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World economy facing protracted period of low growth

While the world economy avoided a recession in 2023, it is expected to grow at a sub-par pace in 2024 and 2025 amid high levels of debt, rising borrowing costs, persistently low investment, weak global trade, and mounting geopolitical risks, according to a United Nations flagship economic report.

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Protracted period of low growth looming large, warns report

A United Nations flagship economic report has presented a rather sombre outlook for the world economy, projecting global gross domestic product (GDP) growth to slow from an estimated 2.7 per cent in 2023 to 2.4 per cent in 2024.

by Kanaga Raja

PENANG: Global gross domestic product (GDP) growth is projected to slow from an estimated 2.7 per cent in 2023 to 2.4 per cent in 2024, against a backdrop of lingering risks and uncertainties, according to a United Nations report.

In its World Economic Situation and Prospects (WESP) 2024 report released earlier this month, the UN said while the world economy avoided the worst-case scenario of a recession in 2023, a protracted period of low growth looms large.

Presenting a rather sombre economic outlook for the near term, the UN's flagship economic report said that persistently high interest rates, further escalation of conflicts, sluggish international trade, and increasing climate disasters, pose significant challenges to global growth.

It said the prospects of a prolonged period of tighter credit conditions and higher borrowing costs present strong headwinds for a world economy saddled with debt, while in need of more investments to resuscitate growth, fight climate change and accelerate progress towards the Sustainable Development Goals (SDGs).

Economic outlook

According to the WESP 2024, the world economy proved more resilient than expected in 2023 amid significant monetary tightening and lingering policy uncertainties worldwide, even as multiple shocks arising from conflict and climate change wrought havoc on the lives and livelihoods of millions, further jeopardizing progress towards sustainable development.

It said while economic growth generally outperformed expectations, especially in several large developed and developing economies, this apparent resilience masks both short-term risks and structural vulnerabilities.

"Amid high levels of debt, rising borrowing costs, persistently low investment, weak global trade, and mounting geopolitical risks, the global economy is expected to grow at a subpar pace in 2024 and 2025."

The report said while a hard landing of the world economy seems increasingly unlikely, accelerating progress towards the Sustainable Development Goals (SDGs) during a protracted period of subdued growth will remain a daunting challenge.

It said global growth is projected to slow from an estimated 2.7 per cent in 2023 to 2.4 per cent in 2024.

Growth is forecast to improve moderately to 2.7 per cent in 2025 but will remain below the pre-pandemic trend growth rate of 3.0 per cent.

"The short-term growth prospects for most developing countries have deteriorated. Forecasts indicate that many low-income and vulnerable countries are likely to see only modest growth in the coming years, making a full recovery of pandemic losses ever more elusive."

According to the report, several macroeconomic and geopolitical risks are shaping the growth outlook for 2024.

First, it said that while global inflation is projected to moderate further, energy and food prices could surge again due to escalating conflicts and the increasing likelihood of climate shocks.

Inflation fell considerably in almost all regions in 2023, mostly thanks to lower international energy and food prices.

However, core inflation rates, excluding food and energy prices, have remained well above central bank targets in many developed and developing economies.

It said with further easing of commodity prices and softening aggregate demand, global inflation is expected to continue trending downward in 2024.

However, in almost a quarter of all developing countries – home to about 300 million people living in extreme poverty – annual inflation is forecast to exceed 10 per cent, further eroding the purchasing power of households and undermining poverty reduction efforts.

The report also said that although inflation slowed considerably in 2023, major central banks are signalling their intention to keep interest rates "higher for longer" as the demand-dampening effects of the fastest and most synchronized monetary tightening in decades are yet to materialize in many countries, including the United States.

"The prospects of a prolonged period of elevated borrowing costs and tighter credit conditions present strong headwinds for a global economy that is saddled with debt while also in need of more investment to resuscitate growth, respond to climate change and accelerate progress towards the SDGs."

Higher-for-longer interest rates will likely weigh on aggregate demand and push up default rates and may lead to a correction in asset prices, especially in the developed economies, further weakening growth momentum.

Tight global financial conditions will also impede capital flows to the developing countries or trigger capital outflows, exacerbating balance-of-payments pressures and debt sustainability risks, said the report.

Finally, the report said that global merchandise trade and global industrial production remain exceptionally weak amid cyclical and structural headwinds.

In the third quarter of 2023, the manufacturing Purchasing Managers' Index – a leading indicator of economic activity – was in contraction territory in all of the world's largest economies except India.

The report said this weakness is partly attributable to tighter financial conditions and a continued shift towards spending on services, but it also reflects heightened economic and trade policy uncertainties associated with geopolitical tensions and fragmentation.

It said that while global trade and industrial production are projected to gradually improve in 2024 and 2025, benefiting manufacturing-export-oriented economies, the recovery will be subdued by recent historical standards.

The report noted that global growth in 2023 was driven by better-than-expected performance in several countries.

Significantly, a resilient United States economy defied the expectations of a slowdown, while the recovery in China, while slightly weaker than expected, also provided support for global growth. In both countries, economic growth is projected to moderate in 2024, it said.

The economy in Europe is forecast to experience a mild recovery after sluggish performance in 2023.

Subdued growth in the world's largest economies, coupled with tight financial conditions, geopolitical tensions and narrowing fiscal space, weighs on the short-term growth prospects of many developing and transition economies, it added.

"Average growth in developing countries is projected to moderate from 4.1 per cent in 2023 to 4.0 per cent in 2024, well below the 2011-2019 average of 4.9 per cent."

The United States economy is projected to grow by 1.4 per cent in 2024, down from an estimated 2.5 per cent in 2023.

Economic growth has been fuelled by robust consumer spending on the back of continuing strength in the labour market, a robust housing market, and buoyant household balance sheets.

In China, the recovery from COVID-19-related lockdowns has been more gradual than expected amid domestic and international headwinds.

The economy turned a corner during the second half of 2023, with the growth rate reaching an estimated 5.3 per cent for the year, up from 3.0 per cent in 2022.

"A combination of property sector correction and faltering external demand – weighing on the growth of fixed asset investment, industrial production and exports – is projected to push growth down moderately to 4.7 per cent in 2024."

While consumption has been a major driver of growth, consumer confidence remains tepid.

The Government has implemented various policy measures, including reductions in policy rates and mortgage rates, and has increased public sector investments, financed with new bonds, to stimulate growth, said the report.

Meanwhile, it said Europe faces a challenging economic outlook amid sticky and elevated inflation, high interest rates and geopolitical conflicts.

In the European Union, gross domestic product (GDP) is projected to expand by 1.2 per cent in 2024, up from 0.5 per cent in 2023.

The mild recovery is expected to be driven by a pick-up in consumer spending as price pressures ease, real wages rise, and labour markets remain robust, it added.

It said that the continued impact of tight financial conditions and the withdrawal of fiscal support measures will partly offset the effects of these key drivers of growth in Europe.

The report said that in the Commonwealth of Independent States (CIS) region, economic growth in 2023 was stronger than anticipated, reflecting higher-than-expected growth in the Russian Federation, a moderate rebound in Ukraine after a deep contraction in 2022, and strong performance in the Caucasus and Central Asia.

Aggregate GDP for the CIS and Georgia expanded by an estimated 3.3 per cent in 2023 and is projected to grow moderately by 2.3 per cent in 2024, while higher inflation and the resumption of monetary policy tightening in the Russian Federation are expected to weigh on the region's growth in 2024.

Economic growth in Africa is projected to remain modest, edging up from an estimated 3.3 per cent in 2023 to 3.5 per cent in 2024 as the region is buffeted by the global economic slowdown and tighter monetary and fiscal conditions, said the report.

"Debt sustainability risks will continue to undermine growth prospects. The impacts of the climate crisis are a growing challenge for key sectors such as agriculture and tourism."

Growth in East Asia is projected to moderate from 4.9 per cent in 2023 to 4.6 per cent in 2024.

In most countries, private consumption growth remained firm, supported by easing inflationary pressure and steady recovery in the labour market.

While the recovery in services exports – particularly tourism – has been robust, a slowdown in global demand has held back merchandise exports, which constitute a major engine of growth for many economies, said the report.

In South Asia, GDP expanded by

an estimated 5.3 per cent in 2023 and is projected to grow by 5.2 per cent in 2024, driven by a strong expansion in India, which remains the fastest-growing large economy.

Growth in India is projected to reach 6.2 per cent in 2024, slightly lower than the 6.3 per cent estimated for 2023, supported by robust domestic demand and strong growth in the manufacturing and services sectors.

It said tight financial conditions and fiscal and external imbalances continue to cast a shadow over the outlook for several economies in South Asia.

In Western Asia, GDP growth is forecast to increase from an estimated 1.7 per cent in 2023 to 2.9 per cent in 2024 amid the growth recovery in Saudi Arabia and the robust expansion of non-oil sectors.

High prices of essential food imports continue to drive up inflation, which is projected to decline only gradually in 2024.

The report said the outlook in Latin America and the Caribbean is challenging. Growth is slowing, inflation is receding but remains elevated, and structural and macroeconomic policy challenges persist.

In 2023, growth was stronger than anticipated amid resilient consumption and investment, robust capital inflows, and solid external demand. Regional GDP expanded by 2.2 per cent, slightly above the 2010-2019 average of 1.7 per cent.

In 2024, regional GDP growth is projected to slow to 1.6 per cent as tighter financial conditions impact domestic demand and slower growth in the United States and China constrains exports.

In the least developed countries (LDCs), GDP is projected to grow by 5.0 per cent in 2024, up from an estimated 4.4 per cent in 2023 but still well below the 7.0 per cent growth target set in the SDGs, said the report.

Investment in the LDCs remains subdued, and volatile commodity prices - especially for metals, oil and cotton - continue to affect growth prospects, with 38 out of 46 economies being commodity dependent.

External debt service is estimated to have increased from $46 billion in 2021 to approximately $60 billion in 2023 (about 4 per cent of combined GDP for the LDCs), further squeezing fiscal space.

Small island developing States (SIDS) benefited from a strong rebound in tourism inflows in 2023 and have a largely positive outlook for 2024. Average growth is projected to accelerate from 2.3 per cent in 2023 to 3.1 per cent in 2024, said WESP 2024.

However, it said the economic prospects for SIDS remain vulnerable to the increasing impacts of climate change and to fluctuations in oil prices, which directly affect tourism flows and consumer prices.

Economic growth in landlocked developing countries (LLDCs) is projected to accelerate from an estimated 4.4 per cent in 2023 to 4.7 per cent in 2024, it added.

Low growth looms

WESP 2024 said the world economy avoided the worst-case scenario of a recession in 2023, but significant risks and uncertainties persist.

It said given the subpar growth prospects, most developing countries will fail to recoup the output lost during the pandemic and the recent global and regional shocks.

In 2023, the cumulative output losses – calculated as the sum of the annual difference between pre-pandemic projections of GDP and actual GDP – amounted to about 40 per cent of the 2019 GDP in the SIDS and about 30 per cent in the LDCs.

In comparison, the developed economies saw a cumulative loss of only about 10 per cent of the 2019 GDP.

Among the developing regions, Africa and South Asia experienced the largest cumulative output losses in 2023 as conflicts, natural disasters, and economic crises impeded full recovery in many countries in these two regions.

The report underlined that inflation remains a key policy challenge, saying that after surging for nearly two years, global inflation eased significantly in 2023 but remained above the 2010-2019 average and central bank targets.

"Global headline inflation fell from 8.1 per cent in 2022, the highest value in three decades, to 5.7 per cent in 2023," it said, adding that a further decline to 3.9 per cent in 2024 is projected as international commodity prices moderate and higher interest rates continue to weigh on global demand.

The report said that although most commodity prices declined to pre-Ukraine war levels in 2023, they remained considerably higher than before the pandemic.

It said that international food prices have been on a downward trend since mid-2022 and continued to decrease slightly during the first three quarters of 2023, while fuel prices fell below pre-Ukraine-war levels.

"Despite the recent trends, considerable inflation risks persist, adding pressure on central banks to keep monetary policy tight."

WESP 2024 said new supply shocks in global commodity markets - arising from the ongoing war in Ukraine or the conflict in the Middle East - could push up energy and grain prices, while additional export restrictions by major producers could limit supply in global markets.

Since the onset of the war in Ukraine, export restrictions on food and fertilizers have increased, it noted.

"Moreover, climate-related shocks, including heatwaves, droughts and floods, threaten to impact crops, adding pressure on food prices."

In developed countries, average headline inflation decelerated from 7.8 per cent in 2022 to 4.8 per cent in 2023 and is projected to slow further, to 2.8 per cent, in 2024, said WESP 2024.

In developing countries, average headline inflation is projected to decline from an estimated 6.9 per cent in 2023 to 5.6 per cent in 2024, while inflation rates are expected to fall in Africa, Western Asia, and Latin America and the Caribbean in 2024 but will remain well above the 2010-2019 average.

Higher food prices often exacerbate food insecurity for the poor, though the impact depends on local conditions and existing vulnerabilities, said the report.

Countries that were already grappling with food crises before the pandemic and the war in Ukraine have been hit hardest by the high food prices of the past two years, it added.

It said that rising food expenses have driven up the cost of living for households, thereby reducing real incomes -especially in developing countries, where the share of total consumer expenditure allocated to food is higher than in developed economies.

It added that higher inflation has undermined progress in poverty reduction during the post-pandemic period.

According to World Bank estimates, the combined effects of the pandemic, the war in Ukraine, and the global energy and food price shock pushed an additional 75 million to 95 million people into extreme poverty in 2022 relative to pre-pandemic baseline forecasts.

Globally, 691 million people were estimated to be living in extreme poverty in 2023 – only 13 million less than in 2022.

It said while global poverty marginally declined in 2023, progress has been highly uneven.

Average poverty rates in upper-middle-income, high-income and lower-middle-income countries moved closer to pre-pandemic levels.

In contrast, poverty rates were still well above pre-pandemic levels in low-income countries, particularly those in Africa and the Middle East.

"Without significantly faster economic growth and targeted measures for supporting livelihoods and enhancing social protection, poverty alleviation will remain elusive in many low-income countries."

The rebound in the global labour market since the pandemic has been swifter than its recovery from the global financial crisis of 2008.

In many countries, unemployment rates fell below pre-pandemic levels in 2023, it said.

However, it said labour market recoveries diverged considerably between developed and developing countries, while lower real incomes remained a challenge worldwide as nominal wage growth often lagged behind inflation.

In 2024, slowing economic growth is expected to weigh on employment prospects in many regions, it added.

The report also said investment is expected to remain subdued globally.

"Rising borrowing costs and heightened economic and geopolitical uncertainties will continue to have a negative impact on business and consumer confidence and prompt private firms to scale back their investment plans."

At the same time, high debt burdens, rising interest expenses and dwindling fiscal space are constraining public investment, it added.

"Global investment growth, measured as the annual growth in real gross fixed capital formation, is estimated to have slowed from 3.3 per cent in 2022 to only 1.9 per cent in 2023."

While mild improvement is projected for 2024, global investment growth will remain significantly below its 2011-2019 trend growth rate of 4 per cent, said the report.

The slowdown in investment growth in 2023 mainly reflected weaknesses in developed economies.

Residential investment fell significantly in most economies amid rising interest rates and construction costs.

Investment has been more resilient in developing economies than in developed economies. Investment in South Asia, particularly in India, remained strong in 2023, said the report.

The report said India is benefiting from growing interest from multinationals, which see the country as a key alternative manufacturing base in the context of developed economies' supply chain diversification strategies.

Growth in global trade was very weak in 2023. International trade in goods and services is estimated to have increased by only 0.6 per cent, far below the 5.7 per cent growth rate achieved in 2022, it added.

It said while trade growth is projected to accelerate to 2.4 per cent in 2024, driven by a recovery in merchandise trade, it will likely remain below the average pre-pandemic rate of 3.1 per cent registered for the period 2015-2019.

"The overall weakness in global trade in 2023 is mainly due to the slump in merchandise trade. The growth of trade in goods is estimated to have remained in negative territory for most of the year."

In contrast, trade in services continued to recover from the pandemic-induced downturn, with travel services driving the growth.

Slowing global demand, unresolved trade tensions between the largest trading partners, and geopolitical conflicts are affecting trade flows in the short term.

The war in Ukraine and sanctions imposed on the Russian Federation have also shaped global trade patterns, said WESP 2024.

"In the longer run, national and economic security considerations as well as geostrategic rivalries are likely to reshape global supply and value chains."

Among developed economies, some reshoring and friend-shoring of manufacturing and production facilities are starting to take place, it added.

A recent European Central Bank survey indicated that a growing number of large firms operating in the euro area intend to relocate operations within the European Union, citing nearshoring, friend-shoring and diversification as the rationale.

However, moving production away from the most efficient producer would increase costs in the near term, and there is still a higher proportion of euro area companies expecting to move production out of rather than into the European Union, said the report.

In the United States, imports from China have in recent years been partly replaced by imports from other trade partners, notably ASEAN member countries, the European Union, Mexico and Canada, it added.

The report also said that despite significant monetary tightening during 2022 and 2023, international financial conditions remained moderately benign amid rising equity prices and low volatility.

WESP 2024 said at the same time, however, long-term borrowing costs continued to increase for most of the year – reaching the highest level in over a decade in the United States and Europe – amid higher central bank policy rates, quantitative tightening, and the large borrowing needs of Governments.

"The possibility of renewed inflationary pressures and further monetary tightening in the United States and Europe could trigger a sharp repricing of risks and sudden spikes in financial volatility," it cautioned.

Policy challenges

Central banks worldwide will continue to face a delicate balancing act and difficult trade-offs in 2024 as they endeavour to manage the risks to inflation, growth and employment, and financial stability, said the report.

"Policy uncertainties – particularly those surrounding the monetary stance of the United States Federal Reserve and the European Central Bank – loom large for both the real economies and the financial markets."

Central banks in developing economies will also be confronted with increasing balance-of-payments concerns and debt sustainability risks, it added.

While a growing number of central banks are expected to shift towards monetary easing to support aggregate demand, their policy choices will largely be conditioned by actions undertaken by the Federal Reserve and the European Central Bank.

Although the main developed country central banks are likely at the peak of the tightening phase, it is unclear whether they will begin to cut interest rates in 2024, it said, adding that monetary policy stances will remain largely restrictive worldwide pending interest rate cuts by the Federal Reserve and the European Central Bank.

Given the policy challenges, the report said it remains difficult to predict the trajectories of monetary policy in the United States and Europe and determine a turning point in the global monetary cycle.

"Until inflationary pressures abate further, financing conditions are projected to remain tight in all but a small number of countries, including China."

The report further said that fiscal space is shrinking amid higher interest rates and tighter liquidity.

Countries implemented bold and timely fiscal policy measures to stimulate recovery from the pandemic crisis.

Governments also relied on fiscal policy to cope with higher food prices and food insecurity risks resulting from the war in Ukraine.

It said the sharp increases in the interest rate since the first quarter of 2022 and the tighter liquidity conditions have impacted fiscal positions worldwide, renewing concerns about fiscal deficits and debt sustainability.

"Fiscal space remains very limited in most countries, restricting the capacity of Governments to respond to new shocks, particularly in developing countries."

The report said that market expectations that interest rates in major economies will remain higher for longer than previously anticipated have led to a rise in sovereign bond yields, adding pressure on fiscal balances.

"In the medium term, subdued growth prospects, together with the need for increased investment in education, health and infrastructure, will put pressure on government budgets and exacerbate fiscal vulnerabilities."

The fiscal positions of most developing economies are fragile. In many cases, higher debt levels and borrowing costs are accompanied by subdued growth prospects and subpar domestic resource mobilization, it added.

WESP 2024 said the ongoing rise in interest payments is increasingly diverting resources away from spending on health, education, social protection, and other areas of sustainable development.

In 2022, more than 50 developing economies spent over 10 per cent of total government revenues on interest payments, and 25 countries spent more than 20 per cent, it noted.

It said that at the mid-point of the implementation of the 2030 Agenda for Sustainable Development, the world remains vulnerable to disruptive shocks, including a rapidly unfolding climate crisis and escalating geopolitical conflicts.

The urgency and imperative of achieving sustainable development underscore that stronger global cooperation is needed now more than ever, it said.

The United Nations remains at the forefront of efforts to strengthen multilateralism to support SDG progress, it emphasized.

The report said that in the context of the macroeconomic challenges identified, priority areas for international cooperation include strengthening the multilateral trading system, reforming development finance and the global financial architecture and addressing the debt sustainability challenges of low- and middle-income countries, as well as massively scaling up climate financing. *(SUNS 9926)*

Risks and challenges posed by global monetary tightening

A United Nations flagship economic report argues that as developed economies shift from quantitative easing (QE) to quantitative tightening (QT), the need for effective capital and financial account management is greater than ever for many developing countries.

by Kanaga Raja

PENANG: While inflation appears to be gradually moderating across most of the world, the aggressive monetary tightening - comprising both interest rate hikes and quantitative tightening (QT) – is creating significant policy challenges for both developed and developing economies, a United Nations report has said.

In its World Economic Situation and Prospects (WESP) 2024 report released earlier this month, the UN said for developed countries, risks of over-tightening and a recession in 2024 remain a possibility. This could complicate the policy choices for the monetary authorities.

Even without recession, a majority of developed economies will likely face weaker growth prospects in 2024 with tighter monetary conditions constraining credit growth and investment, it added.

For the developing countries, a tighter global monetary environment over a protracted period would likely restrict fiscal and monetary policy space, exacerbate debt sustainability risks, and impede much-needed investment in climate action and the pursuit of the Sustainable Development Goals (SDGs).

Presenting a rather sombre economic outlook for the near term, the UN's flagship economic report projected global gross domestic product (GDP) growth to slow from an estimated 2.7 per cent in 2023 to 2.4 per cent in 2024, against a backdrop of lingering risks and uncertainties (see separate article).

Monetary tightening

In a separate chapter in its WESP report highlighting the risks and challenges associated with global monetary tightening, the UN said the world economy has experienced rapid monetary tightening since mid-2022.

A quick turnaround from the decade-long ultra-loose monetary policy in major developed countries became unavoidable due to persistent inflationary pressures during the second half of 2021.

"Those were driven initially by a stronger-than-expected recovery in demand in the aftermath of the pandemic-induced shock in the face of prolonged supply-side constraints, and later by heightened energy and food prices caused by the war in Ukraine."

The initial surge in inflation was viewed as transitory; monetary authorities did not intervene until consumer price inflation reached about 8.5 per cent in the United States of America and nearly 9 per cent in the euro area.

The response was rapid and persistent. The United States Federal Reserve raised the federal funds rate 11 times between March 2022 and July 2023, from near zero to 5.25-5.50 per cent, to bring down inflation.

The European Central Bank ended its eight-year-long negative deposit facility rate and increased it 10 times, from -0.5 per cent in July 2022 to 4 per cent in September 2023.

WESP 2024 said that the Federal Reserve, the European Central Bank and other developed country central banks also began to reduce money supply and liquidity and started quantitative tightening (QT) by reducing the assets on their balance sheets, which had grown explosively during previous episodes of quantitative easing (QE).

"The unwinding of QE programmes that injected trillions of dollars of liquidity from the 2008 global financial crisis (GFC) onward is proving particularly challenging, especially as financial markets also grew accustomed to near-zero policy rates for more than a decade."

While some attempts were made to wind these down prior to the pandemic, monetary authorities in developed countries doubled down on QE during the pandemic – buying stocks and bonds totalling about $11 trillion – to stabilize asset prices and calm the financial markets, said the report.

It said that although economic activities came nearly to a standstill during the early pandemic period, the market capitalization of firms worldwide rose by $14 trillion between March 2020 and March 2021, marking the largest increase in financial asset prices in a single year in history.

Market capitalization of the 25 largest firms in the world increased by $5.8 trillion, while world output shrank by more than $3 trillion in the same period.

"During the pandemic, QE did stabilize financial markets, but it also pumped up asset prices to record levels, making its unwinding ever more difficult in the post-pandemic period."

Many developing country central banks also began to implement QE – albeit on a much smaller scale and with a more limited scope – during the pandemic, said WESP 2024.

"The transition from QE to QT, in tandem with the unprecedented increases in short-term rates to tame inflation, is arguably weakening economic activity in developed economies. While these countries have largely evaded a recession in 2023, the risk of a prolonged slowdown still looms," it cautioned.

The full impact of monetary tightening is yet to materialize, given the long and variable lag in monetary policy transmission to the real economy, which can range from 4 to 29 months, the report noted.

Other policy actions, such as fiscal adjustments, debt management and foreign exchange interactions, can interact with monetary tightening to expedite or delay transmission to the real economy, it said.

The pivot to QT – especially during a period of already high policy interest rates – is also posing additional risks and challenges for developing countries, many of which are yet to fully recover from the pandemic.

"Tighter global financial conditions are increasing borrowing costs, triggering capital outflows, depreciating exchange rates, reducing access to international capital markets, and exacerbating debt sustainability risks, even as economic slowdowns in export markets are already threatening economic growth."

At the same time, past experiences indicate that unanticipated adverse impacts – due to stresses in financial systems, for example – can also be significant.

These are particularly concerning at a time when developing economies need additional external financing to stimulate investment and growth, address climate risks and accelerate progress towards the SDGs, said the report.

The lag effects of monetary tightening, however, present an opportunity for many developing countries to undertake pre-emptive measures – such as improving capital account management and strengthening macro-prudential regulations – to minimize the adverse effects of monetary tightening, it added.

Spillover effects of QE

WESP 2024 undertook a comprehensive review of QE programmes and their international spillover effects, as well as the challenges posed by the transition from QE to QT.

Central banks have typically relied on conventional monetary policy tools – including a policy interest rate – to stimulate or dampen aggregate demand in the economy, it said.

However, changing the policy rate has little effect on real economic activities when an economy is confronted with a systemic financial crisis, market liquidity drying up, and default risks threatening significant portions of the economy, as witnessed during the GFC in 2008.

It said central banks also face a natural constraint – the so-called zero lower bound – in using policy rates to stimulate the economy.

"While a negative policy rate is possible and has been observed in practice, it is not usually desirable to a central bank, as negative interest rates can reduce the net interest margins of banks, encourage cash hoarding, impair credit channels, and discourage investment."

When facing the zero lower bound, central banks can turn to alternative and unconventional tools to provide liquidity, restore confidence and stimulate the economy, said the report.

One such tool – known as QE – involves central banks buying assets from the financial sector, particularly asset-backed securities and government bonds, to inject liquidity into the banking system.

In 2001, the Bank of Japan became the first central bank to implement QE when it purchased government bonds and other financial assets to inject liquidity after it had lowered its policy rate to zero in response to a prolonged period of economic stagnation and deflation.

In September 2008, the United States federal funds rate was already relatively low at 2 per cent, having been steadily reduced over the previous year to mitigate the effects of a collapsing real estate bubble.

At this time, Lehman Brothers – one of the largest investment banks – failed to roll over its debt and collapsed.

As a financial crisis became all but inevitable, the Federal Reserve slashed the policy rate to zero and rolled out quantitative easing to provide liquidity to the financial sector and restore the balance sheets of the too-big-to-fail banks, said WESP 2024.

"Many of these banks held trillions of dollars of mortgage-backed securities (MBS) that lost value as the crisis unravelled. The write-off of these assets would have depleted their regulatory capital, wiped out liquidity, and triggered widespread panic and bank runs."

The Federal Reserve recognized that lowering policy interest rates, though necessary, would not alone solve the balance sheet challenges faced by the banks that held these securities.

With rising risk aversion, market liquidity froze, and there were no buyers for these securities that were rapidly losing value.

The report said the sharply falling MBS prices pushed up long-term interest rates. The Federal Reserve began buying these MBS – securities that no market participant wanted to buy and hold – to clean up the balance sheets of the banks and reduce long-term interest rates.

As the financial contagion spread, other developed country central banks - notably the European Central Bank and the Bank of England – followed the lead of the Federal Reserve and moved forward with QE to support their financial sectors during the crisis.

Even after the GFC had subsided and the immediate objective of financial stabilization had been achieved, QE remained the dominant monetary policy tool for developed country central banks, the report noted.

Between September 2008 and December 2019, the combined balance sheet of the four major developed country central banks expanded from $3.4 trillion to $14 trillion.

The ultra-loose monetary policy – a combination of low interest rates and high liquidity – became the new normal in developed economies, making the unwinding of QE difficult.

The central banks became not only the lender of last resort, but also the main source of liquidity for the financial market, said the report.

Developed country central banks implemented QE to pursue two major objectives – to restore financial stability and to boost investment and economic growth by lowering long-term borrowing costs, it added.

It said that QE interacted with the real economy through multiple channels.

First, it increased money supply and liquidity with a view to easing financial market stress and preventing liquidity shortages, particularly during the immediate crisis phase.

Second, by lowering long-term interest rates, QE changed the relative prices of financial assets and encouraged investors to re-balance their portfolios and hold long-term assets.

Third, QE signalled the central banks' commitment to stabilizing financial markets and supporting the real economy.

With the swapping of bank reserves for financial assets on bank balance sheets, QE injected liquidity, made it easier to meet regulatory capital requirements, and strengthened the ability of banks to resume lending activities.

However, the report said while QE prevented a prolonged financial crisis and supported aggregate demand at crisis onset, its long-term impact on investment and growth is less clear.

The continued use of QE in the decade following the GFC had a limited impact (if any) on additional investment.

For example, it said in the United States, gross fixed capital formation in 2013 remained below 2006 levels in constant dollar terms despite three rounds of QE during the period 2009-2012.

One major reason is that while the acquisition of assets by central banks increased deposits and money supply, it did not necessarily accelerate credit creation.

Although the monetary base grew sharply, broad money grew at a much slower pace, as commercial banks placed an increasing share of deposits as excess reserves on the balance sheets of the central banks.

Total excess reserves held in the Federal Reserve increased from $760 billion in December 2008 to $3.2 trillion in 2020.

Before the GFC, excess reserves in the Federal Reserve were near zero. A similar trend is observed for the total excess reserves held in the European Central Bank.

"The QE-induced excess liquidity did not increase credit growth, as most of the excess liquidity was turned into excess reserves."

Many banks preferred to retain their resources in their reserve accounts at the central bank rather than lending them out with a low margin to fragile businesses during uncertain economic time, said the report.

The introduction of the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States and the accelerated implementation of the Basel III reforms after the GFC also constrained credit growth, as banks faced the challenges of meeting the new regulatory capital requirements.

"Additionally, while small firms continued to face liquidity and credit constraints, big firms often used bank credits to purchase their own shares rather than make new investments. This boosted their stock prices but not necessarily their investments."

Against this backdrop, major developed economies experienced a slowdown in capital formation growth after the GFC, as well as weakening or stagnating productivity growth, said WESP 2024.

While QE largely eased financial stress during the crisis phase, its continued use for an extended period led to the build-up of new financial risks, it added.

It said the search for higher yields in a period of prolonged low interest rates may have steered investors towards unsafe and less liquid high-yield securities, leading to a deterioration in the quality of their asset portfolios and, where institutional players were involved, increased systemic risk.

With term premia being compressed, standard sources of bank profitability would have also come under pressure.

The QE-supported ultra-low interest rate environment was also associated with expanded borrowing by both the public and private sectors.

Public debt in the developed economies rose sharply after the Federal Reserve began to implement QE at the end of 2008.

For example, the report said that public debt in the United States increased from 62.7 per cent of GDP in 2007 to 105.9 per cent in 2019 and rose further, to 126 per cent of GDP, in 2020. Private debt also increased in tandem.

The ongoing monetary tightening and the unwinding of QE pose significant risks for the elevated levels of public and private debt, as rising interest rates and tighter liquidity conditions will inevitably increase debt-servicing costs and amplify financial distress and defaults, it cautioned.

The net interest payment of the United States Government, for example, increased by 35 per cent between 2021 and 2022 against the backdrop of higher levels of public debt and rising interest rates.

The average interest rate on public debt in the United States increased from 1.6 per cent in 2021 to 2.1 per cent in 2022.

Ultra-loose monetary policies in developed countries affected developing countries through multiple channels, said WESP 2024.

The policy decisions of the Federal Reserve, in particular, had significant international spillover effects, given the dominant role of the United States dollar as the reserve currency in the global financial and trading systems.

"In a world of increasingly integrated financial markets, QE boosted global liquidity (financial channel) and reduced borrowing costs, tending to increase external debts for both public and private sectors in a majority of developing countries."

Moreover, as QE reduced long-term bond yields in developed countries, investors looked for higher risk-adjusted returns and purchased assets in developing countries, which in turn lowered yields in developing countries and pushed up asset prices (portfolio re-balancing channel).

The report said that it is also the case that QE affected the exchange rates in developing countries, especially those with fully convertible currencies, often leading to exchange rate appreciation and reductions in export competitiveness (exchange rate channel).

On balance, while QE increased capital inflows and eased credit constraints in developing economies, continued and pro-cyclical capital inflows in the ensuing years overheated many of these economies, boosted consumption, increased inflationary pressures, and led to exchange rate appreciation, it added.

Moreover, it said that large fluctuations in capital flows into developing countries exacerbated financial risks.

"In the aftermath of the global financial crisis, Governments and public- and private-sector entities in developing countries joined the bandwagon of borrowing from the international capital market, hoping to take advantage of the ultra-low interest rates."

During the period 2010-2019, the total external debt stock of developing countries increased by $3.8 trillion – growing at a rate much higher than that reflected in the increase of $628 billion between 1998 and 2007.

The total debt of Governments, financial corporations and non-financial corporations increased from less than $5 trillion before the financial crisis to more than $23 trillion in 2019.

While most of the outstanding debts of developing countries were issued in their domestic markets, those issued in the international markets more than quadrupled in the decade after the GFC, said the report.

It also said QE did not reduce the borrowing costs for all developing countries. Recurrent shocks impaired the ability of some to repay debt. Some countries continued to pay high and rising risk premia during QE, in part due to limited and shrinking opportunities (relative to their needs) to borrow on concessional terms from multilateral development banks.

Excessive borrowing in developing countries did not lead to higher levels of investment. It supported domestic consumption in these countries, often leading to a higher volume of imports and worsening trade balances, the report added.

"Deteriorating trade balances would have led to the depreciation of exchange rates and would have boosted exports from developing countries.

However, large QE-induced capital flows prevented such adjustments and kept the exchange rates overvalued, which also adversely affected their balance of payments."

The report said while domestic consumption remained strong in many developing countries, investment remained weak.

The annual growth rate of gross capital formation fell from 16.7 per cent during the period 2000-2007 to 4.6 per cent during the period 2011-2019.

Fixed investments declined in absolute terms in many developing countries, it added.

Transition from QE to QT

Sustained inflation since 2021 necessitated a reversal of accommodative monetary policy, but the timing and pace of QT remained hard to determine, said the report.

It said the first attempt at implementing QT took place in 2013 as the Federal Reserve indicated that it would reduce its bond purchases. This triggered the taper tantrum, with sharp drops in equity and government bond prices.

Within about a month, the Standard and Poor's (S&P) 500 stock price index dropped by over 5 per cent, while the yield on 10-year United States government bonds shot up by over 50 basis points.

The impact was also quickly felt by developing countries, in particular those with larger external financing needs and macroeconomic imbalances, such as Brazil, India, Indonesia, Turkiye and South Africa.

On average, the sovereign bond yields in these countries rose by 2.5 percentage points, equity markets fell by 13.8 per cent, exchange rates depreciated by 13.5 per cent, and reserves declined by 4.1 per cent between May and August 2013.

The major developed country central banks, with the exception of the Bank of Japan, have started quantitative tightening and there are some commonalities in their QT approaches, said the report.

It said all of these central banks signalled the start of QT and announced their QT plans months in advance.

In their announcements, the central banks emphasized that QT would be predictable, gradual and orderly, and they would maintain discretion over adjusting their QT plans based on financial and economic conditions.

"In the aftermath of the GFC, central banks were confronted with weak demand and the rising risk of financial instability. That is not the case for 2023 or 2024."

Given the current high but moderating inflationary environment, central banks are facing a difficult balancing act between taming inflation, supporting growth, and ensuring financial stability, said WESP 2024.

It said while maintaining price stability and supporting economic growth remain a priority for the central banks, financial dominance – when monetary policy is constrained due to concerns about financial stability – will likely determine the pace and intensity of monetary tightening, including QT operations.

Financial instability risks have hindered QT implementation over the past two years. The collapse of the Silicon Valley Bank in the United States in March 2023, for instance, exposed significant duration risks in the financial sector.

The report said that rising short-term rates are reducing the price of long-term bonds held by banks and other investors.

This is leading to balance sheet losses and triggering financial stress, especially when financial intermediaries are forced to sell their long-term bond holdings to minimize losses.

Another risk that developed country central banks face in tightening their monetary policy stance relates to the effectiveness of the policy.

In the United States, for example, the central bank raised policy rates from near zero to 5.5-5.75 per cent in a little over a year.

While the increase in the policy rate managed to bring down inflation, it did not reduce personal consumption expenditure or increase household savings. The household savings rate actually fell with the rising interest rate.

This suggests that the recent bout of high inflation in the developed countries was largely caused by supply-side factors, including supply chain disruptions during the pandemic and the war in Ukraine, said WESP 2024.

"Monetary policy tools – especially policy rate increases – may not constitute the most effective approach to addressing supply-side shocks that have divergent economic impacts within a relative short period of time due to lag effects."

The report also said that quantitative tightening is posing significant challenges to developing economies.

"Synchronized monetary tightening – including interest rate hikes and QT – in the major developed countries is expected to reduce global liquidity and increase global risk aversion, leading to capital outflows, currency depreciations, increased risk premia, widening sovereign spread, and heightened debt sustainability risks."

The 2013 taper tantrum offers some valuable lessons, though economic conditions in developing countries today are very different from what they were a decade ago, said the report.

On 22 May 2013, the initial hints of tapering by former Federal Reserve Chairman Ben Bernanke surprised market participants.

WESP 2024 said the changes in policy expectations reduced their tolerance for risk and triggered a reassessment of the risk-adjusted returns from investments in developing countries.

With the abrupt rise in global long-term interest rates, many developing countries experienced a sharp withdrawal of private capital inflows, totalling about $60 billion in the third quarter of 2013.

It said monetary tightening significantly exacerbated global financial conditions in 2022 and 2023, increasing borrowing costs for developing countries.

For instance, it said the yield of Brazil 10-year Treasury bonds increased from just below 11 per cent in January 2022 to 13.7 per cent in June 2022, while the yield of Kenya 10-year government bonds rose from 12.9 per cent in January 2022 to over 16 per cent in October 2023.

Tightened financial conditions also widened credit spreads in many developing countries, particularly in Africa and Latin America.

In the six months after the Federal Reserve stopped QE in March 2022, emerging market currencies collectively depreciated by about 9 per cent against the United States dollar.

The currencies of a few developing countries – including Argentina, Venezuela, Colombia, Egypt, Ghana, Lao People's Democratic Republic, Malawi, Pakistan, South Africa and Turkiye – depreciated by over 20 per cent.

Rising interest rate spreads and currency depreciations have also exacerbated debt sustainability risks for many developing countries.

Countries that have yet to fully recover from the pandemic crisis – including many LDCs – are particularly vulnerable to debt default risks, said WESP 2024.

It said that while fiscal revenue in developing countries stagnated or even shrank, their debt-servicing burden as a percentage of government revenue continued to rise during the post-pandemic period.

Higher interest rates in developed countries will continue to increase the debt-servicing burden of developing countries particularly those with high levels of dollar- or euro-dominated public debt.

The LDCs are especially vulnerable; as at August 2023, 36 of the 69 countries covered by the Debt Sustainability Framework for Low-Income Countries – including 23 LDCs – were in debt distress or at high risk of experiencing debt distress.

Developing country central banks face the additional challenge of shrinking policy space for discretionary policy adjustments when their developed country counterparts implement rapid monetary tightening, said the report.

It said that slowing economic activities, tightening global financial conditions, deteriorating external balances, falling international reserves, and the risk of sudden capital outflows often constrain the ability of central banks in developing economies to implement growth-enhancing or growth-stabilizing monetary policy.

"Developing countries are exposed to the risks and uncertainties of global monetary policy cycles. While they embraced capital account and financial market liberalization following the Washington Consensus, many did not put in place the regulatory frameworks and macro and prudential measures necessary to protect their economies against volatile capital flows."

As developed economies shift from QE to QT, the need for effective capital and financial account management is greater than ever for many developing countries, said WESP 2024.

In the current global monetary tightening environment, developing countries can consider a range of available policy options to minimize the impact of external shocks, it added.

Developing countries need to maintain strong economic fundamentals to minimize their vulnerability to external shocks.

Strengthening economic fundamentals typically involves a broad range of reforms, including scaling up investments in human capital, upgrading the quality of institutions, improving financial institutions and markets, and addressing climate risks.

Least developed and resource-rich countries also need to diversify their economies to broaden their sources of revenue, create jobs, and enhance resilience, it added.

The report said research shows that pre-emptive and precautionary deployment of these policies in developing countries could create buffers, insulating them from the adverse spillover effects of monetary policy shifts in the developed economies. *(SUNS 9928)*

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Global unemployment rate set to increase in 2024, says ILO

The International Labour Organization (ILO) has forecast global unemployment to rise by 2 million, pushing the global unemployment rate from 5.1 per cent in 2023 to 5.2 per cent in 2024.

by Kanaga Raja

PENANG: While both the unemployment rate and the jobs gap have fallen below pre-pandemic values on the back of strong jobs growth, the labour market outlook and global unemployment are projected to worsen in 2024, according to the International Labour Organization (ILO).

In its World Employment and Social Outlook – Trends 2024, the ILO said the global unemployment rate in 2023 was 5.1 per cent, a modest improvement on 2022.

The global jobs gap also saw improvements in 2023, but, at close to 435 million, remained elevated, it added.

"Although the imbalances eased somewhat in 2023, concerns are rising that these labour market imbalances are structural, rather than cyclical, in nature," said the ILO.

In the near future, the labour market outlook is set to deteriorate, albeit only moderately. Global unemployment rates will notch up slightly over the forecast horizon, primarily because of increased joblessness in advanced economies, it added.

Unemployment is expected to rise modestly in 2024: as labour force participation rates decline and employment growth slows, global unemployment will rise by 2 million, pushing the global unemployment rate from 5.1 per cent in 2023 to 5.2 per cent in 2024, said the report.

"This report looks behind the headline labour market figures and what it reveals must give great cause for concern. It is starting to look as if these imbalances are not simply part of pandemic recovery but structural," said ILO Director-General, Gilbert F. Houngbo.

"The workforce challenges it detects pose a threat to both individual livelihoods and businesses and it is essential that we tackle them effectively and fast. Falling living standards and weak productivity combined with persistent inflation create the conditions for greater inequality and undermine efforts to achieve social justice. And without greater social justice we will never have a sustainable recovery," he added.

Labour market in 2023

According to the ILO report, the macroeconomic environment deteriorated significantly over 2023. Ongoing geopolitical tensions as well as persistent and broadening inflation triggered frequent and aggressive moves by central banks.

Monetary authorities in advanced and emerging economies implemented the fastest increase in interest rates since the 1980s, with significant global repercussions, it said.

Large emerging economies such as China, Turkiye and Brazil slowed down considerably, causing adverse impact on global industrial activity, investment and trade, while growth in advanced economies was nearly halved.

"Given the significant and highly persistent deviation of inflation from targets, central banks are expected to maintain a tight stance on monetary conditions, at least until the end of 2024."

Consequently, the post-pandemic economic and social recovery remains incomplete and new vulnerabilities are eroding progress in social justice, said the report.

On account of stronger than anticipated economic growth in 2023, total labour force participation rates moved above their long-term linear trend, it added.

"Possibly buoyed by a stronger than anticipated job market, participation rates increased in several regions in 2023, notably in high-income countries (by 0.3 percentage points) and lower-middle-income countries (by 1.5 percentage points). In low-income and upper-middle-income countries labour force participation rates fell (by 0.1 and 0.3 percentage points, respectively)."

More fundamentally, although labour market participation is above trend, a number of important deviations have occurred that are masked when aggregate figures are examined, said the report.

For instance, it said that women, youth and migrants – particularly hard hit by the pandemic – continue to have comparably low participation rates.

The report said the downward trajectory in unemployment rates was maintained in 2023. Unemployment rates fell globally by 0.2 percentage points in 2023 to 5.1 per cent, with declines across most country groups except low-income countries, where rates ticked up, and high-income countries, where unemployment remained stable.

"Moreover, except in low-income countries, the unemployment rates in 2023 were consistently below the pre-pandemic levels of 2019."

It said the jobs gap – which is the number of persons without employment who are interested in finding a job – has improved in recent years, but in 2023 stood at nearly 435 million.

"Since the height of the pandemic in 2020, the jobs gap has continued to trend downwards and is now below its 2019 pre-pandemic level."

Globally, the jobs gap is expected to have numbered 434.8 million persons in 2023, equating to a jobs gap rate of 11.1 per cent, marking a 5.6 million decrease in the size of the jobs gap from 2022, said the report.

Among women the jobs gap is expected to have been 220.7 million in 2023, and among men 214.1 million.

The jobs gap rate for women in 2023 was 13.7 per cent, versus 9.3 per cent for men.

Across all country income groups the jobs gap of women is higher than that of men, but the gender differences are most pronounced in low-income and lower-middle-income countries, where the jobs gap of women surpasses that of men by nearly 7 percentage points, said the ILO.

In upper-middle-income and high-income countries in 2023, the jobs gap rate for women was higher than that of men by 3.0 and 2.3 percentage points, respectively.

It said in all country income groups, the jobs gap rate has declined since 2020, the most pronounced decline (3.0 percentage points) having occurred in high-income countries.

The report said that employment growth remained positive across all income groups in the face of economic headwinds.

In 2023, the drop in unemployment rates was a consequence of employment growing faster than labour market participation. Nevertheless, since 2021, global employment growth has by and large decelerated, it added.

In 2023, employment growth, while remaining positive, fell across most income groups (the exception being lower-middle-income countries).

At the global level, employment grew 2.2 per cent in 2023, compared with 2.8 per cent the previous year, said the report.

"The deceleration of employment growth was particularly pronounced in upper-middle-income and high-income countries."

Although total employment growth decelerated in 2023, female employment growth topped or equalled that of males across income groups.

Despite a deceleration in job growth, notably in high-income countries, labour market and skills imbalances have persisted across several countries and sectors, it added.

The report also said that mean hours worked have yet to recover fully from the pandemic. Against the backdrop of positive employment growth, at the global level, mean hours worked per week per person employed reached approximately 42.

It said that although in some instances – low-income and upper-middle-income countries – they are approaching 2019 levels, mean hours worked remain consistently below their pre-pandemic levels, a circumstance that may adversely affect overall labour supply, especially so among lower-middle-income countries.

Despite low unemployment and positive employment growth, in countries with available data, real wages have been declining, it added.

"The vast majority of G20 countries with available wage data saw real wages fall in 2023, meaning that wage increases were unable to keep pace with inflation."

Only China, the Russian Federation and Mexico enjoyed positive real wage growth in 2023.

The strongest wages gains were in China and the Russian Federation, where labour productivity growth was among the highest in G20 countries in 2023.

Looking ahead

The economic slowdown is expected to finally catch up with job creation in 2024. Some of 2023's labour market resilience may have resulted from the fact that employment is typically a lagging indicator, so weaknesses in job creation are more likely to unfold some time after economic growth slows, said the report.

Thus, globally, employment growth is expected to remain positive in 2024, but at rates of only 0.8 per cent in 2024 and 1.1 per cent in 2025 (less than half the employment growth of 2023).

The situation is particularly concerning in high-income countries, where employment growth is expected to turn negative in 2024 and only modest improvements are anticipated in 2025, it added.

Similarly, little gain in employment is anticipated among upper-middle-income countries over the next two years.

In contrast, it said jobs gains in low-income and lower-middle-income countries will remain robust.

Unlike in 2023, when female employment growth outpaced that of men, in 2024, employment growth among women is expected to be lower than among men, it added.

"Despite modest increases in 2023, participation rates are set to decline in the coming years. Recent increases in labour market participation rates are likely to have been buoyed by a stronger than anticipated job market."

However, the report said in 2024 and 2025, participation rates are expected to decline across all income groups (except low-income countries, where they are set to remain stable in 2024 but then decline the following year) and for both men and women.

The anticipated fall in participation rates is more pronounced among women, for whom between 2023 and 2025 it is expected to fall 0.7 percentage points globally, compared with 0.1 percentage points among men.

Unemployment is expected to rise modestly. Projections show that unemployment rates are set to remain broadly stable over the next two years, said the report.

It said as labour force participation rates decline and employment growth slows, the global unemployment rate is expected to remain near current levels, edging up from 5.1 per cent in 2023 to 5.2 per cent in 2024 and remaining unchanged in 2025.

This upward tick is primarily a result of the rising unemployment rates expected among high-income countries (an increase of 0.2 percentage points from 2023 levels to reach 4.7 per cent in 2024), it added.

"A modest up-tick in unemployment is expected to disproportionately affect men. The unemployment rate of women is set to remain stable at 5.3 per cent through the forecast period, whereas that of men is expected to rise modestly in 2024 (by 0.1 percentage points) and then decline by the same magnitude in 2025."

The report said global unemployment is projected to increase in 2024 by around 2 million.

The modest increase in the unemployment rate will translate into an increase in global unemployment of 2 million in 2024, rising to 190.8 million from 188.6 million in 2023, it explained.

"The outlook for unemployment in 2024 is broadly consistent across income groups, each country group being expected to see an increase in unemployment. The increase is expected to be highest (1 million in total) in high-income countries."

Decent work deficits

In some other findings, the report said that the decline in unemployment rates obscures a significant lack of decent employment opportunities.

It said globally, the jobs gap stood at nearly 435 million in 2023, representing a jobs gap rate of 11.1 per cent.

"Moreover, many individuals in employment are confronted with several barriers to decent work, including declining real wages, elevated levels of informal employment and deteriorating working conditions."

In other instances, barriers to labour market participation persist, notably for women, and for youth, who also continue to be confronted with higher levels of unemployment.

Together, these factors are undermining long-run progress to improving decent work and social justice, it added.

Gender gaps in participation rates will persist. Over the forecast period, both male and female participation rates are expected to decline, the report further said.

"Since the decline among women is anticipated to be more pronounced than that among men, the gender gap in participation rates will rise modestly."

In 2025, the global participation rates of men will exceed those of women by 25 percentage points (the gap will be noticeably elevated, at 38 percentage points, in lower-middle income countries).

It also said that youth unemployment rates are nearly 3.5 times higher than those of adults.

Globally, in 2023, the youth unemployment rate, 13.3 per cent, far exceeded that of adults, at 3.9 per cent.

It said the general pattern of higher youth unemployment holds across all country income groups.

Upper-middle-income countries had the highest youth unemployment rate, 15.5 per cent, in 2023.

The ILO further said informal employment is beginning to decline again but remains elevated.

Since the global financial crisis, informality had been trending downwards for both men and women.

After the onset of the pandemic, informal employment experienced a modest up-tick, but in 2024 it is expected to resume declining, it added.

"However, as the working population grows, the number of informal workers continues to rise. Since 2019, the number of informal workers has risen by more than 120 million, bringing the total to over 2 billion in 2023 – its highest level in two decades."

This scale of informal work raises concerns about overall job quality, since many of these workers lack adequate social and legal protection, said the report. *(SUNS 9925)*

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Chair issues consolidated fisheries text for final push towards MC13

The chair of the Doha fisheries subsidies negotiations at the World Trade Organization has issued a draft consolidated text aimed at a "final push" to conclude negotiations on disciplines on subsidies contributing to overcapacity and overfishing before the WTO's 13th ministerial conference (MC13) gets underway in Abu Dhabi on 26 February 2024.

by D. Ravi Kanth

GENEVA: The chair of the Doha fisheries subsidies negotiations, Ambassador Einar Gunnarsson of Iceland, on 21 December issued a draft consolidated text as the "new basis" of the "final push" for concluding the negotiations on disciplines on subsidies contributing to overcapacity and overfishing (OCOF) that are responsible for the global depletion of fish stocks, before the upcoming WTO's 13th ministerial conference (MC13) that begins in Abu Dhabi on 26 February 2024, said people familiar with the development.

In his email sent to members on 21 December, the chair said he hopes the two documents – TN/RL/W/277 and the associated addendum in TN/RL/W/277/Add.1 – could get members "closer to convergence – specifically, whether it reflects approaches that Members can live with, versus their ideal."

The fate of the chair's two documents, seen by the SUNS, will become clear during the "intensive continuous negotiations from 15 January through 9 February."

The result from this intensive phase of negotiations will be known before the chair of the WTO's General Council sends her final report to the trade ministers on 14 February.

In his draft text (TN/RL/W/277), the chair suggested the following concerning subsidies that contribute to overcapacity and overfishing:

"No Member shall grant or maintain subsidies to fishing or fishing-related activities that contribute to overcapacity or overfishing. For the purpose of this paragraph, subsidies that contribute to overcapacity or overfishing include:

(a) subsidies to construction, acquisition, modernisation, renovation or up grading of vessels;
(b) subsidies to the purchase of machines and equipment for vessels (including fishing gear and engine, fish-processing machinery, fish-finding technology , refrigerators, or machinery for sorting or cleaning fish);
(c) subsidies to the purchase/costs of fuel, ice, or bait;
(d) subsidies to costs of personnel, social charges, or insurance;
(e) income support of vessels or operators or the workers they employ [except for such subsidies implemented for subsistence purposes during seasonal closures];
(f) price support of fish caught;
(g) subsidies to at-sea support; and
(h) subsidies covering operating losses of vessels or fishing or fishing related activities.

Before granting a subsidy, a Member shall consider the consequence of the subsidy on overcapacity and overfishing."

The chair clarified in a footnote that the above disciplines do not "apply to subsidies to the extent they regard stocks that are overfished."

The OCOF subsidies, as they are referred to in the negotiating lingo, are allegedly provided mainly by the five largest subsidizers including the European Union, the United States, China, Japan, and Korea.

The draft text goes on to seemingly give leeway to the 20 largest providers of fisheries subsidies to continue with the above subsidies provided they demonstrate "that measures are implemented that can reasonably be expected to ensure that the stock or stocks in the relevant fishery or fisheries are at a biologically sustainable level."

During the negotiations, several members questioned the carveouts being given to the big subsidizers, saying that though there are strong notification and transparency provisions, they may not guarantee that stocks are being maintained at "a biologically sustainable level."

In the addendum to the draft text, the chair clarified that "the core discipline continues to be based on the "hybrid approach" combining a statement of the prohibition and a list of presumptively prohibited fisheries subsidies, with a qualification to the prohibition based on sustainability elements."

The chair said, "in general terms, under the hybrid approach, the subsidies and sustainability measures would be the subject of a demonstration that sustainability measures were in place for the fish stocks in respect of which the subsidies were provided."

The demonstration process "would begin with notifications to the Committee on Fisheries Subsidies."

Several members from the Africa Group and the ACP (African, Caribbean and Pacific) group of countries challenged the sustainability criterion on grounds that the big subsidizers are being let off the hook despite causing massive harm to global fish stocks through their OCOF subsidies.

The draft text seems to have retained the provision relating to access agreements to fish in other territories, which are allegedly the mainstay of the European Union's fishing policies.

Several members said that such access agreements would constitute a subsidy that has to be subjected to strong disciplines, said a person.

The chair also proposed language on distant-water fishing, which seems to be targeted against China.

According to the draft text, "No Member shall grant or maintain subsidies contingent upon, or tied to, actual or anticipated fishing or fishing related activities in areas beyond the subsidizing Member's jurisdiction (whether solely or as one of several other conditions)."

In the addendum, the chair said that "this provision is a standalone discipline, and its drafting remains unchanged from the counterpart provision of RD/TN/RL/1 74 except for an additional footnote,

footnote 6. The purpose of this footnote is to address a concern of some Members that their subsidies could be prohibited solely because the maritime zones under their jurisdiction do not have a definitively determined EEZ."

S&DT

The developing countries have repeatedly raised concerns about the proposed weak language on special and differential treatment (S&DT) provisions, even though they did not historically provide massive OCOF subsidies that caused the global depletion of fish stocks.

Against this backdrop, the chair proposed the following provisions on S&DT that do not seem to provide equity like the carveouts being given to the big subsidizers contributing to OCOF, said a developing country trade official, who asked not to be quoted.

According to the latest draft text, the S&DT provisions under the heading of Article B include:

B.1 The prohibition under Article A.1 shall not apply to LDC Members. A graduated LDC Member may grant or maintain the subsidies referred to in Article A.1 to fishing and fishing related activities within its Exclusive Economic Zone (EEZ) and in the area and for species under the competence of an RFMO/A through which the Member has fishing rights, for a maximum of [X] years after the entry into force of a decision of the UN General Assembly to exclude that Member from the "Least Developed Countries" category.

B.2 A developing country Member may grant or maintain the subsidies referred to in Article A.1 to fishing and fishing related activities if its share of the annual global volume of marine capture production does not exceed [0.8] per cent as per the most recent published FAO data as circulated by the WTO Secretariat. A Member remains exempted until its share exceeds this threshold for three consecutive years. It shall be re-included in Article B.2 when its share of the global volume of marine capture production falls back below the threshold for three consecutive years.

B.3 (a) Except as provided for in Article B.6, a developing country Member not covered by Article B.1 or B.2 may grant or maintain the subsidies referred to in Article A.1 to fishing and fishing related activities within its EEZ, and in the area and for species under the competence of an RFMO/A through which the Member has fishing rights, for a maximum of [X] years after the entry into force of these disciplines. Thereafter, such a developing country Member that would otherwise fall under Article A.1.1(a) may instead apply Article A.1.1(b) in respect of subsidies referred to in Article A.1 for a maximum of [Y] years. A developing country Member intending to invoke this provision shall inform the Committee on Fisheries Subsidies in writing within one year of the date of entry into force of these disciplines.

(b) Subsidies granted or maintained under subparagraph (a) shall be exempt from actions based on Article A.1 and Article 10 of the Agreement on Fisheries Subsidies for a period of two additional years after the end of the period referred to in the first sentence of subparagraph (a).

(c) A developing country Member to which subparagraph (b) applies may request an extension of the period referred to in that provision through the Committee on Fisheries Subsidies. The Committee shall take into account the specific circumstances of that Member, and shall give sympathetic consideration to developing country Members that demonstrate concrete progress toward implementing Article A.1.

B.4 Except as provided for in Article B.6, a developing country Member not covered by Article B.1 or B.2 may grant or maintain the subsidies referred to in Article A.1 for low income, resource poor [and][or] livelihood fishing or fishing related activities up to [12][24] nautical miles, measured from the baselines, including archipelagic baselines.

B.5 While applying Article B, a Member shall endeavour to ensure that its subsidies do not contribute to overcapacity or overfishing.

In the addendum, the chair explained that "Article B contains provisions on special and differential treatment (SDT) for developing Members and LDC Members in relation to the draft disciplines on subsidies concerning overcapacity and overfishing."

He said "Article B.1 provides for SDT for LDC Members and graduating LDC Members, and it largely reflects the counterpart provisions in documents RD/TN/RL/174 and RD/TN/RL/184. The language "under the competence of a relevant RFMO/A" has been replaced with "under the competence of an RFMO/A through which the Member has fishing rights" to provide more clarity.

Ambassador Gunnarsson said "Article B.2 mirrors the language of the corresponding provisions in documents RD/TN/RL/174 and RD/TN/RL/184, exempting from the disciplines in Article A.1 developing Members that fall below a de minimis threshold based on their share of global marine capture production. A footnote has been added to clarify that this provision also applies to graduated LDC Members that fall below this de minimis threshold after the expiry of the transition period referred to in Article B.1. The brackets around [0.8] have been retained given the existing divergences among Members regarding the appropriate share of global marine capture production to use as the threshold."

On the crucial Article B.3, the chair said that "the transition period in Article B.3 has been modified to reflect the new structure of the two-tier sustainability-based conditionality. As before, Article B.3 would apply only to developing Members that are neither LDCs nor below the de minimis level of capture production."

He said that "keeping in mind that some developing Members could fall within the first tier, Article B.3 (a) provides two transition periods. First, a developing Member falling under this provision would, without having to meet the sustainability-based conditionality, have a maximum of [X] years after entry into force of the disciplines to grant or maintain the subsidies referred to in Article A.1 within its exclusive economic zone and in the area and for species under the competence of an RFMO/A through which the Member has fishing rights. Second, a developing Member falling under this provision that would be amongst the top 20 subsidizers would have an additional maximum of [Y] years after the [X] years, during which it could apply Article A.1.1 (b) instead of Article A.1.1 (a). Subparagraphs (b) and (c) remain largely unchanged from RD/TN/RL/184."

Forced labour

The chair has brought "forced labour", a controversial issue allegedly pushed by the United States against China in the fisheries subsidies negotiations, under the notification and transparency requirements.

The disciplines proposed under notification and transparency are as follows:

"C.1 The provisions of Article 25 of the SCM Agreement and Article 8 of the Agreement on Fisheries Subsidies shall apply to these disciplines, with the additions provided for in Articles A, B and this Article.

C.2 Each Member shall notify the Committee on Fisheries Subsidies in writing on an annual basis of:

(a) any vessels and operators for which the Member has information that reasonably indicates the use of forced labour, along with relevant information to the extent possible; and

(b) a list of any agreements in force, or existing arrangements, for obtaining access to fisheries of another coastal Member or non-Member, and such notification shall consist of:

(i) the titles of the agreements or arrangements;

(ii) a list of their parties; and

(iii) to the extent possible, the full text of the agreements or arrangements.

A Member may meet this obligation by providing an up-to-date electronic link to the Member's or other appropriate official web page that sets out this information.

C.3 Notwithstanding Article 1 of the Agreement on Fisheries Subsidies, and to the extent possible, each Member shall notify the Committee on Fisheries Subsidies in writing on an annual basis of its fuel subsidies granted or maintained to fishing and fishing related activities that are not specific within the meaning of Article 2 of the SCM Agreement.

C.4 Not later than 90 days from the entry into force of these disciplines, each Member shall notify to the Committee on Fisheries Subsidies all information that is necessary for the determination of its annual aggregate level of fisheries subsidies. Thereafter, each Member shall submit this information to the Committee on Fisheries Subsidies in its regular notifications of fisheries subsidies under Article 25 of the SCM Agreement, Article 8 of the Agreement on Fisheries [Subsidies], and this Article. Each Member shall submit this information through a template the content and form of which shall be previously agreed by Members."

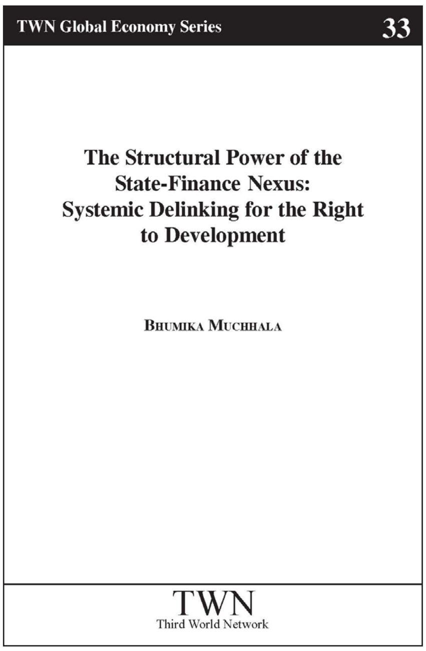
Finally, India's demand for disciplines on non-specific fuel subsidies has been put in a placeholder, which implies that it remains an open issue.

In conclusion, it remains to be seen how the chair's latest draft text will be treated in the intense week of negotiations in January. *(SUNS 9923)*

TWN Global Economy Series No. 33

The Structural Power of the State-Finance Nexus: Systemic Delinking for the Right to Development

By Bhumika Muchhala



The current era of financial hegemony is characterized by a dense financial actor concentration, an exacerbated reliance of many South countries on private credit, and an internalized compliance of South states with financial market interests and priorities. This structural power of finance enacts itself through disciplinary mechanisms such as credit ratings and economic surveillance, compelling many South states to respond to creditor interests at the expense of people's needs.

As a human rights paradigm, the Declaration on the Right to Development has the active potential to redress the structural power of finance and the distortion of the role of the state through upholding the creation of an enabling international environment for equitable and rights-based development on two levels of change. The first comprises structural policy reforms in critical areas of debt, fiscal policy, tax, trade, capital flows and credit rating agencies. The second area of change envisions systemic transformation through delinking as articulated by dependency theorist Samir Amin, which entails a reorientation of national development strategies away from the imperatives of globalization and towards economic, social and ecological priorities and interests of people.

Available at https://twn.my/title2/ge/ge33.htm

Third World ECONOMICS No. 785-786, 16 December 2023-15 January 2024

Draft ministerial decision silent on appellate review in DSS reform

Several members of the World Trade Organization sought to know from the facilitator overseeing the reform of the WTO's dispute settlement system (DSS) as to why his 49-page draft ministerial decision did not include language on the crucial pillar of Appellate Review, particularly the Appellate Body.

by D. Ravi Kanth

GENEVA: Several members of the World Trade Organization (WTO) on 18 December apparently sought to know from the facilitator overseeing the reform of the WTO's dispute settlement system (DSS) as to why he has remained silent on the most crucial pillar of Appellate Review, particularly the Appellate Body, seemingly raising a cloud over the restoration of the two-tier DSS at the upcoming WTO's 13th ministerial conference (MC13) that commences in Abu Dhabi on 26 February 2024.

At the year-end meeting of the WTO's Dispute Settlement Body (DSB) on 18 December, several developing countries sought to know why the confidential 49-page draft ministerial decision issued by the facilitator, Mr Marco Molina, the deputy trade envoy of Guatemala, did not include language on the crucial appeal review mechanism, particularly the Appellate Body, said people familiar with the discussions.

The 49-page confidential draft ministerial decision, seen by the SUNS, in its chapeau, included an item on appellate review but did not contain any language like the other issues in the draft that are replete with substantive provisions and appendixes.

There appears to be a gnawing worry among some countries that the facilitator could issue a "make-or-break" text on the appeal review mechanism at the last minute that could tilt the balance in favour of one major industrialized country and to the disadvantage of the rest of the membership on the issue of restoring the two-stage dispute settlement system, without attenuating the Appellate Body, said a person involved in the discussions.

At the DSB meeting, India, South Africa, and China among others sought to know why there was no mention of the Appellate Body or appellate review in the 49-page draft ministerial decision, said people familiar with the discussions.

Significantly, for the first time, it was countries from the South that pressed for the immediate formalization of the informal discussions on DSS reform, either at the DSB or the General Council.

However, countries from the North, especially the industrialized countries, supported the so-called informal process despite serious concerns over the process, said people familiar with the discussions.

Notwithstanding the sharp concerns expressed by several members on a range of issues, the facilitator seemed somewhat unfazed and went on to claim that the process is transparent, inclusive, and at the end of the "finishing line", said people familiar with the discussions.

"We are approaching the conclusion of this process, though some issues still warrant further discussion and attention," Mr. Molina said.

Nonetheless, he said that the discussions on these challenging questions have proven fruitful, and members are currently identifying potential solutions that can accommodate the diverse perspectives expressed by members.

In the coming weeks, the focus will be on reviewing and refining the third version of the consolidated text, with a first cluster of plenary sessions scheduled for 10-12 January 2024.

"The finish line is within reach," he declared. "We must persevere, for every step brings us closer to achieving our common goal."

Around two dozen members intervened during the DSB meeting expressing conflicting views.

Despite the unsettled issues on the process, the facilitator apparently announced that he would open virtual sessions for negotiators in Geneva to participate from 10 January. The same concession was not extended to capital-based officials dealing with dispute settlement issues, said people, who asked not to be quoted.

Meanwhile, for the 72nd time at the DSB meeting, the US blocked a request from more than 130 countries for expeditiously filling the vacancies at the Appellate Body.

The US, which has made the Appellate Body dysfunctional since December 2019, claimed that its long-pending concerns over the Appellate Body still remain unaddressed.

On another issue concerning the unimplemented rulings by Washington in a dispute on "US Measures Affecting the Cross-Border Supply of Gambling and Betting Services", the complainants Antigua and Barbuda said that for 20 years the US has failed to implement the rulings in the dispute.

A large majority of countries, including the ACP (African, Caribbean, and Pacific) group, the Africa Group, India, South Africa, and China supported Antigua and Barbuda, calling for the immediate implementation of the rulings, said people familiar with the discussions.

DSS reform

The third version of the confidential document issued by the facilitator, titled, "Ministerial decision on dispute settlement – Adopted on [Date]," starts with a chapeau that merely mentions in square brackets "[Appellate/Review]" but does not include any language, suggesting that the most crucial issue concerning the restoration of the two-tier dispute settlement system, with the Appellate Body at the center of its binding decision-making process, remains unresolved, said people familiar with the discussions.

Effectively, the draft ministerial decision seems to "lack a spine" at this juncture, while other procedural issues and time-lines appear to occupy the lion's share, said a person, who asked not to be quoted.

The chapeau of the draft ministerial decision issued on 6 December is as follows:

"The Ministerial Conference [[1],

Having regard to paragraph

1 of Article IX of the Marrakesh Agreement Establishing the World Trade Organization and, paragraph 4 of the Twelfth Ministerial Conference MC12 Outcome Document (WT/MIN(22)/24), whereby Members committed to conduct discussions with the view to having a fully and well-functioning dispute settlement system accessible to all Members by 2024,

Recalling that the aim of the dispute settlement mechanism is to secure a positive solution to a dispute and that a solution mutually acceptable to the parties to a dispute and consistent with the covered agreements is clearly to be preferred,

Prompting the objective of meaningfully reform the dispute settlement system so that it operates in a manner consistent with the interests of Members,

Desiring to facilitate the settlement or avoidance of disputes via the voluntary use of alternative methods of dispute resolution,

Recalling that Article 25 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) provides for arbitration within the WTO as an alternative means of dispute settlement that can expedite the solution of certain disputes,

Considering that the prompt settlement of disputes is essential to the effective functioning of the WTO and the maintenance of a proper balance between the rights and obligations of Members; and that streamlining panel proceedings and strict adherence to time-frames contribute to the prompt settlement of disputes and keeps the focus on what is necessary to resolve them,

Acknowledging the importance of selecting highly qualified experts while fostering diversity in the composition of panels, with a specific emphasis on achieving gender balance, geographical representativeness, and a diverse range of legal backgrounds,

Bearing in mind that the rights of the parties under the DSU to make factual and legal arguments before the panel through their submissions must be preserved, in particular by adjusting the length of written and oral submissions to the complexity of disputes,

Noting that any categorization of a dispute as standard, complex, or exceptionally complex is to be used only for the purposes of procedural management of the dispute and shall not impact the dispute itself, including the analysis, interpretation or the conclusions of the adjudicators or any future disputes,

[Appeal/review mechanism]

Taking into account that prompt compliance with recommendations or rulings of the DSB is essential in order to ensure effective resolution of disputes to the benefit of all Members,

Recognizing the importance of stating Members' understandings and expectations about how the dispute settlement system should operate,

Determined to ensure that these reforms are fully implemented in practice and are long lasting,

Reaffirming the responsibility of the membership in the Dispute Settlement Body (DSB) for the administration of the rules and procedures of the DSU, without prejudice to the functions of adjudicators under the DSU,

Recognizing the need and importance to facilitate greater accessibility of developing and least developed country Members to the dispute settlement system, including through streamlined proceedings, improved transparency, better and tailor-suited capacity building and technical assistance activities, enhanced legal advisory support and expanded range of options to avoid and settle disputes; and improved compliance procedures, among others,

Acknowledging the imperative and significance of promoting increased accessibility for developing and least developed country Members to the dispute settlement system, including through the implementation of streamlined proceedings, enhanced transparency, more effective and tailored capacity-building initiatives, improved provision of legal advisory support, the extension of a broader array of options for preventing and resolving disputes, and the enhancement of compliance procedures, among other considerations,

Recognizing the contribution of other organizations, including the Advisory Centre on WTO Law (ACWL), to the accessibility of developing and least developed country Members to the WTO dispute settlement system and noting the importance of supporting their work,

Affirming their intention to regularly undertake a meaningful review of the operation of the dispute settlement system, with a focus on the implementation of the reforms to the dispute settlement system made in this Decision ("Reforms"), and to take any action considered necessary,

Decides as follows,"]

[1] Note: The preamble has been revised following the direction given by the plenary at the meeting that took place on 1 December 2023. The paragraphs in the preamble follow the sequence of the different titles and chapters in this document.

Under "Title I – Alternative Dispute Settlement Resolution Proceedings and Arbitration, Good Offices, Conciliation and Mediation", the draft ministeri al decision covers several issues including: (1) Definitions; (2) General Principles; (3) Request for Information; (4) Initiation or Termination of Procedures; (5) Notification to the DSB; (6) Appointment of good officer, conciliator or mediator; (7) Rules of procedure in the Appendices; (8) Secretariat Support; and (9) Relationship between the procedures and other dispute settlement procedures.

In the appendix attached to Title I, "Rules of Procedure for Mediation" are further clarified, while Appendix 2 deals with "Rules of Procedure for Conciliation" and Appendix 3 deals with "Supplementary Rules of Procedure for Conciliator or Mediator Assistance during Consultation under Article 4 of the DSU".

In addition, Appendix 4 deals with "Supplementary Rules of Procedure Pursuant to Article 5 of the DSU Undertaken at the Compliance Stage of Dispute Settlement Proceedings."

Chapter II dealing with "Simplified Arbitration Proceedings Pursuant to Article 25 of the DSU" includes an appendix that further clarifies issues like "terms of reference of the arbitrator," "composition of the arbitrator," "third parties," "time-line," "suspension," "submission and hearings," "information before the arbitrator," "confidentiality," "mutually agreed solution," "secretariat support," and "arbitration award."

The chapter on panel proceedings includes provisions for "establishment of panels," "panel composition," "list for appointments made by the Director-General," and "monitoring mechanism."

It includes an appendix on "Assistance from the Secretariat and the DSB Chairperson in Composing and Decomposing the Indicative list".

Chapter III deals with "Streamlining

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Panel Process," while Chapter IV proposes language on "conciseness and time-frame adherence."

The draft ministerial decision, in Title III on "Appeal/Review Mechanism", merely says in square brackets "[Work in Progress]", suggesting that the most important pillar of the DSS reform is left open, according to people familiar with the discussions.

In short, the non-completion of work on the "Appeal/Review Mechanism", an alleged battle between one major industrialized country on the one side, and the rest of the membership on the other, is a cause of serious concern, said people involved in the discussions.

Without the resolution of the Appeal/Review Mechanism, there can never be the restoration of the two-stage dispute settlement system, said people familiar with the discussions.

Given the challenges involved in negotiating an appeal review mechanism, it seems clear that there will not be an outcome at MC13, said people, who asked not to be quoted.

The rest of the chapters dealing with "compliance", "guidelines for adjudicators," "procedures to discuss and review legal interpretations," "advisory working group," and "secretariat support" among others are important, and still several issues remain unsettled, said people familiar with the discussions.

The other chapters include "transparency," "accessibility with respect to technical assistance, capacity building and legal advice," and an "accountability mechanism" that suggests language on 'review of the operation of the dispute settlement system and implementation of reforms" every two years, with the first one to take place in October 2026. *(SUNS 9921)*

IFD initiative "illegal" and not part of MC13 agenda, says India

At the year-end meeting of the World Trade Organization's General Council, India apparently argued that the proposed Investment Facilitation for Development (IFD) Agreement is allegedly "illegal" and cannot be placed on the agenda of the upcoming WTO's 13th ministerial conference (MC13).

by D. Ravi Kanth

GENEVA: India has apparently stood its ground at the World Trade Organization by declaring that the proposed Investment Facilitation for Development (IFD) Agreement is allegedly "illegal" and cannot be placed on the agenda of the upcoming WTO's 13th ministerial conference (MC13) taking place in Abu Dhabi on 26-29 February 2024, despite support from many members, including the United States, for its incorporation into Annex 4 of the Marrakesh Agreement, said people familiar with the discussions.

At the WTO's General Council (GC) meeting that concluded on 15 December, India appears to have reiterated its consistent position that IFD has been "illegal" since 2017, seemingly drawing the battlelines on the attempts to change the WTO's multilateral negotiating function through the Joint Statement Initiatives (JSIs), especially the incorporation of the proposed IFD Agreement into Annex 4 of the Marrakesh Agreement, said people familiar with the discussions.

The WTO's year-end General Council meeting concluded amidst seemingly unbridgeable differences on the proposed deliverables being targeted for MC13, including on the Outcome Document at this juncture, said people familiar with the discussions.

On 15 December, two issues – the European Union's regulation on supply chains free from deforestation and forest degradation as well as the proposed plurilateral agreement on IFD being spearheaded by China – appear to have dominated the proceedings.

"Everyone is against the EU's deforestation item at the General Council," said a South American trade envoy, suggesting that "the Latins, the Asians, and the Africans" inveighed against Brussels' controversial deforestation and forest degradation and repealing regulation.

They concluded that "while promoting environmental sustainability is a common goal that unites us all, it is imperative that the EU takes into account and meaningfully engages over a debate on the broader implications of a trend of unilateral regulations allegedly taken for the sake of sustainability, and consequently reviews its regulations."

Indonesia said, "There are many elements in the policy that require careful review – including how it indiscriminately curtails our market access to Europe."

"The EU's one-size-fits-all approach, implemented through this model of due diligence, also ignores different local conditions – thus rendering small-holders vulnerable", it said, adding that "small-holders may end up being excluded from global supply chains not because they have deforested their land but because they cannot prove their compliance to the excessive and ever-stringent sustainability criteria imposed."

IFD initiative

The plurilateral IFD initiative, which was introduced at the meeting by Chile and which is backed by 117 countries, was supported by more than 30 countries at the General Council meeting, including a non-member like the United States, said people, who asked not to be quoted.

It appears that several members such as the EU, Japan, Switzerland, Cameroon, Brazil, Pakistan, Singapore, the Russian Federation, the UK, Saudi Arabia, the US, Korea, and Cameroon among others lent support to concluding an agreement on IFD at MC13, said people who asked not to be quoted.

China, which has been the main navigator of the IFD initiative since 2017, said the "G20 New Delhi Leaders' Declaration emphasized the importance of investment in promoting trade and economic growth, eliminating hunger, delivering quality education, implementing energy transition and

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enhancing women's empowerment."

It maintained that "the G20 trade and investment ministerial meeting chaired by India also underlined the positive role of investment facilitation in promoting sustainable and inclusive global value chains, and supported deliberations at WTO on intersections between trade and investment. IFD was also discussed by G20 trade and investment ministers."

China said that IFD is currently supported by 117 countries, suggesting that for the non-participants, "some are favourably considering it, pending domestic procedures, while others (like the US) would not oppose adding the IFD Agreement into Annex 4 of the WTO Agreement."

China said, "Investment Facilitation for Development, as its name implies, is a development-oriented agreement", with widespread support.

It said that it "is an agreement with a dedicated development chapter, embodying elements of S&DT, needs assessment, technical assistance, and capacity building" and contributes to increasing "industrial production capacity and diversification and could provide for the exact kind of policy space and business environment that are needed by the developing countries for economic growth and transformation."

India's opposition

In contrast to China's rather upbeat pronouncements on IFD, India appears to have asked why the initiative has failed to comply with the WTO rules since 2004.

India cited the "July 2004 package" which explicitly states that the "relationship between Trade and Investment, Interaction between Trade and Competition Policy and Transparency in Government Procurement: the Council agrees that these issues, mentioned in the Doha Ministerial Declaration in paragraphs 20-22, 23-25 and 26 respectively, will not form part of the Work Programme set out in that Declaration and therefore no work towards negotiations on any of these issues will take place within the WTO during the Doha Round."

India also drew attention to paragraph 34 of the WTO's MC10 decision adopted in Nairobi in 2015, which said: "While we concur that officials should prioritize work where results have not yet been achieved, some wish to identify and discuss other issues for negotiation; others do not. Any decision to launch negotiations multilaterally on such issues would need to be agreed by all Members."

New Delhi also cited the General Council decision of May 2017 when it was agreed that investment facilitation, as it was called then, can only have an "informal dialogue" outside the WTO.

The former General Council chair Ambassador Xavier Carim of South Africa said that such informal dialogue/discussions "do not constitute proposals for negotiations".

Finally, India said that it had submitted a proposal along with South Africa and Namibia on 30 April 2021 (WT/GC/W/819/Rev.1) about the legal status of the Joint Statement Initiatives in which it was made clear that the JSIs are neither multilateral agreements nor Plurilateral Agreements (as defined in Article II.3 of the Marrakesh Agreement).

According to the joint proposal by India, South Africa, and Namibia, the JSIs including IFD would erode the integrity of the rules-based multilateral trading system by subverting the established rules and foundational principles of the Marrakesh Agreement.

Given the time taken by India to explain its stand at the GC meeting, the General Council chair, Ambassador Athaliah Lesiba Molokomme of Botswana, told India to submit its arguments in writing because of the paucity of time.

In its second intervention, India said categorically that IFD is "illegal" and cannot be part of the MC13 agenda, according to people who asked not to be quoted.

China, however, apparently remained silent on India's main criticisms centring on the alleged bypassing of the WTO rules, including the foundational agreements, in advancing "illegal" agreements, said people present at the meeting.

The seemingly entrenched positions on IFD suggest that countries like the US, which has not joined the IFD but is ready to support it, appear to be attempting to change the WTO's negotiating function once and for all, said people who asked not to be quoted.

It remains to be seen how the Outcome Document for MC13, which is yet to be negotiated and finalized, would reflect the seemingly "systemic" divide on this issue and whether it would garner consensus, said people familiar with the discussions.

Outcome Document

Meanwhile, the fourth version of the Outcome Document for MC13 issued by the General Council chair on 7 December, leaves a lot of issues, including the restoration of the two-tier dispute settlement system for decision at MC13.

The fourth version of the Outcome Document issued by the General Council chair, Ambassador Molokomme of Botswana, under her own responsibility, suggests that several issues are yet to be discussed/negotiated for inclusion in the document.

The latest draft is as follows:

[POSSIBLE OUTCOME DOCUMENT
Working Draft – Version 4 (7 December 2023)

PART 1

Thanks to the MC13 Host

1. We, the Ministers, have met in Abu Dhabi, United Arab Emirates, from 26 to 29 February 2024 for our Thirteenth Session. As we conclude our session, we would like to express deep appreciation to the Government and people of the United Arab Emirates for their excellent organization of the conference and the warm hospitality we have received in Abu Dhabi.

Reaffirming the WTO's principles, objectives, and role in its 30th anniversary

2. Our thirteenth session takes place as we mark the 30th anniversary since the establishment of the WTO. On this occasion, we underline the critical importance of the rules-based, non-discriminatory, open, fair, inclusive, equitable and transparent multilateral trading system and the WTO, and reaffirm the principles and objectives enshrined in the Marrakesh Agreement.

3. We acknowledge that during these 30 years in our trade and economic relations, WTO Members have sought to fulfil the objectives reflected in the Preamble to the Marrakesh Agreement consistent with Members' respective needs and concerns at different levels of economic development. While important progress has been made, we resolve to further strengthen the multilateral trading system to provide strong impetus to address multi-dimensional global challenges and ensure inclusive prosperity and increased welfare gains for all Members.

4. As we work towards strengthening

the effectiveness and responsiveness of the WTO as an organization and the multilateral trading system as a whole, we recognize the importance of implementation of the WTO Agreement and Ministerial Decisions and take note of the progress reflected in the reports from the General Council and its subsidiary bodies.

WTO Reform

5. We reaffirm our commitment at our twelfth session to work towards necessary reform of the WTO to improve all its functions and acknowledge the progress made in this regard. We note and value the "Reform by Doing" work conducted to date to improve the functioning of WTO Councils, Committees and Negotiating Groups with a view to enhancing the WTO's efficiency, effectiveness, and facilitation of Members' participation in WTO work. We instruct the General Council and its subsidiary bodies to continue to conduct this work and report progress as appropriate to the next Ministerial Conference.

6. DS Reform

7. We resolve to preserve and strengthen the multilateral trading system, with the WTO at its core, to respond to contemporary trade challenges, take advantage of available opportunities, and ensure the WTO's proper functioning. We acknowledge that Members have engaged in informal discussions on some of these issues. We recognize the need for all Members to deepen dialogue in a more focused manner to improve understanding of the implications of each of these issues* for trade, development and the WTO while continuing efforts to seek conclusion of ongoing negotiations.

Development

8. We reiterate the centrality of the development dimension in the work of the WTO. We recognize that the full integration of developing country Members and LDC Members in the multilateral trading system is important for their economic development and for global trade expansion and recall the Preamble to the Marrakesh Agreement to make positive efforts towards this end. We reaffirm the provisions of special and differential treatment for developing country Members and LDCs as an integral part of WTO Agreements.*

9. We recognize the particular vulnerability and special needs of LDCs. In this regard, we underscore that their interests should be given due priority for them to secure meaningful integration into the multilateral trading system.

10. Recalling that at our twelfth session we recognised the role that certain measures in the WTO can play to facilitate smooth and sustainable transition for Members graduating from LDC Category, we welcome the progress achieved as reflected in the Decision adopted by the General Council in WT/L/1172.

11. We recognize the importance of the Aid for Trade initiative for developing country Members in particular LDCs for trade-related capacity building. We look forward to the outcomes of the 9th Global Review and recognize the continuing need for this Initiative.

Trade and Sustainable Development

12. In recalling the objectives in the Marrakesh Agreement and the 2030 Sustainable Development Goals in so far as they relate to the WTO mandate, we underscore the importance of trade and sustainable development in its three pillars – economic, social, and environmental.

13. We recognise the importance of an inclusive and equitable multilateral trading system that supports sustainable development and ensures that the gains of trade benefit all*.

WTO Negotiations

14. We acknowledge progress/ welcome outcomes as reflected in specific decisions/declarations/decide or guide on WTO Negotiations:

a. Agriculture

b. Fisheries Subsidies

i. Welcome deposits of instruments of acceptance and thank contributions to Fish Fund

ii. Fish 2

c. S&DT

d. [catch all messaging on other negotiating areas in Negotiating Groups]

WTO Accessions

15. We celebrate the enlargement of the Organization in accordance with Article XII of the Marrakesh Agreement. We note with satisfaction that this Conference has completed the accession procedures for two least-developed countries, Comoros and Timor-Leste. We recognize the contribution of accessions to strengthening the multilateral trading system and recall our commitments at our twelfth session.

NB: Other issues mentioned include, in no particular order: (I) trade and industrial policy, (ii) trade and climate, (iii) policy space for industrial development, (iv) trade and transfer of technology, (v) trade, debt and finance, (vi) trade and inclusiveness such as trade and gender, women's economic empowerment, MSMEs, SIDS, LLDCs and indigenous issues on inclusiveness, (vii) implementation of past Ministerial Decisions and Declarations, (viii) food security, (ix) plastics pollution, circular economy, trade and environmental sustainability, and fossil fuel subsidy reform, (x) Aid for Trade, (xi) digital economy, (xii) trade in services, (xiii) levelling the playing field issues, and (xiv) agriculture reform as part of the WTO Reform heading, among others.

PART 2

16. We acknowledge progress/ welcome outcomes as reflected in specific decisions/declarations/decide or guide on WTO Regular Work:

E-Commerce Work Programme and Moratorium

TRIPS Non-Violation and Situation Complaints

Work Programme on Small Economies

SPS

LDC Graduation – Annex 2

LDC Issues (Preferential Rules of Origin for LDCs, LDC Services Waiver and DFQF Market Access)

Trade and Environment – CTE

TRIPS Waiver Extension

Emergency Response to Food Insecurity

Work based on Paragraphs 23 and 24 of the MC12 Declaration on the WTO Response to the COVID-19 Pandemic and Preparedness for Future Pandemics]

* Illustrative list of issues includes trade and industrial policy, trade and environmental sustainability and trade and inclusion.

* Illustrative list of issues mentioned as relevant for this paragraph were policy space for industrial development, SIDS, LLDCs, trade and transfer of technology, and trade, debt and finance.

* Illustrative list of issues mentioned as relevant were trade and gender, women's economic empowerment, MSMEs and indigenous issues. *(SUNS 9920)*

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Members push mandated issues to trade ministers at MC13

At the year-end meeting of the World Trade Organization's General Council, Members appear to have pushed several mandated issues to trade ministers to decide at the upcoming WTO's 13th ministerial conference (MC13).

by D. Ravi Kanth

GENEVA: Members at the year-end meeting of the World Trade Organization's General Council (GC) on 14 December appear to have pushed several mandated issues to trade ministers to decide at the upcoming WTO's 13th ministerial conference (MC13), raising serious questions on the utility of the GC meetings in finding any solutions/compromises, said people familiar with the discussions.

MC13, scheduled to be held in Abu Dhabi from 26-29 February 2024, will be chaired by Dr. Thani bin Ahmed Al Zeyoudi, Minister of State for Foreign Trade of the United Arab Emirates (UAE), as is the normal practice of a host country to chair the meeting.

At the GC meeting that started on 13 December, members agreed on the three vice-chairs for MC13.

They include Mr Luc Magloire Mbarga Atangana, Minister of Trade (Cameroon); Mr Todd McClay, Minister for Agriculture, Forestry, Hunting and Fishing, and Trade (New Zealand); and Mr Jorge Rivera Staff, Minister of Trade and Industry (Panama).

The GC meeting, which continued on 14 December, appears to have cast a dark shadow on issues like the extension of the MC12 Ministerial Decision on the TRIPS Agreement to cover COVID-19 diagnostics and therapeutics; the proposed termination of the moratorium on customs duties on electronic transmissions; the Least Developed Countries (LDCs) graduation issue concerning transition support measures in favour of those LDCs that have graduated from the LDC category; and several other issues, said people who asked not to be quoted.

Significantly, on the issue of LDC graduation, which is a development issue to help COVID-19 ravaged-LDCs, the US appears to have raised a point of order on the report submitted by the chairperson of the Committee on Trade and Development.

The US said that there is no evidence for granting a blanket extension for LDCs, adding that it will grant it on a case-by-case basis, said people present at the meeting.

Without naming the US, India appears to have said that while some members want to grant duty-free and quota-free market access to the LDCs on a case-by-case basis, the industrialized countries in particular have continued to enjoy duty-free and quota-free access through the current moratorium on customs duties on electronic transmissions, said people familiar with the discussions.

The same countries never provided any evidence for the continuation of the moratorium, said people familiar with the discussions.

Several countries including China, Indonesia, India, South Africa, and other developing countries supported the LDC graduation measures, said people, who asked not to be quoted.

US Jones Act

On the continuation of the GATT exemption on the US Merchant Marine Act of 1920, or the Jones Act, since 1995, the European Union, China, Japan, Korea, and Norway severely criticized the specific exemption granted to the US on grounds that it allegedly destroyed the global shipping industry.

The EU said that the Jones Act is a piece of legislation that "restricts fair competition in the shipbuilding and shipping markets and no longer serves a legitimate purpose in today's global economy."

The EU argued that "even more, new implementing rules show an increasingly protectionist interpretation of the Jones Act, going even further beyond its original intention."

"The prevailing situation has negative economic consequences for the EU's and other countries' shipbuilding, logistics, dredging, and energy industries," the EU said.

It added that "the costs are also high for the United States, which is faced with higher costs for off-shore energy production, coastal protection from flooding, adapting to climate change, and haulage services due to the closure of the US market for foreign-built, serviced, and operated ships."

However, the US seemed rather unfazed by the criticism and went on to express its obdurate position that the exemption must continue as the conditions that existed at the time of the granting of the exemption continue to be there even today, said people who asked not to be quoted.

Food insecurity

On another proposal by Singapore concerning the "immediate steps to respond to food insecurity", several members severely criticized the proposal, with Brazil saying that it is a "red herring".

Singapore's proposal calls on members to refrain from imposing export restrictions or prohibitions on essential foodstuff.

Indonesia said that more than export restrictions, it is important to conclude a decision on the permanent solution for public stockholding (PSH) programs for food security purposes, "which to this date remains an outstanding mandate from previous MCs [ministerial conferences]."

Even though the overall tone of the discussions seemed pretty mild at the GC meeting unlike the previous meetings, there was little or no progress on any of the issues, said people who asked not to be quoted.

Among the decisions adopted at the WTO's 12th ministerial conference (MC12) last June, the apparent failure to implement paragraph eight of the MC12 Ministerial Decision on the TRIPS Agreement on extending the decision to cover COVID-19 diagnostics and therapeutics seems like a proverbial "eyesore" and has raised serious doubts on the credibility of the ministerial decisions, said people familiar with the development.

According to paragraph eight of the MC12 Ministerial Decision on the TRIPS Agreement, members ought to have decided on extending the decision to cover COVID-19 diagnostics and therapeutics by 17 December 2022.

The continued delay in extending the decision was on account of some members like the United States completing their internal processes. Despite those processes having been completed in the second half of October, there is still no forward movement.

It is against this backdrop that South Africa along with Bangladesh, Bolivia, Egypt, India, Indonesia, Pakistan, and Venezuela have asked the General Council to adopt a draft decision that they had proposed for consideration at the GC meeting.

Indonesia said: "We cannot apologize to the dead, particularly to the 7 million people whose lives tragically ended by COVID-19," adding that members can at least "rectify our past mistakes through immediately extending the 17 June TRIPS Decision adopted by the Ministers by consensus after long protracted negotiations, mutatis mutandis to therapeutics and diagnostics, as requested by proponents in document WT/GC/W/913."

The draft GC decision by the co-sponsors drew attention to the MC12 Ministerial Decision which, they argued, "is far removed from the comprehensive TRIPS waiver proposal contained in documents IP/C/W/669 and IP/C/W/669/Rev.1 ('original TRIPS waiver proposal') co-sponsored by 65 WTO Members (co-sponsors)."

The proponents reiterated that: "A more comprehensive waiver decision as envisaged in the original TRIPS waiver proposal would support the efforts to ensure timely, equitable and universal access to safe, affordable and effective therapeutics and diagnostics, ramping up of production and expanding supply options."

They said that "the MC12 Ministerial Decision on the TRIPS Agreement (document WT/MIN(22)/30) is the result of over one and a half years of arduous and lengthy discussions on the original TRIPS waiver proposal and intense negotiations heading towards the 12th Ministerial Conference in the midst of a global crisis. It is of limited scope covering only vaccines."

Moreover, "Diagnostics and therapeutics are essential tools for a comprehensive approach to fight the pandemic, that it is not over," the co-sponsors argued.

They pointed out that, "Omitting these vital tools will deter the effectiveness of the decision that aims [at] timely and affordable access to effective vaccines against the ongoing COVID-19 pandemic."

Further, based on their earlier document, the co-sponsors argued that "at a minimum, the extension of the policy tools provided in document WT/MIN(22)/30 to therapeutics and diagnostics will result in a holistic approach to enable developing countries to address those IP barriers that prevent the expansion and diversification of production and increase accessibility to crucial life-saving COVID-19 tools."

According to the co-sponsors, "the current outcome represents a narrow conditioned Decision due to demands of some WTO Members, requiring significant compromises on the part of the co-sponsors that had hoped for greater solidarity among WTO Members during a public health emergency and consequently a more comprehensive waiver decision as envisaged in the original TRIPS waiver proposal that would support ramping up of production and expanding supply options."

They called on the General Council to adopt the following draft decision:

1. The MC12 Decision on the TRIPS Agreement is extended mutatis mutandis for the production and supply of COVID-19 therapeutics and diagnostics; and

2. An eligible Member may apply the provisions of this Therapeutics and Diagnostics Decision until 5 years from the date of this Decision. Any extension of the MC12 Decision on the TRIPS Agreement pursuant to paragraph 6 shall apply to this Decision as well.

However, the draft decision failed to garner consensus due to opposition from Switzerland and the United Kingdom among others.

They repeatedly maintained that there are no IP (intellectual property) barriers for accessing COVID-19 diagnostics and therapeutics, said people familiar with the discussions.

WTO budget

WTO Members on 14 December agreed to a 3.6% hike in the WTO's regular budget for 2024, an increase of about CHF7.09 million, from CHF197.2 million in 2023 to approximately CHF204.29 million in 2024.

A separate proposal for an increased contribution to the WTO's Pension Fund of CHF4.4 million (around USD4.5 million) was apparently dropped due to lack of consensus before the GC meeting.

During the GC meeting on 14 December, Russia seemed to have joined the consensus for increasing the WTO budget, as it did not raise any flag. The budget proposal appears to have been worked out by the European Union, said people familiar with the development.

Though the WTO Secretariat sought an almost similar increase for 2025, the issue has been deferred to next year.

It is doubtful whether the meagre hike in the WTO's budget for next year would have satisfied the WTO Director-General, Ms Ngozi Okonjo-Iweala, who had asked for a "modest budget increase of CHF14.56 million (around USD15 million) for 2024", and an additional CHF1.94 million for 2025, said people familiar with the development.

As previously reported, despite the near rejection of her first budget-hike proposal in 2022, the DG chose to come back again with a new 43-page proposal, which came up for a first reading at the Committee on Budget, Finance and Administration on 18 July 2023. *(SUNS 9919)*