)

At a time when countries are drowning in multiple crises, including food, fiscal and financial crises, it is "imprudent and highly irresponsible to ask for more resources when there is clearly no need", said a WTO delegate from a South American country.

Further, the ongoing reform of the secretariat has apparently stoked resentment among the staff members, who are being kept in the dark, the delegate said.

While stating that "building a state-of-the-art secretariat managerial capacity, including strategic planning and risk management, is necessary to improve the strategic allocation of resources and enable risk-aware decision-making", the DG seems to be worsening the overall working climate, said a staffer who asked not to be quoted.

At a recent meeting of the WTO Committee on Budget, Finance and Administration, concerns were raised by members about the implementation of the secretariat reforms. Responding to these concerns, WTO Deputy Director-General in charge of the secretariat transformation process Angela Ellard said "the focus of the transformation work is now shifting to implementing the outcomes approved so far on rewards outside promotion, procurement, risk management, promotions, mobility, recruitment, and career pathways."

The DG's Mid-Term Budget Review states that "high quality economic research, analysis, and data is necessary to facilitate work emerging from MC12, including on WTO reform." It says that "the following areas of work are particularly salient:

- Ex-ante quantification of the effect of various trade policy scenarios with the Global Trade Model (GTM) and econometric evaluation of trade policies. This type of analysis is critically important to inform Members' trade policy decisions, including on the benefits of cooperation in specific areas of work mandated by MC12. Beyond that, this analysis is needed to better understand the forces reshaping the global trade landscape in areas such as trade and climate change, subsidies, trade decoupling, trade and investment facilitation, and trade and gender. Work on the GTM requires a very specific skill set (Computable General Equilibrium modelling).

- Digital trade data and LDC services statistics to comply with the MC12 LDC services waiver. This work requires expertise in trade in services and digital trade data.

- TiVA/GVC (global value chains) indicators and analytical reports to assist Members' policymaking towards more resilient and sustainable supply chains. This effort will require staff experienced in supply chains data and analysis.

- Data and analysis on COVID therapeutics and diagnostics to support discussions related to MC12 decision. This work will require additional analytical resources.

- Transposition of Members' tariff schedules. Accelerating this work and reducing the backlog accumulated over the years requires an experienced statistician with good knowledge of the Harmonized System.

- New alternative data sources to provide real-time trade intelligence and to support research and analysis. The development and use of such sources require data scientists/engineers with solid experience in cloud computing and big data analytics."

With its somewhat grand demands, the budget review seems oblivious to the fact that the WTO is a member-driven, rules-based and intergovernmental multilateral trade body. It is the members who set the agenda and rules, not the DG, whose role is limited as per the Marrakesh Agreement, said a trade diplomat.

According to Article VI.4 of the Marrakesh Agreement: "The responsibilities of the Director-General and of the staff of the Secretariat shall be exclusively international in character. In the discharge of their duties, the Director-General and the staff of the Secretariat shall not seek or accept instructions from any government or any other authority external to the WTO. They shall refrain from any action which might adversely reflect on their position as international officials. The Members of the WTO shall respect the international character of the responsibilities of the Director-General and of the staff of the Secretariat and shall not seek to influence them in the discharge of their duties."

The moot issue is that when the DG seems to be somewhat brazenly pursuing the agenda of the major developed countries, including the controversial non-multilaterally mandated issues, it is not clear what members must do, said a trade official who preferred not to be quoted.

Even though several countries in Africa are said to oppose the DG's proposals, they are not able to say no on grounds of gender and implications for the continent's image, the trade official said.

The WTO is not a research body like the World Bank or the International Monetary Fund, and the DG's plans to confound the work based on her World Bank experience will undermine the role of the trade body, the official said.

"Organizations such as UNCTAD were set up precisely to do this, i.e., provide trade data and conduct impact analysis of trade policy," said an analyst who preferred not to be identified. "In fact, UNCTAD has a separate Division on International Trade employing more than 50 people to provide trade data and conduct trade policy impacts. It has a separate Unit on Trade and Gender as well as on Trade and Environment."

"Duplicating the work of UNCTAD may not be cost-effective at all for the WTO," the analyst added.

With regard to the budget proposal on the use of Computable General Equilibrium modelling in trade policy analysis, the analyst said that the DG, because of her long association with global trade models based on neoliberal tenets, fails to acknowledge that CGE models "have been highly criticized in the economic literature as the model is considered a 'Black Box' where the results depend heavily on the assumptions made by the modeller." *(SUNS9654)*

G90 expresses alarm over disengagement on SDT issues at WTO

Lamenting the lack of follow-up on their proposals to strengthen special dispensations for developing countries in the WTO rules, a grouping of developing countries have urged progress on this front in order to provide them the policymaking leeway to address ongoing economic challenges.

by D. Ravi Kanth

GENEVA: Amidst raging food, financial and fiscal crises as well as controversial new industrial policy initiatives in the United States and the European Union among others, the Group of 90 developing and least-developed countries have expressed grave alarm at the World Trade Organization over continued "disengagement" by the major developed countries on improving special and differential treatment (SDT) for realizing their development goals.

At a time when WTO Director-General Ngozi Okonjo-Iweala appears preoccupied with non-mandated issues, proposed improvements in SDT provisions in various WTO agreements seem to be accorded less importance, said people familiar with the development.

In an informal restricted room document issued at a meeting of the WTO Committee on Trade and Development (CTD) on 23 September, seen by the *South-North Development Monitor* (*SUNS*), the G90 members expressed their disappointment over the continued disengagement on 10 agreement-specific proposals for improving SDT provisions.

These countries said that, at a time when the gains made by most of their economies are being reversed because of the "poly crises", there has been no constructive engagement by the major industrialized countries.

The G90 countries said their "economies remain constrained in realizing equitable and meaningful gains from the 'post-pandemic' recovery and in fully integrating into the global economy." They are now forced to "contend with external shocks such as rocketing inflation, and the food and energy crises, and balance of payment challenges, among a host of threats to their economic recovery and development aspirations." The global supply chains, which are concentrated in a few industrialized countries, have exposed the vulnerabilities and compounded the problems faced by the G90 countries.

"This confluence of global economic shocks will disproportionately affect developing countries, including LDCs [least-developed countries], for decades to come," the G90 countries said.

They said "the policy flexibilities envisaged in the G90 submissions to date are critical to address the 'poly crises' in a sustainable and inclusive manner."

"In the context of the current global economic climate characterized by multiple crises that threaten to reverse even the meagre gains that some developing economies had started to register pre-Covid-19, the exercise and objective to ensure that all Special and Differential Treatment (SDT) provisions are reviewed with a view to strengthening them and making them more precise, effective and operational remains not only relevant but all the more urgent."

So far, however, the US has simply refused to engage on the G90's 10 agreement-specific proposals, while the other major industrialized countries have taken "diversionary" positions that prevent progress, said people familiar with the development.

It remains to be seen whether under the Biden administration, the US stand will change for the better, said an LDC trade official.

The G90 said that it has been "consistent in its call for mainstreaming development in the WTO by making implementable the various vague SDT provisions; and clarifying the SDT provisions that have some potential to address the real difficulties that developing countries, including LDCs, find themselves in and that continue to inhibit their access to and ability to deploy developmental policies to advance their economies."

The G90 countries asserted that "the policy space and flexibilities that the G90 seek are not foreign concepts, including to developed economies whose advances were on the back of similar policies geared towards building resilient value chains and in support of their own industrialization objectives."

They pointed to evidence that suggests "a growing use of policy tools that are deployed by especially developed countries, including the adoption of measures to promote industrial development, supply-chain resilience, among others, to address particular vulnerabilities."

Against this backdrop, "delivering on the G90 proposals will ensure a meaningful and structured response by the WTO to provide policy space [that] developing countries, including LDCs, need to respond to the crises and promote economic resilience."

The group said that "the Ministers' commitment at the Twelfth Session of the Ministerial Conference of the WTO (MC12) and an objective appreciation of the current global economic environment and its challenges provides an opportunity for WTO Members to frankly reflect on the efficacy of policy tools within WTO agreements and to ask the all-important question whether they are congruent with the commonly stated desire to ensure that '... trade be conducted with a view to raising standards of living, ensuring full employment, pursuing sustainable development of Members, and enhancing the means for doing so in a manner consistent with Members' respective needs and concerns at different levels of economic development'."

The improvements sought by the G90 in the 10 agreement-specific proposals involve:

1. Agreement on Trade-Related Investment Measures (TRIMs);
2. Article XVIII, sections A and C, of the General Agreement on Tariffs and Trade (GATT);
3. GATT Article XVIII, section B, for enabling developing countries in balance-of-payments (BoP) difficulties to take measures for their BoP problems;
4. To make operational and effective Article 9.2 and Article 10 of the Agreement on the Application of Sanitary and Phytosanitary Measures;
5. Agreement on Technical Barriers to Trade (TBT), under which developed countries are being called on to provide at least a 180-day comment period to developing and least-developed countries;
6. Specific improvements in the Agreement on Subsidies and Countervailing Measures (ASCM) to enable industrialization programmes in developing countries;
7. Agreement on Customs Valuation and decision on minimum values;
8. 1979 Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries (Enabling Clause);
9. Article 66.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) involving transfer of technology; and
10. Accessions.

Interestingly, the specific improvements sought by the G90 countries in the ASCM are meant to enable them to undertake industrialization programmes – programmes that are now being implemented by the US and the EU at a scale of hundreds of billions of dollars in a manner that may violate their commitments under this agreement, said a person who asked not to be quoted.

Moving forward

The WTO mid-term budget review recently issued by Director-General Okonjo-Iweala says that "work on development issues in the Committee on Trade and Development and its various incarnations has been steadily increasing since 2012, providing an important forum for discussion and action."

According to the document, "on special and differential treatment (SDT), negotiations in the CTD's Special Session (CTD SS) led to the establishment, at MC9 in 2013, of a new subsidiary body of the CTD – the Dedicated Session on the Monitoring Mechanism on SDT. Intense work in the CTD SS also took place in the run-up to the previous three Ministerial Conferences and can be expected to continue in the post-MC12 period on the basis of instructions given by Ministers."

Yet, the DG's priorities, according to the budget document, seem to zero in instead on non-mandated issues such as digital trade, global value chains, and trade and environment, and controversial WTO reform proposals that could lead to differentiation among developing countries in availing of SDT.

It is somewhat ironic that a DG largely supported by developing countries on considerations of gender and her African origins appears to have embraced wholeheartedly the trade agenda of the Northern countries, suggested several developing-country trade envoys who preferred not to be identified.

Based on the guidance from MC12 as provided in paragraph 2 of the MC12 outcome document, the G90 urged the industrialized countries to resume the negotiations on SDT without any delay. "With a view to translating this mandate into concrete action, the G90 calls on the CTD SS and Members to resume work and regular engagements through structured discussions in fulfillment of the commitment and expected outcomes of Ministers before MC13."

The G90 offered a roadmap to intensify the negotiations by suggesting that "at least 4 formal sessions of the CTD SS should be called by the Chairperson with a view to report to the July 2023 General Council." It also proposed that at least one of these sessions be convened before the end of 2022. *(SUNS9655)*

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Inflation phobia hastens recessions, debt crises

International economic agencies are taking a hardline stance on combating inflation despite warnings – including from within their own ranks – of its damaging effects.

by Anis Chowdhury and Jomo Kwame Sundaram

Inflation phobia among central banks (CBs) is dragging economies into recession and debt crises. Their dogmatic beliefs prevent them from doing right. Instead, they take their cues from Washington: the US Federal Reserve, the US Treasury Department and the Bretton Woods institutions (BWIs).

Both BWIs – the International Monetary Fund (IMF) and the World Bank – have recently raised the alarm about the likely dire consequences of the ensuing contractionary "race to the bottom". But their dogmas stop them from being pragmatic. Hence, their policy analyses and advice come across as incoherent, even contradictory.

Ominously, the Bank has warned, "The global economy is now in its steepest slowdown following a post-recession recovery since 1970." As "central banks across the world simultaneously hike interest rates in response to inflation, the world may be edging toward a global recession in 2023".

Warning that "increased interest rates will bite", the IMF Managing Director has urged countries to "buckle up", acknowledging anti-inflationary measures threaten recovery. "For hundreds of millions of people it will feel like a recession, even if the world economy avoids" two consecutive quarters of contracting output.

She also noted that US Fed rate hikes have strengthened the dollar, raising import costs and making it costlier to service dollar-denominated debt. But reciting the mantra, she claims that if inflation "gets under control, then we can see a foundation for growth and recovery".

This contradicts all evidence that low inflation comes at the expense of robust growth. Per capita output growth and productivity growth both fell during three decades of low inflation. Also, low inflation has not prevented financial crises.

Counting the costs

Even if growth recovers, recessions' scars remain. For example, an IMF study found, "the Great Recession of 2007-09 has left gaping wounds". Over 200 million people are unemployed worldwide, over 30 million more than in 2007.

A 2018 San Francisco Fed study assessed the Great Recession cost Americans about $70,000 each. The *Harvard Business Review* estimated, over 2008-10, it cost the US government "well over $2 trillion, more than twice the cost of the 17-year-long war in Afghanistan".

"The human and social costs are more far-reaching than the immediate temporary loss of income." Such effects are typically much greater for the most vulnerable, such as the youth and long-term unemployed.

Studies have documented its harmful impacts on well-being, particularly mental health. Recessions in Europe and North America caused over 10,000 more suicides, greater drug abuse and other self-harming behaviour. Adverse socioeconomic and health impacts are worse in developing countries with poor social protection.

Interest rate hikes during 1979-82 triggered debt crises in over 40 developing countries. The 1982 world recession "coincided with the second-lowest growth rate in developing economies over the past five decades, second only to 2020". A "decade of lost growth in many developing economies" followed.

But World Bank research shows interest rate hikes "may not be sufficient to bring global inflation back down". The Bank even warns major CBs' anti-inflationary measures may trigger "a string of financial crises in emerging market and developing economies", which "would do them lasting harm".

Developing-country governments' external debt – increasingly commercial, costing more and repayable sooner – has ballooned since the 2008-09 global financial crisis. The pandemic has caused more debt to become unsustainable as rich countries oppose meaningful relief.

No policy consensus

The Bank correctly notes, "A slowdown ... typically calls for countercyclical policy to support activity."

It acknowledges "the threat of inflation and limited fiscal space are spurring policymakers in many countries to withdraw policy support even as the global economy slows sharply".

It also suggests "policymakers could shift their focus from reducing consumption to boosting production ... to generate additional investment and improve productivity and capital allocation ... critical for growth and poverty reduction."

However, it does not offer much policy guidance besides the usual irrelevant platitudes, e.g., CBs "must communicate policy decisions clearly while safeguarding their independence".

It even blames "labour-market constraints". For decades, the Bank promoted measures to promote labour market flexibility, ostensibly to increase participation rates, reduce prices via wages, and re-employ displaced workers.

Such policies since the 1980s have accelerated declining productivity growth and real incomes for most. They have reduced labour's share of national income, increasing inequality. To make matters worse, the Bank misleadingly attributes many policy-induced economic woes to high inflation.

In May, the IMF Deputy Managing Director argued wages did not have to be suppressed to avoid inflation. She called for CB vigilance and "forceful" actions against inflation, which "will remain significantly above central bank targets for a while".

In June, an IMF policy note advised allowing "a full pass-through of higher international fuel prices to domestic users". It advised recognizing the supply-shock causes of contemporary inflation and protecting the most vulnerable.

But more alarmist Fund staff urge otherwise. In July, its "chief economist" said that "bringing [inflation] back to central bank targets should be the top priority ... Central banks that have started tightening should stay the course until inflation is tamed". Although he acknowledged that "[t]ighter monetary policy will inevitably have real economic costs", without any evidence, he insisted that "delaying it will only exacerbate the hardship".

In August, the Bank for International Settlements (BIS) head urged shifting attention from managing demand to enabling supply. He warned that central bankers had for too long assumed that supply adjusts automatically and smoothly to shifts in demand.

He warned, "Continuing to rely primarily on aggregate demand tools [i.e., the interest rate] to boost growth in this environment could increase the danger, as higher and harder-to-control inflation could result."

But the BIS "chief economist" soon urged major economies to "forge ahead with forceful" interest rate hikes despite growing threats of recession. He did not seem to care that the rate hike gamble to fight inflation may not work and its costs could be astronomical.

Inflation fearmongering

Influential economists at the US Fed, Bank of England, IMF and BIS fear "second-round" effects of mainly supply-shock inflation due to "wage-price spirals".

But Fund research acknowledged "little empirical research [on] the effects of oil price shocks on wages and factors affecting their strength". It found very low likelihood of such "pass-through" effects due to significant labour market changes, including drastic declines in unionization and collective bargaining.

It reported "almost zero pass-through for 1980-1999" and negligible effects during 2000-19, before concluding, "In a broad stroke, the pass-through has declined over time in Europe." Similar findings have been reported by others.

Reserve Bank of Australia (RBA) research found "the current episode has many differences to the 1970s, when a wage-price spiral did emerge". It concluded, "There are a number of factors that work against a wage-price spiral emerging, implying that the overall risk in most advanced economies is probably quite low."

Australian professor Ross Garnaut has suggested "the spectre of a virulent wage-price spiral comes from our memories and not current conditions". Sadly, despite all the evidence, including their own, the Fund and RBA still urge firm CB actions against inflation! *(IPS)*

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TWN Intellectual Property Rights Series No. 18

Remedies Against Excessive Pricing of Patented Medicines Under Competition Law

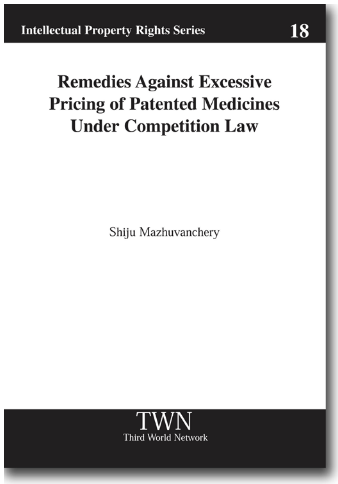
by Shiju Mazhuvanchery

Exorbitant medicine prices, especially for medicines subjected to patent protection, are increasingly coming under the spotlight. This paper considers whether and how this serious concern can be addressed within the framework of competition law.

Differing perspectives exist over the appropriateness of intervention by competition authorities in cases of excessive pricing, particularly when these involve patented products.

However, there are no legal barriers to such intervention; competition authorities can act – and have acted – against firms deemed to have charged unfairly high prices for medicines, including those under patent.

In fact, this paper contends, competition enforcement against excessive pricing of patented medicines would not only advance consumer welfare but also contribute to safeguarding the fundamental human right to health. The remedies available under competition law – such as compulsory licensing – can be



effectively applied to keep a lid on the prices of essential, potentially life-saving medicines.

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