

THIRD WORLD

# RESURGENCE

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## DOUBLE WHAMMY

Surviving  
COVID-19 and  
the economic crisis



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Double  
issue



## *Editor's Note*

HUMANKIND is currently confronted with a crisis that is arguably one of the greatest in its history. Perhaps it would be more accurate to speak of 'crises' rather than 'crisis' as more than one is involved, although they are all increasingly merging to make a combustible mixture.

The first and most terrifying is the new coronavirus that has triggered a health crisis which has no precedent in history, either in its scope, ferocity or the speed with which it has spread around the world. Unlike the 1918 Spanish flu outbreak, it is a truly global pandemic, originating in Wuhan, China, and subsequently ravaging almost every corner of the planet within months.

Little is known about the virus behind this pandemic, which causes a disease now dubbed COVID-19, other than its parasitic residence in bats. This ignorance has made progress in combating the virus difficult as the race for a vaccine begins.

In the midst of this global health crisis, the world now has to confront a global economic crisis. To be sure, the global economy had already begun to slow down before the outbreak of the pandemic. But whatever the damage a recession could have inflicted on its own, it pales before the catastrophic impact of COVID-19. The shock it administered to the slowing global economy caused it to shrink. Corporations began announcing almost daily the mass layoff of workers as economic pundits warned the world economy was set to experience its worst crisis since the Great Depression of the 1930s.

While all this was happening in the real world, the surreal world of stock and financial markets presented a different picture. Already in March, stocks in the global markets had come tumbling down, largely in response to a pessimistic report on the state of the global economy. However, when in June the National Bureau of Economic Research announced that the United States was technically in recession, the markets rallied and staged a spectacular rise, wiping all their earlier losses. This was only the latest illustration of how complete the disconnect is between Wall Street and Main Street.

Grappling with the health and economic crises has been a painful experience for many developing countries. Strapped of cash and resources, their struggle to protect the lives and livelihoods of their people has been faltering. Micro and small businesses from family farms to retail and services that are the backbone of many developing countries suffered drastically and continue to struggle. While over the years there has been much talk about a new Marshall Plan to uplift the economies of the poorest of these countries and set them on the path of development, nothing has materialised.

All these problems can only be resolved through true international cooperation. Unfortunately, the world is divided as never before. In fact, we live under the shadow of a new world war stemming from the

determination of the US to maintain its sole hegemony over the rest of the world. The collapse of the Soviet Union left the US as the sole superpower and it is determined to ensure that no other power emerges to challenge its dominance. The rise of China set off alarm bells in the White House, but until the present occupant came to office, US-China relations were reasonably managed despite the occasional outbreak of tension.

With Donald Trump in the White House, US-China relations have been in a state of permanent tension. While all US presidents have been wedded to the policy of 'containment' of China, Trump has taken it to a new low by referring to the new coronavirus as a 'Chinese virus', one that escaped from a laboratory in Wuhan rather than surfacing in a wet market in that city. While his own failure to act promptly to tackle the pandemic has resulted in the needless deaths of thousands and the continuing spread of the disease across the country, Trump has sought to deflect attention by accusing the Chinese of an attempted cover-up which resulted in a delay in informing the rest of the world about this threat.

The great fear is, as the November presidential elections draw near and his electoral ratings keep dropping (as they have since the Democratic Party contender Joseph Biden stepped into the ring), what desperate moves will he resort to?

In an article he wrote for this journal, the late scientist Richard Levins dismissed the 'war against microbes' as an illusion. When human beings launch attacks on them and destroy their habitat, they retaliate in the only way they are designed to: they mutate, and the new, ferocious makeup they assume is a product of the Darwinian survival of the fittest. Human beings must change their attitude of seeking to dominate nature: 'Instead of seeing public health as a war against an irreconcilable foe, we have to see it as renegotiating our relations with the microbial world in the direction of benign co-existence.'

In our cover story for this issue, we highlight facets of the two major crises currently raging: the health crisis and the economic crisis. Against the backdrop of this struggle for humankind's survival, we also locate Trump's struggle for political survival. Included as well is an article which underlines the need for equitable access to the vaccines, therapeutics and other medical products that result from ongoing research efforts to tackle COVID-19. Our next issue will look in greater depth at the intellectual property and other barriers to such access that may well mean the difference between life and death in these viral times.

*— The Editors*

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**People wearing masks to prevent the spread of COVID-19 queuing up to receive food aid in Pretoria, South Africa. The novel coronavirus has unleashed a global health and economic crisis of devastating proportions.**

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# A passionate voice of and for the South

The developing world lost a committed champion of its cause with the passing of Martin Khor on 1 April 2020. As Director of the Third World Network – the publishers of *Third World Resurgence* – and Executive Director of the South Centre, Khor stood steadfastly for the rights and interests of the South and lent unflagging research and advocacy support to developing countries in various international negotiating fora. Two fellow advocates for equitable development pay heartfelt tribute below.

WE are greatly saddened by the passing of Martin Khor, a long-time friend and colleague, an undaunted fighter for the poor and underprivileged, a passionate believer in a more balanced and inclusive multilateralism, a rare intellectual and eloquent orator, an icon of the Global South worthy of veneration, greatly respected for his struggle for justice and fairness against the dominance and double standards of big economic powers.

Martin was born in 1951 in colonial Malaysia, still under British rule, to a family of journalists. After his primary and secondary education in Malaysia, he left for the United Kingdom in 1971 to study at the University of Cambridge, where he obtained his BA Hons and MA in economics, before completing his second Masters in Social Sciences at the University of Science Malaysia in 1978. In his Master's thesis, he grappled with the changing nature of external dependence and surplus extraction in Malaysia as it moved from colonial to post-colonial status, with a view to its implications for the scope and limits of industrialisation and development; a study which left an indelible mark on his subsequent engagement and activities in a world characterised by increasingly asymmetric power relations.

He started his professional career as an Administrative Officer at the Ministry of Finance in Singapore before joining the University of Science Malaysia as lecturer in Economics in 1975.

In 1978, he became the Research Director of the Consumers' Association of Penang (CAP) in Malaysia.

## Yilmaz Akyüz and Richard Kozul-Wright

The Third World Network (TWN), an independent non-profit international research and advocacy organisation on issues related to development, was created in 1984 at an international conference on 'The Third World: Development or Crisis?' organised by CAP. In 1990, Martin became the Director of TWN, perhaps the most important NGO from the developing world with operations globally, in both the North and the South, through offices, secretariats and researchers including in Penang, Kuala Lumpur, Geneva, Beijing, New Delhi, Jakarta, Manila, New York, Montevideo and Accra.

Martin held both positions at CAP and TWN until 2009 when he became the Executive Director of the South Centre, a Geneva-based inter-governmental organisation of developing countries established in 1995 to undertake research in various national and international development policy areas and provide advice and support to developing countries in a variety of international negotiating fora.

Under his leadership, the South Centre became an important voice in discussions on international trade and investment, intellectual property, health, global macroeconomics, finance, sustainable development and climate change. During his tenure, the Centre extended significantly the scope and quality of its policy research and advice, building an enhanced reputation and level of trust

among developing countries in the struggles to protect and promote their interests.

After leaving the South Centre in 2018, Martin returned to Penang, already suffering from cancer, and acted as Chairman of the Board of TWN until his death on 1 April 2020.

Martin was a staunch multilateralist but not an advocate of globalisation, at least not in the neoliberal guise it acquired from the early 1980s. On the one hand, he was well aware that individually developing countries could not obtain fair deals with major (and minor) developed countries in the international economic system. On the other hand, he knew that multilateral rules and practices were unbalanced, designed to subject developing countries to the discipline of unfettered international markets shaped by transnational corporations and self-seeking policies of dominant powers in the North, denying them the kind of policy space they themselves had enjoyed in the course of their industrialisation. His efforts focused on reshaping multilateral rules and practices as a way to bring about systemic changes in the service of development.

Martin did this on three fronts. From the mid-1980s, he focused mainly on international trade issues, particularly those raised by negotiations during the Uruguay Round, and subsequently in the World Trade Organisation (WTO) and the proliferating free trade agreements and bilateral investment treaties that accompanied the shift to a neoliberal international economic order.

Martin was instrumental in bringing the attention of policymakers and



activists to the implications of new trade rules for the industrialisation and development of the Global South arising from more demanding obligations on tariff and non-tariff measures, industrial subsidies, investment and intellectual property rights. He made several proposals for reform in these areas to remove imbalances and constraints over industrialisation, and economic diversification more generally, in the Global South.

He opposed free trade agreements with developed countries on the grounds that, by simultaneously curtailing the policy space available to governments while expanding the space for abusive practices by the large international firms that dominate international trade, they posed an even greater threat to development than the earlier generation of trade rules under the General Agreement on Tariffs and Trade (GATT). In the aftermath of the Marrakesh Agreement establishing the WTO, Martin was a prominent figure blocking efforts by developed countries to push for a multilateral investment agreement at the OECD, and to extend the neoliberal agenda at the first WTO Ministerial Conference in Singapore and subsequently at the third Ministerial in Seattle and to water down the Doha Development Agenda at the Cancun Ministerial in 2003.

The second front concerned the issues around the operations of the Bretton Woods institutions, notably debt and development finance. Martin had been a long-time critic of the Washington Consensus and, in particular, the use of policy conditionalities attached to lending by the international financial institutions which sought to push a series of damaging measures on developing countries in the name of efficiency, competitiveness and attracting foreign investors. But he started to pay greater attention to these after the 1997 Asian financial crisis, arguing against austerity and advocating capital controls, orderly debt workout mechanisms, multilateral discipline over exchange rates and financial policies of major advanced economies, and global regulation and supervision of systemically important international financial firms. He was a particularly strong advocate of these positions in his role

as a member of the Helsinki Group on Globalisation and Democracy.

Martin took the helm of the South Centre in 2009 amid the global financial crisis and was quick to provide substantive assistance to developing countries during the 2009 UN Conference on the World Financial and Economic Crisis and Its Impact on Development, identifying the key issues for them and working to ensure their insertion in the conference's outcome document. He continued to push hard on these issues through the research output from the Centre while adding the related areas of illicit financial flows and international tax issues to its workload as developing countries sought support on these matters.

The third, and increasingly prominent, front was climate change and sustainable development, which gained added importance in international discussions in the new millennium. Environmental issues had always been part of Martin's work as head of TWN and as a member of the Commission on Developing Countries and Global Change. But this widened significantly after the UN Conference on the Environment and Development in 1992 in Rio de Janeiro.

Subsequently, Martin became a member of the Consultative Group on Sustainable Development and a regular attendee at the UN Climate Change Conferences that began in 1995, playing a particularly important role in the Copenhagen conference in 2009 where the neglect of the development dimension by advanced economies, their reluctance to acknowledge common but differentiated responsibilities and their naïve belief in market-friendly solutions to the climate challenge led to acrimonious discussions and the eventual collapse of the conference. While he clearly recognised the need to reduce the pace of carbon emissions and protect the environment, Martin was wary that the measures promoted by industrial countries could become instruments to stem development in the Global South. Under his leadership, an important part of the work in the South Centre focused on this issue.

During this time, Martin was a strong critic of tighter intellectual

property rights, particularly through trade agreements, that restricted transfer of the technologies developing countries needed to help in the fight against rising global temperatures and to mitigate the climate damage they were already experiencing. This work had a parallel in Martin's fight to ease the burden of stringent intellectual property provisions on developing countries in dealing with public health emergencies. Thanks to a civil society coalition where Martin was a pivotal figure, this campaign eventually succeeded in securing a permanent amendment to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in 2017.

Meanwhile Martin's support to developing countries in the climate change negotiations, carried out through the South Centre and TWN, fostered greater coordination among developing countries in protecting and promoting their development policy space in the climate talks, highlighting equity and stressing the international obligation of advanced economies to provide support to developing countries.

Martin's approach to advancing progressive solutions on all these fronts was always one of quiet determination driven by a passionate commitment to strengthening the voice of developing countries. He had an enviable ability to synthesise and explain complex negotiating issues to a broad audience and in a way that could bring on board activists and policymakers alike. He became a trusted advisor to policymakers and diplomats across the developing world. But Martin was equally comfortable engaging in a productive debate with policymakers from advanced countries and in mainstream institutions. His was a uniquely calming but authoritative voice for increasingly anxious times, one that has been silenced too soon and at a moment when his commitment to building a fairer and more resilient world is needed more than ever. ♦

*Yilmaz Akyüz is former Director of the Globalisation and Development Strategies Division at the United Nations Conference on Trade and Development (UNCTAD) and former Chief Economist at the South Centre. Richard Kozul-Wright is Director of the Globalisation and Development Strategies Division at UNCTAD.*

# Pandemic crisis: Dangers and opportunities

In providing the historical backdrop to the current crisis (which they correctly refer to as a multiple crisis – health, economic, financial and environmental),

*Lim Mah Hui and Michael Heng* argue that it should be a wake-up call for humankind to rethink its hyper-consumerist economy that prioritises growth, and growth that benefits just a tiny segment at that.

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

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

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

While the initial epicentre of COVID-19 was China, the after-



Temperature screening during a COVID-19 health campaign in Mumbai, India. The pandemic has further morphed into an economic and financial crisis.

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

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

## Monetary policies – setting the stage for crisis

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

Central banks in the US, Europe and Japan have lowered interest rates to near zero, hoping that this will encourage people to borrow, spend and invest. It is intended to reduce the debt burden, as the indebtedness of households and enterprises has been ratcheted up in recent years (see below). But the past few years have shown that this has little traction. It's like pushing on a shoestring. Worse still, the credit and liquidity are not going to the right places. Individual households with little financial resources and small businesses are shunned by banks. Instead, banks lent



to corporations and financial institutions. Corporations gouged on this cheap money and the world debt-to-GDP ratio rose from under 200% to over 300%. Unfortunately, much of this debt did not go towards financing productive investment, with investment remaining stagnant as a percentage of GDP. Instead, it went towards inflating financial asset prices and financial engineering tricks such as share buybacks.

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

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

### Causes of crises

Irrespective of the causes of financial crises, of which there are



The financial district in New York. What happened in the financial sector over the last decade has played a critical part in aggravating the economic crisis triggered by the coronavirus pandemic.

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

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

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

Despite the measures taken to strengthen the banking sector after the

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

### Where do we go from here?

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

The stagflation crises of the 1970s, triggered by oil price hikes and



The crisis 'offers us the opportunity to restructure society into one that is more socially and economically equitable, is more respectful of nature and our environment...'

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

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

players were bailed out at taxpayers' expense only to grow even bigger.

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

This multiple crisis – health, economic, financial and environmental – is a wake-up call for humankind to rethink its hyper-consumerist economy that prioritises growth, and growth that benefits just a tiny segment at that. It offers us the opportunity to restructure society into one that is more socially and economically equitable, is more respectful of nature and our environment, and strikes a saner balance between non-materialism and materialism. Since the 2008 global financial crisis, there have been

nascent efforts to move away from the obsession with GDP growth as the measure of a society's welfare and wellbeing. The small nation of Bhutan spearheaded the alternative concept of Gross National Happiness. But these movements are muted and sidelined. This crisis offers us the opportunity to bring them to the fore. Prime Minister Ardern of New Zealand recently said she would prioritise her people's wellbeing over growth.

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

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

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

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



# COVID-19 reveals everything

The intertwined health and economic crisis calls for urgent responses, systemic reform and ideological rethink of the international financial architecture.

THE COVID-19 pandemic has pulled the curtain back on intersectional inequalities of every scale and form, exposing how embedded they are within our economic structures and social systems. The most marginalised in society experience vastly disproportionate health and economic distress. These include the elderly and immuno-compromised, low-income communities and in particular women, children, migrant workers, informal sector and gig economy workers, the disabled, the incarcerated, refugees and those living in conflict zones. The reproduction of inequalities occurs in a global context of a hurtling climate crisis, social protests and uprisings, the rise of nationalism, discrimination and human rights violations, and unsustainable and unequal systems of consumption and production.

Out of the numerous lessons illustrated by COVID-19, this article seeks to highlight three key points. First, the global governance institutions of the 21st century must channel the political will and policy action to protect the most vulnerable and hard-hit countries and communities. Second, the ideology through which the role of the state has been deployed to serve markets through institutions, norms and laws that protect and facilitate private sector needs at the expense of the public sector, needs to be re-evaluated. And third, the way forward should be led by a renewed multilateralism to carry out a global plan for economic and health recovery for developing countries. For long-term structural change to address inequalities and imbalances at all levels, systemic reforms to the policies and paradigms in the international financial architecture are required.

Global economic governance and policy choices will determine the fate of economies and people in the fallout from the COVID-19 health and

## Bhumika Muchhala

economic crisis. There are four key needs that bear urgent relevance for developing countries in the coming months and even years: sovereign debt restructuring; fiscal space; capital controls; and progressive taxation.

### Debt cancellation and a restructuring mechanism are essential to recovery

In 2018, the total debt of developing countries, including private, public, domestic and external debt, reached 191% of their combined gross domestic product (GDP), the highest level on record.<sup>1</sup> Much of this debt is rooted in the skyrocketing levels of private corporate indebtedness, primarily in high-income developing countries. Almost half of poorer economies, eligible to the Poverty Reduction and Growth Trust (PRGT), have been assessed by the International Monetary Fund (IMF) to be at high risk of sovereign external debt distress or already in debt distress at the end of 2019. As the COVID-19 crisis unravels across developing countries, many of the most vulnerable states are up against a sea of debt servicing in the 2020s decade.

According to the United Nations Conference on Trade and Development (UNCTAD), in 2020 and 2021 alone, repayments on public external debt for developing countries overall are estimated at nearly \$3.4 trillion.<sup>2</sup> This figure comprises between \$2 trillion and \$2.3 trillion in high-income developing countries and between \$666 billion and \$1.06 trillion in middle- and low-income countries. In a context where many developing countries are already spending more on debt service than on public health, the scenario of debt distress amid a pan-

demic literally risks human survival.

In response to the economic suspension created by the pandemic, on 15 April the leaders of the Group of 20 (G20) major economies announced a debt moratorium on official bilateral debt of the world's 76 poorest economies from May to December 2020. The IMF and the World Bank also announced amplified lending facilities for developing-country members to respond to their heightened fiscal needs for public health and national economies. The IMF has increased access limits to its Rapid Credit Facility from 50% to 100% of annual country SDR quotas and to 150% on a cumulative basis from now until October 2020. Together with its Rapid Financing Instrument, the Fund's emergency financing is expected to amount to approximately \$100 billion. The World Bank has put in place a \$14 billion fast-track package to respond to immediate health and economic needs and envisages using around \$160 billion in longer-term financial support over the next 15 months.

While debt moratoriums, concessional financing and grants offer urgently needed fiscal resources in the immediate term, there are five key dilemmas foreboding an exacerbation of sovereign debt and a scenario of multiple debt defaults. First, debt suspensions keep the debt itself intact, accumulating interest with time, while concessional financing is a debt-creating instrument. Rather than resolving external debt burdens in order to create fiscal space, resources are generated through the continued and unsustainable augmentation of debt. This could result in a debt crisis which stalls recovery while undoing the hard-won economic and social gains of many years and deepening poverty levels.

Second, the IMF's eligibility criteria for concessional financing are

still based on assessments of ‘very strong fundamentals and policy frameworks’ that centre on sustainable public debt and positive capital account positions, access to international capital markets at favourable terms and sufficient foreign reserves – all of which are highly restrictive, if not entirely unrealistic, in the present crisis context.<sup>3</sup>

Third, the debt suspension measures, as insufficient as they are, do not apply to middle-income developing countries, which are also facing fiscal pressures, particularly in light of currency depreciations triggered by massive capital outflows.<sup>4</sup> Data from the Institute of International Finance show that 13% of all emerging market corporate debt is dollar-denominated.<sup>5</sup> As the dollar strengthens through developed-country monetary expansion, and local currencies weaken through capital outflows, debt servicing costs are now increasing, further constricting fiscal policy space for all developing countries.

Fourth, the private sector has not shown willingness to grant a debt moratorium to private sector debt, much less cancel or relieve any portion of the private debt. Instead of meeting urgent health and social protection needs, therefore, fiscal resources released by official debt forgiveness may be directed towards repaying debts to private creditors. The explosion of debt owed to private sector creditors in the last two decades has generated tens of billions of dollars of external debt in developing countries, often borrowed at high interest rates, due by the end of 2021 to private creditors.

Fifth, the IMF’s use of the Catastrophe Containment and Relief Trust (CCRT), which is comprised of official aid funds, to cover six months of debt repayments by 25 low-income countries implies that official aid money is financing debt relief.<sup>6</sup> New pledges to the Trust have been finalised from the Netherlands, Germany and China. Crucially, the Trust pays back the IMF on behalf of low-income countries.

A key proposal disseminated by UNCTAD on 23 April is for an Inter-

national Developing Country Debt Authority and global debt deal to prevent a protracted debt crisis.<sup>7</sup> Three broad steps for a global debt deal are called for:

- Step 1: Automatic temporary standstills to provide macroeconomic ‘breathing space’ for all crisis-stricken developing countries by requesting forbearance to free up resources normally dedicated to servicing external sovereign debt.

- Step 2: Debt relief and restructuring programmes, with the suggestion that a trillion-dollar write-off would be closer to the figure needed to prevent economic disaster across the developing world.

- Step 3: The establishment of an International Developing Country Debt Authority to set out the institutional and regulatory foundations and oversee the implementation of a more permanent international framework to guide sovereign debt restructurings. Such a body could follow the path of setting up an autonomous international organisation by way of an international treaty between concerned states. Essential to such an international agreement would be the establishment of an advisory body of experts with independence from both creditor and debtor interests.

### **Special Drawing Rights provide urgently needed liquidity**

While G20 countries are extending an aggregate \$5 trillion fiscal stimulus to their economies, most developing countries do not have the fiscal space to provide a lifeline for the vast majority of the world population. The disparity between the fiscal firepower of developed countries and the lack of fiscal space in most developing countries bodes a deepening of global inequalities. High public debt, record capital outflows, depreciating currencies and the tightening of global financial conditions are creating multiple and layered constraints to fiscal space for stimulus efforts in the developing world.

While developed countries can borrow directly from their central

banks in their own currencies (unless they tied their own hands through legal restrictions), developing countries have to borrow from international capital markets in global reserve currencies, leading to higher borrowing costs in a context of longstanding debt distress. Adding to these structural constraints, lockdown measures, mass unemployment and the disruption of global trade, transport and investment have already inflicted greater damage on developing and emerging economies than on the rich world.

One of the most feasible, accessible and low-cost means to mobilise the fiscal resources urgently required by developing countries is the creation of Special Drawing Rights (SDRs). The SDR is an international reserve asset based on a basket of five currencies (the US dollar, the euro, the Chinese renminbi, the Japanese yen and the British pound). It was created by the IMF in 1969 to supplement its member countries’ official foreign reserves.<sup>8</sup> SDRs would provide low-cost emergency assistance to developing countries to help them address the health emergency needs as well as the economic fallout from the COVID-19 crisis.

To tackle the global financial crisis that broke out in 2008, the IMF issued \$250 billion worth of new SDRs in 2009. The scale of the COVID-19 crisis certainly calls for a significantly higher issuance. A new issuance of SDRs would have the effect of building up the level of foreign currency reserves in the central banks of developing countries. Such a boost to reserves is critical in a time of capital outflows, rising import costs due to depreciating currencies, and mass disruption in global trade and financial flows. Besides financing stimulus needs, SDRs would also facilitate borrowing at lower interest rates and purchase of needed imports.

Unlike the IMF’s credit financing tools, SDRs are an unconditional resource and do not create additional debt. This would enable some developing countries to avoid signing on to a conditional IMF loan or credit line. SDRs are essentially a countercyclical financing tool that



appropriately addresses exogenous shocks such as the current pandemic, and are allocated to all member states regardless of the Fund's macroeconomic assessment of the country.

However, a key flaw of SDRs is the basis of their allocation. Countries receive SDRs according to their IMF quotas, or financial contribution shares, rather than their level of fiscal need. This creates an unfortunate irony by which the countries which have the most need receive the least amount of SDRs. However, despite this imbalance, an SDR issuance would be an important contribution to meeting low-income countries' fiscal needs. SDR issuance also marks the only case in which developing countries have the opportunity to create international money.

Since March, wide support for SDR issuance has been voiced by a range of actors, including the IMF Managing Director Kristalina Georgieva, the Group of 24 developing countries in the IMF and World Bank, UN agencies, as well as academics, policy-makers, analysts and civil society from around the world. The calls for new issuances have ranged from \$500 billion to \$4 trillion. Former British Prime Minister Gordon Brown and former US Treasury Secretary Larry Summers, who supported the 2009 SDR issuance, have called for a \$1 trillion-plus new issuance. They noted that 'if ever there was a moment for an expansion of the international money known as Special Drawing Rights, it is now'.<sup>9</sup> To address the issue of SDR allocations by IMF quota rather than by fiscal need, a new mechanism is proposed, by which countries that do not use their SDRs can voluntarily provide them to countries that need SDRs.<sup>10</sup>

Despite widespread support for a new SDR issuance, the IMF's Executive Board failed to secure enough votes at the April spring meetings. US Treasury Secretary Steven Mnuchin delivered a statement on 16 April saying that a better, more-targeted approach would be the enhancement of IMF support to low-income countries by providing grants to the CCRT and

through new grants and loans to the PRGT.<sup>11</sup> The statement also mentioned that rich countries could also explore reallocating existing SDRs to developing countries on a bilateral basis or to bolster PRGT resources. An underlying reason for this stance may be the reluctance of the US to open new avenues of condition-free funding for its adversaries, such as Iran, Venezuela and China, which would benefit from a new SDR issuance that would be allocated to all 189 IMF members.<sup>12</sup> Besides being tragically short-sighted, the abuse of the IMF as a venue for disputes among rival powers brings the institution's legitimacy into question.

### **Renewed fiscal austerity in the aftermath of temporary fiscal space?**

More than 90 countries have asked the IMF for assistance. In response, the key development by the Fund has been to redesign its previous Flexible Credit Line into a Short-Term Liquidity Line (SLL), the first addition to the IMF's financial toolkit in almost 10 years. Similar to a credit card, the SLL provides reliable and renewable credit lines that can be drawn up to a limit, as long as borrowing countries demonstrate strong fundamentals and policy frameworks.<sup>13</sup> As the Fund states, a country which signs up for an SLL will be signalling the IMF's endorsement of its policy frameworks and institutions to markets. This endorsement can lower its borrowing costs during the current period of crisis-induced volatility. Only a few countries have passed the rigorous pre-approval procedures for the SLL, however, posing problems of accessibility (as well as debt creation) in the IMF's financial assistance strategy in response to the COVID-19 crisis.

The IMF's *Fiscal Monitor* publication in April revealed that the Fund's support for fiscal stimulus is limited to the immediate fallout from the COVID-19 crisis. Once the public health emergency diminishes, developing countries are expected to carry out the traditional fiscal consoli-

dation measures to stabilise debt ratios on a 'firm downward trajectory'.<sup>14</sup> The chief of the IMF's Fiscal Affairs Department, Vitor Gaspar, stressed the slogan publicised by IMF Managing Director Georgieva for governments 'to do whatever it takes now but keep the receipts'.<sup>15</sup> Essentially, the Fund's fiscal consolidation measures that retrench government spending on public systems and social services will remain unchanged in the long term.

While the *Fiscal Monitor* acknowledges that public investment as a share of GDP has declined in advanced economies and that the growth rate has significantly slowed in emerging and developing countries, governments are still advised to 'manage expectations' by 'making clear that support measures to address the COVID-19 crisis are temporary'.<sup>16</sup> Emerging markets and low-income countries are advised to maintain fiscal 'credibility' and prepare for an 'ambitious' fiscal consolidation. According to the Fund, fiscal credibility is essential to restore investor confidence and attract much-needed investment once economic conditions start to normalise. This adherence to the neoclassical fiscal rulebook stems, in large part, from the idea and theory that fiscal credibility is achieved by preserving the expenditure ceiling rule and reducing debt levels, even if such measures decrease growth and stall employment creation while weakening public systems and services.

The World Bank is in agreement with the IMF, as the institution's President David Malpass has expressed to G20 finance ministers that 'countries will need to implement structural reforms to help shorten the time to recovery and create confidence that the recovery can be strong'.<sup>17</sup> He added that 'for those countries that have excessive regulations, subsidies, licensing regimes, trade protection, or litigiousness as obstacles, we will work with them to foster markets, choice, and fast growth prospects during the recovery'. Explicit in his remarks is the reinforcement of the World Bank's

foundational policy support for de-regulation and privatisation.

A new future round of fiscal austerity in developing countries would be consonant with a tragic irony, in that the very structural adjustment policies that have chronically underfunded public systems and social safety nets will be required as economies eventually start to recover. Such a perpetuation of public spending retrenchment is akin to medicating a patient with the very poison that made her ill in the first place. This stance demonstrates that fiscal credibility through debt servicing is disconnected from economic stability and social development and well-being. The implication for the continued deprivation of public health systems, particularly in the context of a global health pandemic, reflects a failure to see health as part of the development policy arsenal.

Over the last several decades, the specific measures contained in IMF fiscal consolidation requirements or advice involve the elimination or reduction of subsidies, including on fuel, agriculture and food products; cuts and threshold ceilings on public sector wages, particularly the salaries of education, health and other public sector workers who comprise a large portion of the public wage bill in developing countries; rationalising and further targeting social safety nets and insurance programmes, pensions, housing benefits, child benefits and disability benefits; and broadening consumption taxes, such as value-added taxes, on basic products that are disproportionately consumed by poor households.<sup>18</sup>

The crisis triggered by COVID-19 needs to compel a fundamental rethink of the neoclassical economic ideology that prescribes and institutionalises fiscal consolidation and austerity measures. Under current fiscal discipline rules, many countries are assumed to lack sufficient fiscal space to undertake public investment. The degree of fiscal space is effectively circumscribed by limits placed on a country's public debt relative to GDP. The current approach to establishing debt ceilings defines fiscal

sustainability for the short term, an approach that ignores the interaction between fiscal policy and growth over the longer term.<sup>19</sup> Relatedly, current guidelines for assessing fiscal space and sustainability ignore what the fiscal space is used for. Most budgets classify current and capital budgets separately, but this distinction is not made when evaluating fiscal deficits. The result is restrictive fiscal targets, which have led to a decline in public-investment-to-GDP ratios in many countries.

The challenge is for governments to reframe their thinking on public expenditures by recognising the virtuous cycle, or positive feedback loop, of public expenditures.<sup>20</sup> The counterfactual costs of not investing and sustaining a long-term recovery for the poorest countries from the COVID-19 crisis are unconscionable. Most developing countries, and certainly all poor countries, simply do not possess the fiscal policy space, low borrowing costs or ability to raise capital that developed countries have employed to enact massive countercyclical monetary and fiscal policies in response to the exogenous shock of COVID-19. This is precisely why the public finance architecture must reform its response to developing countries by preventing fiscal austerity and debt accumulation, and instead committing to international coordination to support fiscal space for the most vulnerable people and states. In order to construct a viable case for the ability of expenditures to uphold equality, rights and justice, the theory, assumptions, discourse and consensus on fiscal space will need to be systematically contested and reshaped.

### **Capital controls are central to crisis toolbox**

In March, emerging markets and developing countries experienced the greatest ever outflow of investment capital, amounting to \$100 billion.<sup>21</sup> By May, outflows instigated by the panic selling of foreign portfolio investors had exceeded \$150 billion, weakening developing-country cur-

rencies and sharply constricting their domestic macroeconomic policy options.<sup>22</sup> With the exception of China, all emerging market economies ranging from Brazil to India, Mexico, South Africa and Thailand are experiencing large capital outflows from both equity and bond markets.

The lack of political will in those developing countries which are able to spend more on health and economic recovery but are not doing so, reveals a pervasive fear of worsening an already disastrous scenario of capital flight. More than a quarter of developing countries' local currency debt is held by foreigners, while capital account liberalisation norms have enabled domestic residents to easily shift their investment funds abroad.<sup>23</sup> Meanwhile, sovereign credit ratings of developing countries have been downgraded, despite the fact that COVID-19 is a purely exogenous shock. These vulnerabilities leave many developing countries hesitant to enact even urgently required fiscal policies out of a fear of losing even more investors.

The role of capital account regulations to manage the panic exit of capital in the COVID-19 crisis is thus of paramount importance to national and global macroeconomic and financial stability.

Regulations focused on cross-border financial transactions can reduce the chance that a country will experience a massive outflow of short-term financial resources that can trigger a crisis.<sup>24</sup> The benefits of capital account regulations, or capital controls, include a reduction of macroeconomic volatility and exchange rate volatility, and thus economic insecurity, as well as the imperative to bolster depleted foreign reserves that may be necessary to meet import payments. Empirical records of countries that have employed capital controls, such as Malaysia in the aftermath of the Asian financial crisis of 1997-98<sup>25</sup> and Brazil in response to the global financial crisis of 2008, show that taxes on speculative, short-term investment capital reduce both the volume of speculative flows and the volatility of interest rates.



However, a key force that works against the prioritisation of capital controls is neoclassical economic theory, and the internalisation of its rationale among policy-makers in countries across all development levels. Neoclassical rationale suggests that capital account regulations can drive up the cost of capital and curb incoming investments. Neoclassical economists present what is said to be evidence consistent with the hypothesis that capital controls increase market uncertainty and carry the risk of reducing the availability of external finance, which in turn lowers investment levels.<sup>26</sup>

### **Progressive taxation redistributes financial resources**

During the global financial crisis of 2008, a concerted campaign for a financial transaction tax (FTT) ensued. The argument is that an FTT would curb speculative and excessive trading by imposing a low tax on each trade transaction. As a result also, much-needed financial resources would be generated for stretched public purses. Although the FTT has been politically blocked for many years, the exceptional circumstances of COVID-19 could justify it. The income could be used for the emergency health financing needs of developing countries, including supporting essential workers, informal sector workers and the unpaid care economy.

A proposal for a Corona Survival Tax (CST) by civil society illustrates how the COVID-19 crisis is an opportunity to reformulate the financial industry through re-regulation towards economic recovery.<sup>27</sup> The CST is proposed as a tax that elevates the average effective tax rate of large investment banks and financial firms to 35% from an average rate of between 18% and 22% in 2019. The actors being spotlighted are the global too-big-to-fail banks such as JPMorgan Chase and United Bank of Switzerland, for example, and large asset managers such as Goldman Sachs Group, BlackRock and Pimco. Such financial firms are seen to have fa-

cilitated and profited from short-term and speculative investment and financial transactions, while also receiving dividends and benefitting from share buybacks. Hedge funds, private equity funds and high-frequency traders are also important actors, as are the big tech firms, such as Amazon and Zoom, that have disproportionately benefitted from the global lockdowns. Such companies should pay proportionately higher tax rates on the high profits they made.

During an extraordinary crisis, extraordinary measures such as a CST, as well as progressive taxation on the incomes and assets of the high-earning deciles in society, can feasibly direct idle private money towards meeting urgent health and economic needs, particularly in developing countries. Progressive tax policies also imply that regressive indirect taxes, such as value-added or general sales tax, are avoided due to their disproportionate costs to the poor.

Progressive income taxation directed at rich individuals and firms has been a historical fiscal tool to redistribute financial resources from the wealthy to the poor. During both World Wars, the US government imposed direct taxation on companies that made high profits by manufacturing for the war. Tax measures in the War Revenue Act included direct caps on prices, special war taxes, high marginal income tax rates on war manufacturers, and Congressionally mandated 'renegotiation' of corporate profits deemed to be 'excessive' by the national War and Navy Departments.<sup>28</sup> The War Revenue Act effectively contained the dilemma of profiteering, while addressing public outrage at perceived illegitimate profit-taking in times of crisis. In the current pandemic, targeted taxes and controls could similarly limit hoarding and profiteering and shore up fiscal balances, while generating necessary public financial resources.

The Indian think-tank Madhyam points out five key reasons why a progressive 'solidarity tax' is important in the current moment.<sup>29</sup> First, tax revenues will be stunted over the next two or so years due to a slowdown in

economic activity, particularly for countries which rely on commodities, natural resources, trade, tourism or consumption taxes for public revenues. Second, the spike in expenditures needed for healthcare and economic recovery will require a significant scaling up of financial resources. Third, there is a strong correlation between economic recovery and public health and economic spending. Fourth, analysts warn of a rise in protests and civil unrest with the deepening of hunger, poverty and unemployment. And fifth, taxes on wealth, estate and inheritance are the most effective policy tools to reduce economic and social inequalities.

### **Rethinking ideology to reorient the role of the state**

One of the major lessons from this pandemic is that austerity measures have led to a systematic shrinking of the strength and resilience of public systems, which has in turn led to the lack of state capacity to adequately respond to the pandemic itself. Without state capacity and resources, the legitimacy of the state comes into jeopardy.<sup>30</sup>

The pandemic implores policy-makers and international institutions to rethink the ideology that shapes the role of the state. Governments today find themselves in the driver's seat, steering the entirety of their national economies for the first time in a generation. There is an opportunity now to restructure the balance of power between states and markets in order to salvage the social contract between government and people.

A task of this order involves a deeper examination of how the role of the state has been positioned. Rather than the widespread perception that the role of the state has been rolled back since the rise of neoliberal economic policies in the 1970s, the state has been effectively deployed to serve and facilitate the market through the development of institutions and universal rules, policy norms and legal protections. The neoliberal ideology in practice, as opposed to theory or concept, does

not necessarily enact the self-regulation of markets as autonomous entities. The core of 20th-century neoliberal ideas involves the construction of meta-economic or extra-economic conditions for safeguarding the market at the global scale.<sup>31</sup> The neoliberal project is focused on developing strong institutions, not to liberate markets but rather to encase them. The imperative of the ideology is on redesigning states, laws and other institutions to protect the market.<sup>32</sup>

Such meta-economic formations have re-routed the role of the state from guiding economic development, retaining ownership of key sectors such as industry and banking, and using resources to meet the social and economic needs of its people.<sup>33</sup> Where the developmental state plays a strategic role in shaping the output and structure of the economy while balancing growth and social well-being, the neoliberal state is disciplined by international institutions to normalise policy frameworks that allow markets to own key sectors, control resources and shape decision-making. Disciplinary mechanisms include, for example, the risk ratings produced by the three global credit rating agencies (Moody's, Fitch and Standard & Poor's), the assessments provided by the IMF's macroeconomic surveillance reports and the World Bank's Doing Business Indicators (DBI). Together, they construct a constellation of ratings, rankings and signals that generate conformity to the particular policy ideas of austerity, deregulation and privatisation.

The neoliberal turn promoted by British Prime Minister Thatcher and American President Reagan in the 1980s ushered in an era of structural adjustment programmes. The one-size-fits-all straightjacket of deregulatory supply-side policies, also labelled the Washington Consensus, created a structural legacy of impoverishment and inequality through loan conditions and policy advice to privatise public services and state-owned enterprises, liberalise trade in goods and services, and deregulate capital flows and financial

transactions, among other policies.

Structural adjustment underscores 'fiscal fundamentalism' over economic and social equality and fulfilment of human rights. This is seen by how governments prioritise reducing their fiscal deficits as a first-order priority, even when history shows that government intervention is indispensable to pull economies out of recession.<sup>34</sup> A Keynesian fiscal perspective follows that the state must act as a 'counterweight' to regulate the magnitudes of economic recessions.<sup>35</sup> In the Keynesian analysis, the government implements the social contract that binds individuals and institutions in a pact of accountability, responsibility and mutual trust. During times of economic recession, governments should increase public spending in order to stimulate the economy with an influx of labour and wage-led economic momentum.

The global pandemic demands that the centrality of public financing, regulation and coordination can no longer be deliberately obscured. The international community can no longer look the other way when the state protects the market at the expense of its people. Left unchecked, the pandemic will endanger three decades of progress in reducing poverty and expanding economic sectors and employment across the developing world. It is now time to revive the leadership role of government in establishing the framework of economic strategy, setting the boundaries for the private sector and defining the nature of collaboration, the direction of compliance and the distribution of resources and benefits.

### **The way forward: Global recovery calls for a new and bold multilateralism**

The COVID-19 pandemic lays bare the unequal nature of the structures and norms of the international financial architecture. Institutional power imbalances and the primacy of the financial economy over the real economy have generated exponential inequalities, economic and social rights violations, an unequal gender

division of labour, climate change, migration and refugees, and the transgression of planetary boundaries, among other failings. The distributional function in the international financial architecture is wholly inequitable, while decision-making structures tend to reflect geopolitical realities dating back to the post-World War II era. This results in a tragic reality where even in the midst of a pandemic, countries are competing for scarce resources. The way forward must entail both a resuscitation and a reboot, one rooted in the principles of equality, rights, historical responsibility, feminist and ecologically just values, and international cooperation and solidarity.

The way forward can encompass two imperatives. First, the response to an economic recession of historic magnitude can inspire a renewed multilateralism for health and economic recovery in developing countries. Specific policy actions have been outlined by UNCTAD, global civil society and progressive academics and analysts. Second, transformative reform to global economic and financial governance can be consonant with sustainable and equitable systems of consumption and production in the reality of a warming world.

### **A global plan for recovery in developing countries**

Integrating the call by UNCTAD for a composite \$2.5 trillion package of measures<sup>36</sup> as well as key elements of civil society recommendations entails, but is not limited to, the following:

1. A **\$1 trillion liquidity injection** through reallocating existing SDRs at the IMF and issuing a new allocation that will need to go considerably beyond the 2009 allocation made in response to the global financial crisis.

2. A **debt jubilee for distressed economies**. An immediate standstill on sovereign debt payments should be followed by significant debt relief. A benchmark could be the German debt relief administered after World War II, which cancelled half of its outstanding debt. On that measure,



around \$1 trillion should be cancelled this year overseen by an independently created body.

2.a. The Civil Society 20 group clarifies that all principal, interest and charges on sovereign external debt due in 2020 and 2021 should be **cancelled immediately and permanently**, and should therefore not accrue into the future. The proposed debt relief should involve official bilateral and multilateral banks (both global and regional ones) and private creditors. All debt relief should be designed without economic reform conditionalities attached, while ensuring funds and public expenditure are targeted at protecting the rights and needs of populations, especially to maintain and increase social protection and health spending for those most in need in response to the crisis. The provision of emergency additional finance should not create additional debt.

2.b. **Private creditors** should also participate in the cancellation of debt servicing by developing countries due in 2020 and 2021 in order to allow for health and economic recovery. The coordination of private lenders and investors should be facilitated by the donor countries.

2.c. A **debt restructuring framework**, as reflected in the renewal of discussions in the UN system to design a global solution for the fair, effective and efficient restructuring of sovereign and private debt. Debt restructuring should be based on debt sustainability assessments that consider the impacts of Sustainable Development Goal and climate financing requirements.

3. A **health recovery** for developing countries funded from some of the missing official development assistance (ODA) long promised but not delivered by development partners. UNCTAD estimates that an additional \$500 billion – a quarter of the last decade's missing ODA – largely in the form of grants should be earmarked for emergency health services and related social relief programmes.

4. **Capital controls** should be given their legitimate place in any policy regime to curtail the surge in

capital outflows, to reduce illiquidity driven by sell-offs in developing-country markets, and to arrest declines in currency and asset prices.

5. Fiscal deficits generated by public spending necessary for health and economic recovery **should not result in a new round of austerity measures** in the name of fiscal credibility to restore investor confidence and attract new capital investments. The fiscal policy response to the pandemic must recognise that austerity measures have in large part resulted in underfunded, under-capacity public healthcare systems and social safety nets. A rethink is required on fiscal discipline norms and rules in order to increase and maintain public spending for universal health systems, social protection and decent work.

6. **Progressive tax measures** can raise much-needed additional financial resources to address the economic fallout of the pandemic. These include increasing the effective tax rate of systemically important global banks and large investment and financial firms, and progressive income taxation on the wealthy in society. Progressive taxation also includes targeting the private sector actors that have disproportionately benefitted from the global lockdowns, such as the big tech sector and delivery and distribution services. Essentially, taxing the banking and investment sector, big corporations, and individuals with high incomes, wealth, inheritance, real estate and financial assets has the potential to feasibly generate financial resources in the near term.

7. A **global fund for universal social protection** to support the most vulnerable countries in responding to the pandemic.

8. A **global ban on short selling among all markets and greatly increased regulation of high-frequency financial trading**, with the objective of limiting speculative trading and arresting declines in currency and asset prices.

**A renewed commitment to bold multilateralism in the United Nations**

No country alone can or should

finance a global plan. It needs to be built as part of a progressive multilateralism and global solidarity centred around the values of equity, rights and justice. The nature of the novel coronavirus clearly implies that no country can heal and recover alone, as the virus would surely find its way across borders. A failure to address the health and economic needs of the most vulnerable communities in the developing world would cost both lives and damage to the world economy.<sup>37</sup> Renewed commitment to multilateralism and global solidarity is the safest path forward.

In the aftermath of the 2008 global financial crisis, the G77 and China group of developing countries in the UN General Assembly initiated the UN Conference on the World Financial and Economic Crisis and Its Impact on Development in June 2009.<sup>38</sup> The outcome document of the conference included a comprehensive range of action items: avoiding a new debt crisis, initiating the establishment of a sovereign debt restructuring mechanism, ensuring policy space, mobilising additional financial resources for development purposes (such as SDRs), reform for a more efficient global reserve system, financial regulation with respect to all major financial centres, instruments and actors, international cooperation in tax matters, IMF and World Bank governance reform, a more evenhanded and effective IMF role in surveillance and avoidance of pro-cyclical conditionalities in IMF lending facilities, and strengthening the role of the UN and its member states in economic and financial affairs. These action items are still relevant today, and can and should be employed in the policy actions and institutional reforms to address COVID-19.

In particular, the 2009 UN conference sought to establish the UN itself as a forum to address long-term systemic issues of economic governance. The discussions of the conference highlighted that if a small number of countries grouped in the G8 or G20 can agree on actions regarding the IMF and World Bank or on systemic issues of financial regu-

lation and flows, it is then unacceptable for leading members of these groups to prevent the UN, as a universal and legitimate body, from similarly proposing actions concerning global economic governance.<sup>39</sup>

To respond to the economic fallout of COVID-19, international civil society has called for an International Economic Reconstruction and Systemic Reform Summit under the aegis of the UN, to take place either in late 2020 or in early 2021.<sup>40</sup> The conference should be an ambitious UN and Financing for Development-centred process to assess the current economic crisis and agree on responses. The aim is to advance short- and medium-term solutions to strengthen multilateral cooperation and ensure adequate fiscal and policy space for all countries, with attention to developing economies, to tackle the health, food, social, economic and financial dimensions of the crisis.

The health and economic crisis triggered by COVID-19 is first and foremost defined by its human and social toll. With a projected half-a-billion people forced into deeper poverty, the origin points of global poverty must be located in the structural inequalities within and between countries. These inequalities are generated by an exploitative global and gendered division of labour and the historically skewed distribution of wealth and resources, where the G7 developed countries possess about 58% of the world's total wealth and 46% of the global GDP.<sup>41</sup> Women are being disproportionately affected by the crisis through multiple channels, including the unpaid care economy, employment in the informal sector, export processing zones, domestic work, migrant work and healthcare sectors, and greater reliance on public services and social protection systems.

In light of the deeply sobering forecast for the deepest global recession since World War II, it is morally imperative that the international community show political will and action through bold multilateral measures

and equitable economic and financial governance. To actualise this, the universal participation of member states within the UN is essential. It is also critical to ensure that the responses to the crisis of poverty, livelihoods, health and economy are coherent with international human rights law, Agenda 2030 for Sustainable Development, the Financing for Development Conference outcomes, the Beijing Declaration and Platform for Action, and the Paris Agreement on climate change.

This is the time for the UN and all global governance institutions, particularly the Bretton Woods institutions – the IMF and the World Bank – to uphold a global transformation in the current unequal structures of finance. Just as the UN responded to the signs of the times at its founding moment 75 years ago, it should also assume leadership today. The counterfactual is an intertwined health pandemic and economic recession that will leave long-lasting scars and pose entrenched global challenges for equality, rights and justice. The time to act is now. ◆

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*The above article is based on a longer TWN Briefing Paper of the same title, which is available at [www.twn.my](http://www.twn.my).*

## Endnotes

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# South needs \$2.5 trillion support package to deal with COVID-19

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

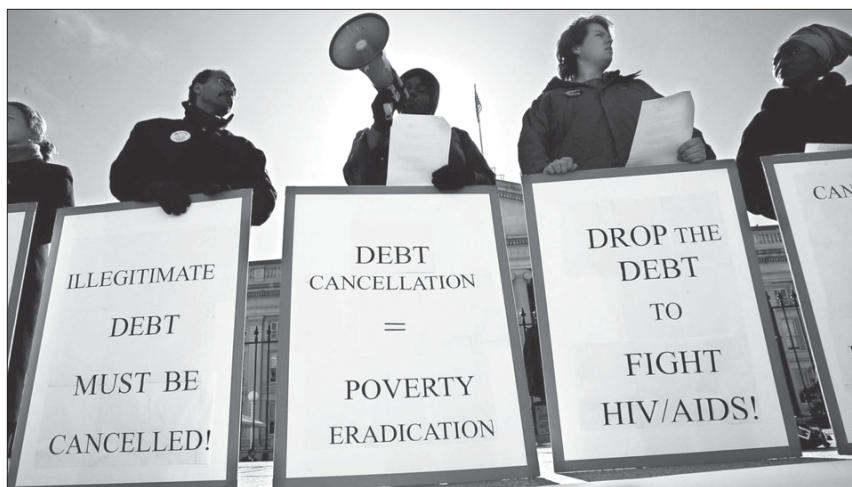
**Kanaga Raja**

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

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

## Global economic contraction

According to the UNCTAD report, projections of the potential impact of the COVID-19 shock on economies around the world for the year 2020 vary widely. However, there is broad agreement that the global economy will contract given the sudden stop to large swathes of activity and the resulting income loss



A demonstration calling for debt relief. Systematic, transparent and coordinated steps towards writing off developing-country debt, based on need rather than bargaining power, are critical.

in the manufacturing and services sectors across most advanced countries and China, combined with the adverse effects on financial markets, consumption (through both income and wealth effects), investment confidence, international trade and commodity prices.

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

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

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

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

'Although this will, in all likelihood, not prevent a global contraction this year, it should (hopefully) avert the recession turning into a prolonged depression. It should also con-

tribute to stemming the fall in the prices of both financial assets and commodities and will partially alleviate the negative growth impact from the crisis on developing countries.'

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

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

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

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

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

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

UNCTAD noted that commodity prices have also dropped precipitously since the crisis began. A fall in oil prices, which would be expected



**Current liquidity shortfalls faced by developing countries can be addressed through a new allocation by the International Monetary Fund (IMF) of Special Drawing Rights, an international reserve asset.**

from a drop in global demand, has been amplified by disagreements among the main producers on how to deal with this, with Brent crude falling 63% in the year to date. In the last 25 years, similar declines occurred only after the global financial crisis. When other commodities are added to the analysis, the overall price decline has been 37% this year, with the other major falls concentrated in metals (with some notable exceptions) and mineral products.

### **'Things will get much worse before they get better'**

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

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

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

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

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

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

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

'These conditions are unlikely to be repeated this time around. In addition, weakening state capacity, diminishing fiscal space and a rise in illicit financial flows over the past decade,

place further constraints on effective recovery strategies in many developing countries,' said UNCTAD.

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

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

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

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

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

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



**Richard Kozul-Wright, Director of UNCTAD's Division on Globalisation and Development Strategies.**

shadow-banking actors.

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

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

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

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

### Transmission mechanisms

The analysis of the impact of the COVID-19 shock has been mostly concentrated on China and advanced economies, since they were initially more affected by the pandemic, account for three-quarters of world output and have the monetary and fiscal policy space to respond, UNCTAD noted. 'However, since two-thirds of

the world population live in the (remainder of the) developing world, the responses to the current shock must include dedicated actions for developing countries, at all income levels.'

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

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

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

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

The second channel is international trade. Even after considering implementation of the effective \$1.4 trillion stimulus by advanced economies and China, a rapidly slowing growth in these countries will take place through 2020. This will mean significantly lower demand for exports for other developing economies. The losses in export volume will be compounded by the sharp falls in energy and commodity prices, which still make up most of the goods that many developing countries export.

Altogether, UNCTAD has projected that developing countries as a whole (excluding China) will lose



nearly \$800 billion in terms of export revenue in 2020. Such a drastic fall in their foreign exchange earnings will add to the challenges already posed by currency depreciations vis-à-vis the US dollar, it said.

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

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

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

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

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

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

countries, with the bulk of this amount due this year (\$415 billion in 2020 and \$147 billion in 2021).

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

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

### What can be done

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

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

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

This comes as the role of the dollar in the developing world has been increasing since the global financial crisis, largely due to developing countries’ growing recourse to international financial markets to meet ex-

ternal financing needs. At the end of 2007 and the peak of the pre-crisis boom, developing countries’ outstanding international debt securities – such as bonds, asset-backed securities and commercial papers issued by their governments and firms – denominated in dollar stood at \$840 billion, or 70% of the total amount of \$1.2 trillion. By end-2019, this figure had risen to \$3.36 trillion, or 80% of the total amount of developing countries’ outstanding international debt securities of no less than \$4.2 trillion.

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

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

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

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

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

in particular for developing countries.'

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

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

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

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

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

(3) Even if large liquidity injections to developing-country reserve



The flight to safety has already caused record capital outflows from emerging economies.

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

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

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

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

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

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

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

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

*Kanaga Raja is Editor of SUNS (South-North Development Monitor), which is published by the Third World Network. This article first appeared in SUNS (No. 9092, 1 April 2020).*

# Strengthening South-South cooperation to combat COVID-19

Strengthening South-South cooperation and solidarity can offer a positive route forward for developing countries in combating COVID-19 and addressing existing and new challenges, the UN Conference on Trade and Development (UNCTAD) has said.

**Kanaga Raja**

IN a May update to its *Trade and Development Report*, UNCTAD said that given the high vulnerability of the South to the ongoing COVID-19 pandemic and low capacity and preparedness of developing countries at national level, there is an urgent need to strengthen South-South solidarity, involving new financial relations, rebuilding trade competitiveness by reviving industrial growth and strengthening South-South cooperation for taking bold initiatives in health and health-related areas.

It further said that South-South solidarity is needed for carving out policy space in multilateral trade agreements for sustainable recovery of the South.

‘Based on results-oriented actions, the countries of the South can cultivate the ambition among themselves to build a strategic partnership, not only to promote cooperation and peer learning, but to translate their commitment to solidarity into common positions in international affairs aiming for a more inclusive global governance,’ UNCTAD emphasised.

## Global recession

According to the UNCTAD report, the world economy is reeling from the COVID-19 pandemic and most governments have no choice but to lock down social and economic activity – a decision that comes at the cost of a global recession. Global output is estimated to contract by at least 3%, with up to half the global workforce at risk of losing their jobs

and billions of people, especially in the South, pushed back into poverty and hunger.

While developed countries are providing trillions of dollars in relief, support and bailouts (to their enterprises and unemployed), developing countries are more constrained on the fiscal, monetary and external payments fronts, making it difficult for many of them to respond to the multiple shocks triggered by the crisis.

Nevertheless, some larger developing countries have provided immediate relief through financial bailouts and income support. In China, the first country affected by the outbreak, an estimated RMB 13 trillion (over 10% of the GDP) of fiscal measures and financing plans have been announced. Right after the outbreak, Brazil’s government announced emergency measures to inject nearly 575 billion reais (\$106 billion) into the economy to soften the blow from the coronavirus pandemic. India’s overall disbursement to date amounts to around 9% of its GDP.

In most other developing economies, however, the allocated funds are minimal. Developed economies have so far committed on average almost 30% of their GDP to fighting the pandemic, while the average size of relief packages in developing countries does not even reach 5% (as of 25 May).

UNCTAD also highlighted significant differences in the composition of these packages – while in advanced economies, over 40% of the total resources are employed to facilitate access to credit for firms operating in the non-financial sector, this component is much lower in the developing economies. This can put at

risk many small and medium-sized enterprises which operate in the non-financial sectors in these countries, it said.

## South more vulnerable

Overall, this crisis is serving as an important reminder of the significant differences in the underlying economic conditions of developed and developing countries which determine their respective vulnerabilities to external shocks and capacity to respond, said UNCTAD.

In particular, the much higher levels of informality in the economy, the lack of diversity in the formal economy and the heavy reliance on external markets and sources of finance, all of which are closely interlinked, not only make developing countries much more exposed to the adverse economic impacts of the pandemic but also put them in a weaker position to respond with active policy measures.

According to UNCTAD, administrative capacity has over decades been hollowed out in many developing countries by repeated adjustment programmes designed to downsize the public sector, erode the regulatory capacities of the state and generally extend the reach of markets and private firms into the public realm.

At the same time, a weakened fiscal base in most developing countries has not only acted as a direct constraint on government spending but also restricted the room for a more active monetary response, given that the effectiveness and legitimacy of the central bank to manage credit expansion also depend on reliable fiscal revenues.



As a result, developing countries have in recent years become more and more dependent on external private finance as a source of resource mobilisation.

Least developed countries (LDCs) are the most exposed to COVID-19 because of their higher capacity constraints in providing even the basic health facilities, due in part to the large percentage of government revenues absorbed by debt servicing.

General government health expenditure in low- and middle-income countries amounts to only 3% of GDP and in the group of LDCs just 1%, against 10% in high-income countries.

While the European Union has four physicians per 1,000 people, low- and middle-income countries have one physician per 1,000 people and low-income countries have one physician per 2,000 people, UNCTAD noted. It said developing countries are especially exposed to the COVID-19 outbreak given their limited ICU (intensive care unit) capacity. In China and India, for example, the number of critical care beds per 100,000 people stands at just 3.6 and 2.3 respectively, compared with 29.2 registered in Germany.

‘Beyond the threat to health services, in the absence of effective international support, developing countries will inevitably suffer lasting economic damage from the pandemic, including lower rates of capital formation, persistent debt stress, trade disruption, etc., all of which will severely constrain their recovery as well as halting progress towards meeting the 2030 Agenda [for Sustainable Development].’

If the downside risks identified in the International Monetary Fund (IMF)’s forecasts push global growth below 3% this year and the anticipated rebound in 2021 fails to materialise – both plausible outcomes – the recession that will ripple across the South could turn into a more prolonged depression and, in some regions, another lost decade, said UNCTAD.

Given their limited room to respond to a major shock, developing

countries, at all levels, will need massive international support to avoid the worst-case economic and health scenarios. However, the response to date has been wholly inadequate, UNCTAD added.

There is undoubtedly much greater room for bolder and more comprehensive action. First and foremost, due to the tightening finance constraint caused by the current shock, the Southern countries particularly need external financial support to help mitigate the economic and social damage they are enduring.

UNCTAD said that it has laid out a menu of possible options for the international financial system involving the scaling up of liquidity provision (through a massive injection of Special Drawing Rights by the IMF) and long-term financing (through grants and concessional lending by the World Bank and increased flows of official development assistance) as well as substantial debt relief.

Second, while the packages announced so far have rightly focused on strengthening national health systems, and to a lesser extent helping smaller businesses, much more needs to be done to effectively protect countries’ productive capacities, employment, and inter-sectoral linkages within and across borders and enhance social protection systems.

‘At the national level, effectively using fiscal tools (including subsidies) and strengthening public institutions to help guide recovery and expand fiscal space would be important but needs to be accompanied by strategic trade and industrial policy measures where South-South cooperation has a crucial role to play through sharing lessons and expertise.’

And at the regional and international levels, South-South cooperation could facilitate the scaling up of available finance, for the better integration of developing countries into the existing trading system, as well as supporting new regional/global value chains and forging more coordinated positions in trade negotiations for preserving adequate policy space, said UNCTAD.

## South-South solidarity essential to recovery

UNCTAD said the COVID-19 shock has not only exposed the fragile health systems and economic vulnerabilities of the South but also revealed the lack of a strong vision that unites developing countries, at all levels, around a shared international agenda.

Since the outbreak of the pandemic, although cooperation and coordination among the advanced economies themselves has been disappointing, the leading members of the G20 major economies grouping have organised a series of meetings and dialogues to discuss their actions. However, among developing countries, only some general statements (from the G77 and the BRICS countries) have emerged affirming the fight against COVID-19, without any systematic and concrete action plans.

‘Given the urgency of multiple challenges, it is essential that the South countries build a strategic partnership and take coordinated actions without further delay. Going beyond the immediate relief packages, there is a need to have in place a plan for recovery and resilience in the South.’

Any such initiative cannot substitute for effective multilateral action to ease the pressure on developing countries and drive a resilient recovery for all countries. But the multilateral system is currently weak and rudimentary and cooperation measures within the South should not only be reactive and palliative in nature but designed to promote reform of the wider multilateral system, UNCTAD emphasised.

With this in mind, cooperation should be designed around three basic principles: scaling up resources; enhancing policy space; and building resilience. Accordingly, said UNCTAD, a solidarity plan could come in the form of enhanced South-South financial cooperation encompassing initiatives covering mechanisms for both short- and long-term finance; joint action by developing countries for reviving trade and industry; and strengthened South-South

cooperation for mitigating the health and food crises.

### Scaling up finance

According to UNCTAD, most developing countries do not have large national development banks with access to significant funding at short notice (be it from markets or in the form of treasury transfers) to support emergency programmes on a scale required to protect a country's productive capacity, jobs and the most vulnerable. Given that the multinational and regional development banks thus far have launched narrowly focused financing packages, the two newly created Southern banks (the Asian Infrastructure Investment Bank and the BRICS New Development Bank), plus the Islamic Development Bank (IsDB), could have a significant role to play, it said.

Another area for urgent South-South cooperation is on the liquidity front. Despite promising \$1 trillion for crisis countries, the IMF has still to spell out how it will proceed and under what conditions countries may have access to it. It recently created a short-term liquidity line to help countries address emergency balance-of-payments needs but has yet to roll it out. Meanwhile the US Federal Reserve dollar liquidity swap lines have been restricted to advanced economies and very few large emerging economies.

Therefore, South countries should act together to use existing Southern-based liquidity funds to assign much-needed liquidity at this critical juncture. Doing so may, in addition, strengthen the hand of Southern countries in future discussions on reforming the global financial architecture and rule-making, said UNCTAD.

Long-established regional liquidity funds could be another important source of scaled-up liquidity, especially for smaller countries with few or no liquidity source alternatives. These funds include the Arab Monetary Fund, the Latin American Reserve Fund (FLAR), the Eurasian

Fund for Stabilization and Development (EFSD) and the Chiang-Mai Initiative Multilateralization (CMIM), the latter with a pool of \$240 billion serving the ASEAN+3 countries. The value of these four funds reaches a total of \$254.2 billion.

According to UNCTAD, these funds can be significant for small and poorer countries for which access to other official liquidity sources is rather limited, slow and burdened with taxing negotiations.

In addition to Southern liquidity funds, regional payments systems could bring further relief to countries facing severe balance-of-payments restrictions.

Finally, said UNCTAD, other regional financial institutions for critical deployment in this crisis are export-import (EXIM) banks, to provide much-needed trade finance for scaling up imports of medical products and other essential needs.

### Trade and industrial recovery

The UNCTAD report said that by applying sudden brakes to international trade, COVID-19 has challenged the simple connection between openness (to both trade and capital flows) and development.

Even before the crisis, developing countries had differed significantly in their ability to manage integration into a hyper-globalised international division of labour in ways that could enhance their mobilisation of domestic resources in support of sustained and inclusive growth. The picture was one of uneven interdependence; diversification in some countries co-existed with de-industrialisation in many, trade surpluses in some with persistent trade deficits in others, and sustained growth with fitful episodes of boom and bust.

While (and contrary to their four-decade-long ideological drive) massive financial subsidies are being rolled out in the North to sustain its businesses during the pandemic, developing countries, which cannot af-

ford comparable bailouts, will, at all levels, need to revive the use of strategic trade and industrial policies.

Learning how to successfully implement these policies can begin through closer South-South arrangements, said UNCTAD.

The importance of providing subsidies as an additional support for industrial recovery during a crisis has been widely recognised, it said. Industrial subsidies including financial support to specific industries, tax credits, rent rebates to small and medium enterprises, export subsidies, debt forgiveness etc. are important policy instruments which will be needed by developing countries to provide additional support to their domestic producers during and post pandemic. These subsidies can enable the rebuilding of labour-intensive and export-oriented industries like textiles and clothing, footwear etc., which are expected to take the hardest hit and lead to massive unemployment in the South.

However, developing countries do not have enough policy space to support their economic recovery given the existing multilateral trade agreements, especially with respect to industrial subsidies, said UNCTAD.

'A sensible place to explore the judicious mix of liberalising and subsidising measures in support of economic diversification would be through South-South agreements which could be subsequently used as a model for reform of multilateral rules in this area.'

Meanwhile, a temporary WTO peace clause to use industrial subsidies for reviving their industrial growth and subsequently their exports is desirable to ensure enough policy space during and after the crisis to developing countries.

Apart from industrial subsidies, industrial tariffs are one of the most effective tools in the hands of governments in the South for protecting their infant industries, regulating imports of luxury items and providing a level playing field to their domestic

producers. They are also an important source of revenue for many governments, especially small developing countries.

There is a need for developing countries to reassess and judiciously use their existing agricultural and industrial tariffs to help mitigate the damage from the crisis and build future resilience, said UNCTAD.

‘Across all these challenges, simplistic pronouncements on free trade (which fail to recognise the dominant role of very large, and often oligopolistic, firms in shaping trade outcomes) should be avoided in favour of selective trade integration for which special and differential treatment to developing countries was enshrined into the Doha Development Agenda.’

This pandemic has exposed the lack of capacity of all developing countries to recover on their own and the need for the South to show solidarity in preserving the special and differential status for all developing countries in the WTO as a means to ‘harnessing the developmental benefit of international trade’, in line with G77 principles on South-South cooperation.

Further, strategic and selective trade integration in the digital era will depend to a large extent on the digital capabilities of developing countries. Given the growing digital divide, there is an urgent need for developing countries to pool human and financial resources at the regional level to build their digital infrastructure and skills, said UNCTAD.

### Building resilience

There are ways to integrate into the global economy without necessarily sacrificing the policy autonomy of the states which enable them to respond to the developmental and social needs of their citizens by putting people before profits, it added.

While the European Union is in the process of putting in place a new industrial strategy that would increase

state powers to scrutinise and potentially block takeover bids in strategic sectors of the economy, the South also needs to protect its vulnerable industries and firms from unfair foreign competition in order to speed its industrial recovery and build a more diversified economy which is a prerequisite for resilience to future shocks.

To recover quickly from the pandemic, developed countries are bound to readjust their supply chains, bringing some links closer to home for shorter delivery time as well as to lower further risk of disruption due to the threat of a prolonged pandemic in the South. Furthermore, automation and digitalisation will in all likelihood assist the developed countries in this regard and will further reduce the (labour) cost advantage still enjoyed by countries of the South.

In this changing landscape, said UNCTAD, developing countries will need to re-engineer their existing production and distribution systems, which will be more challenging if the ongoing economic slump persists for some time.

‘In the face of falling exports, increasing domestic consumption using expansionary policies to boost domestic demand will be urgently required by the developing countries.’

However, given the constraints that many, particularly smaller economies in the South face, regional integration, and more generally South-South trade, can be an important complement to domestic-demand-led growth strategies providing new markets, encouraging complementary investment flows and technological upgrading, and, with appropriate financial arrangements, reducing balance-of-payments constraints.

As such, strengthening intra-regional trade and regional value chains for diversifying export markets needs to be prioritised in the South, said UNCTAD.

Pandemics like COVID-19 have also revealed to the world the importance of scientific discoveries and

medical research for human welfare, it noted. Any medicines or medical discoveries which are important for the survival of people need to be shared widely and access made available to all, especially to the most vulnerable countries and communities. This highlights the importance of making the TRIPS moratorium permanent, prohibiting non-violation complaints in the WTO on intellectual property rights (Article 64.2 of the WTO’s TRIPS Agreement).

UNCTAD also said that regional trade pacts for emergencies should be forged. Regional trade pacts can be used to avoid trade bans on certain key product categories in times of global and regional shortages, as is the case in the ongoing health emergency.

‘As in all dramatic moments in history, despite its enormous cost in terms of human lives and the inevitable economic and social damage generated, the COVID-19 crisis can also present a unique opportunity for change. This is especially true for developing economies and their mutual relationships.’

Despite the urgency and sudden nature of the shock, the COVID-19 crisis will inevitably leave a deep and lasting scar on the global economy and its governance, said UNCTAD. Due to the inadequate international response, chaotic preparedness, disruption of travel and trade flows, capital flight and rising geopolitical tension, hyper-globalisation, with its hallmarks of financial insecurity, economic polarisation and environmental degradation, is not the basis for recovery and resilience in the post-pandemic period.

In combating COVID-19 and addressing both existing and new challenges, strengthening South-South cooperation and solidarity can offer a positive route forward for the developing countries, the UNCTAD report concluded. ♦

*Kanaga Raja is Editor of SUNS (South-North Development Monitor), which is published by the Third World Network. This article first appeared in SUNS (No. 9133, 8 June 2020).*



# Why the attacks on WHO are a dangerous diversion

The recent criticisms of the World Health Organisation (WHO)'s handling of the COVID-19 pandemic were a massive distraction driven by the twin goals of diverting attention from the incoherent response in the United States and continuing that country's war on China by other means, says *Michael Bartos*.

AS criticisms of the World Health Organisation (WHO)'s handling of the COVID-19 pandemic gathered pace in recent weeks, one thing was blindingly obvious. This was a massive distraction driven by the twin goals of diverting attention from the incoherent response in the United States and continuing that country's war on China by other means. Buying in to this one-sided dispute seemed deeply counterproductive, and could only lead to a pointless cycle of recrimination.

But the escalation of Donald Trump's attacks on WHO – directly proportional to the intensifying scrutiny of his own inept response to COVID-19 – makes it hard to avoid the topic, especially as Australia might find it challenging to distance itself from the American president's stance.

Of course, I am not a disinterested observer. I worked for 16 years for the multilateral organisation UNAIDS, whose dozen co-sponsors within the UN system include WHO. The UNAIDS office in Geneva shared a building with staff from WHO headquarters across the road. Before joining UNAIDS, I advised WHO on a couple of projects. And I have many friends and colleagues who work for WHO.

Regardless of my background, though, I think a strong case can be made against the two central allegations: that WHO is too pro-China and that it was slow to call the pandemic.

WHO's earliest responses to the



WHO headquarters in Geneva.

news of a novel coronavirus outbreak in Wuhan were careful to praise the Chinese authorities for their handling of the outbreak. The strategic reasons are simple: if an epidemic of potentially global significance is breaking out, you want the cooperation of the country in which it has emerged. In this case, there was also strong evidence that the Chinese authorities had learnt from SARS and were keen to support global transparency and sharing of information.

Critics point to Taiwan's exclusion from WHO at a time when that country's response to COVID-19 is apparently among the world's more successful. WHO wants to pretend Taiwan doesn't exist, say its critics, and is thus depriving the rest of the world of vital information about effective responses. In reality, WHO's position simply reflects the international diplomatic settlement known as the One China policy, which emerged in the early 1970s.

Ever since the UN vote in October 1971 that switched China's seat at the United Nations from the Republic of China (Taiwan) to the Peo-

ple's Republic of China, it has been the government in Beijing that has represented China in *all* UN bodies, not just WHO, with the acquiescence of all the major powers. That hasn't stopped Taiwanese journalists using the current crisis to try to trap WHO representatives into publicly conceding Taiwan's status independent of China.

In reality, WHO finds ways of working with Taiwan by keeping exchanges of information at the technical level.

A global pandemic is not the time to push a reversal of the One China policy, and the irony of the recent debate is that it has made routine technical communication more difficult.

WHO's advice on the closing or reopening of 'wet markets' has also been adduced as evidence of its pro-China bias. The term itself and its application exclusively to Asia indicates a desire to locate new disease threats in exotic, foreign and bizarre locations. Lurid pictures of snakes being cut up on chopping blocks and mysterious pots of meats darkly stirred are grist to this mill. The Australian politicians who say they are flabbergasted at calls to reopen 'wet markets' don't appear to be outraged by trading continuing at the Sydney Fish Market or Melbourne's Queen Victoria Market. Unsurprisingly, WHO has called for produce markets that are the main source of food to be open, with close and careful regulation of markets at which any live animals are sold.

The second charge against WHO, also wrapped up with attacks on

China, is that it acted too slowly. While conspiracists refer to intelligence reports of disease outbreaks in Wuhan as early as November 2019, the verified record suggests that a cluster of viral pneumonia of unknown cause was identified in Wuhan on 21 December 2019, and that Chinese authorities conveyed information about the outbreak to the WHO China office on 31 December. That information was then published on the WHO website on 5 January 2020.

To enforce international cooperation in the face of an epidemic, WHO uses the International Health Regulations, which allow it to declare a Public Health Emergency of International Concern, or PHEIC. The process of declaring a PHEIC was examined in minute detail by WHO after the experience of the 2009 H1N1 flu pandemic, when many critics felt WHO overstepped the mark and caused global alarm about a threat that turned out to be no more serious than a seasonal flu epidemic.

WHO was therefore determined to marshal unimpeachable evidence in its handling of COVID-19. Its emergency committee met on 22 January to determine whether the outbreak met PHEIC criteria. After a day of deliberation, the committee could not agree that it did, and convened for a second day to reconsider. Again, it advised that the criteria were not met, and suggested reconvening in 10 days. That proved too long a wait, however, and WHO Director-General Tedros Adhanom called the committee together again on 30 January, at which time a PHEIC was declared.

Many were calling for WHO to describe COVID-19 as a pandemic, which it did on 11 March. But it should be noted that a pandemic declaration has no particular force in international law: 'pandemic' is neither defined nor used in the International Health Regulations. WHO issued a considerable number of pandemic influenza guidances in the context of its response to the 2009 H1N1 outbreak, and these are often taken to be WHO's pandemic rules, but their status is no more or less weighty than any other body of WHO technical guidance.

Because of the alarm it causes,

WHO doesn't use the word 'pandemic' lightly. Its use on 11 March was designed precisely to elevate the level of alarm.

WHO has also been criticised for a reluctance to urge travel restrictions in response to the COVID-19 outbreak. This too has a long history of controversy, with opinion divided on the efficacy of closing international borders in the face of epidemic outbreaks. In declaring COVID-19 a PHEIC on 30 January, WHO noted that its emergency committee 'does not recommend any travel or trade restriction based on the current information available' but that countries have an obligation under the International Health Regulations to inform WHO about any travel measures taken, and the public health rationale for them. At the same time, WHO urged countries to 'place particular emphasis on reducing human infection, prevention of secondary transmission and international spread'.

North Korea became the first country to close its borders, on 22 January 2020. Singapore and Vietnam closed down flights to Wuhan, and from 1 February, many countries started ratcheting up their travel advisories and, progressively, their travel restrictions.

WHO's reluctance to call for international travel restrictions is longstanding, and in apparent contradiction to its advocacy of social distancing including in the COVID-19 case. Part of the explanation lies in the view that closing borders is a mark of xenophobia rather than epidemic control, and part in the fact that border closures are almost always too late and can breed complacency. As the modelling studies of COVID-19 have shown, only a few 'seeds' need to find their way through restrictions for an outbreak to occur.

The view that border closures are often too late is borne out by phylogenetic studies of SARS-CoV-2, which use mutations in the genome to tease out the history of a particular instance of the virus. Here, Nextstrain ([nextstrain.org](https://nextstrain.org)) has proved to be one of the more useful tools developed during this pandemic. Building on thousands of virus genome samples deposited with an international registry, it has traced cases from the out-

set and mapped the spread. If you want to ponder the potential impact of border closures, pick your preferred date and adjust the time frame accordingly – it will show you how far the spread had already gone.

When Ebola broke out in 2013 in West Africa, WHO was widely criticised for the inadequacy of its response. It was hamstrung by the unwieldy structure of politically appointed regional directors and country representatives overly subject to the national sensitivities of the countries in which they were based; headquarters was still smarting from criticism of its handling of the 2009 H1N1 pandemic; and the international community was barely raising a finger to support the countries affected. It was only when health personnel from wealthy countries began to be repatriated with Ebola that any attention was paid.

One argument made when Tedros was running for election as WHO's director-general was that his country of birth and experience as a foreign minister would help him cut through some of these political issues. And, indeed, one of Tedros's major early successes was the Ebola response.

All this means that it is deeply unhelpful to try to adjudicate on the quality of WHO's response while this epidemic is still gathering steam. The judgements will come later, and my feeling is that they will be positive.

Even as Trump was suspending WHO funding pending review, the crisis in his own country's testing capacity was pushing the story into the background. No one should wish any more suffering on the American people. Case numbers there will soon approach the million mark, notwithstanding the test shortfalls. With no evidence that fatality rates are lower in the United States than elsewhere – if anything, the opposite – the number of deaths will inevitably pass the 100,000 mark. Care, treatment and vaccines are desperately needed.

This is the real issue. Forget the rest. ♦

*Michael Bartos is an Honorary Associate Professor in the Department of Sociology at the Australian National University (ANU). He spent 17 years as a senior United Nations official. This article is reproduced from Inside Story ([insidestory.org.au](https://insidestory.org.au)).*

# We need strong public health care to contain the global corona pandemic

What we can learn from the global corona pandemic is that strong public health systems have the resilience to address massive health threats with the collective responses they require.

**Wim De Ceukelaire and  
Chiara Bodini**

THE coronavirus (COVID-19) outbreak has spread from China to over a hundred countries in less than two months. As of 10 March, confirmed cases were above 100,000 and deaths over 4,000. Now is the time to take stock and to assess the responses of different countries to the outbreak so far.

The report of the WHO-China joint mission on COVID-19 (<https://www.who.int/docs/default-source/coronaviruse/who-china-joint-mission-on-covid-19-final-report.pdf>) offers essential insights in containment strategies, explains why health systems in many parts of the world are much less capable of implementing them, and shows the way towards more resilient health systems.

The report concludes that China has rolled out perhaps the most ambitious, agile and aggressive disease containment effort in history. And it did this with success. Cases have decreased considerably and daily life is slowly resuming in areas that have been under huge stress in the past few weeks.

As there is no vaccine nor specific treatment, the containment of the outbreak is based on a number of measures including identifying people who are sick, bringing them to care, following up on contacts, preparing hospitals and clinics to manage a surge in patients, and training health workers (<https://www.who.int/news-room/detail/07-03-2020-who-statement-on-cases-of-covid-19-surpassing-100-000>). The WHO-China



**A medical worker collecting a throat swab for COVID-19 testing in Shulan, China. A report by a WHO-China joint mission concluded that China has rolled out perhaps the most ambitious, agile and aggressive disease containment effort in history.**

joint mission report's conclusion is remarkable as it says that this has only been possible 'due to the deep commitment of the Chinese people to collective action in the face of this common threat'.

Similar conclusions can be drawn from experiences in other Asian territories. In an article on the website of *The Lancet* ([https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(20\)30551-1/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(20)30551-1/fulltext)), experts assess resilience of health systems in Hong Kong, Singapore and Japan according to their ability to apply adequate containment strategies with regard to the current COVID-19 crisis. Health systems in these locations have generally been able to adapt.

The three locations introduced appropriate containment measures and governance structures; took steps to support health care delivery and financing; and developed and implemented plans and management struc-

tures. Integration of services in the health system and across other sectors has amplified the ability to absorb and adapt to shock. Besides, this experience has demonstrated that the trust of patients, health care professionals, and society as a whole in government is of paramount importance for meeting health crises. Interestingly also, Singapore, Japan and Hong Kong rely on strong public health systems that enjoy wide support and that are able to reach and mobilise the population beyond health workers.

In many countries across the globe, public state-funded and government-run health systems have been gradually dismantled. Privatisation has affected their ability to coordinate large-scale preventive campaigns, limited their capacity to expand curative services in crisis situations while eroding the broad public's confidence in the health system as a whole.

For example, in order to apply



effective contact tracing, a fine-grained health system with an expanded first line is imperative. China has been able to mobilise thousands of health workers in the efforts to track down the contacts of infected individuals. In the US, where primary health care is weak and the health system is highly dependent on secondary and tertiary care, large-scale contact tracing is almost impossible.

Now that COVID-19 is rapidly spreading to Europe and the US, we might witness the vulnerability of more privatised health systems. In Italy, the European country worst hit by the epidemic, the regionalisation of health care – very much part of a broader design to progressively dismantle and privatise the national health care service (NHS) – has significantly delayed the adoption of coherent measures to contain the disease and strengthen the health system.

As their health systems are unable to coordinate adequate collective responses, it is not surprising that the measures taken by European governments are calling on people's individual responsibilities. Social distancing has become the cornerstone of their COVID-19 mitigation plans.

Of course it is correct to call on people's individual responsibility and it's true that social distancing has also played a role in China's containment of the virus outbreak but it's also important to acknowledge that these measures are inadequate to handle large-scale health threats. What we can learn from the global corona pandemic is that strong public health systems have the resilience to address massive health threats with the collective responses they require. Privatisation of health services and individualisation of risks might further undermine our ability to address this and future global pandemics. ♦

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## A Clash of Climate Change Paradigms

### Negotiations and Outcomes at the UN Climate Convention

by *Martin Khor and Meenakshi Raman*

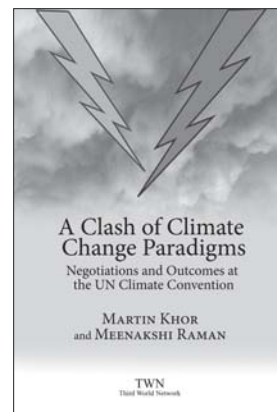
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International cooperation is crucial. But to achieve this is difficult and complex, because there are many contentious issues involved, not least the respective roles and responsibilities of developed and developing countries.

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

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

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



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# Latin America: Privatised health made the pandemic worse

The destruction of public health systems in many Latin American countries and the adoption of neoliberalism (an ideology which advocates privatisation of healthcare, among other things) have left millions in that continent helpless to face the scourge of COVID-19.

**Roberto Bissio**

AS winter started in the Southern Hemisphere on 21 June, four out of the 10 countries with the largest number of new COVID-19 cases were in Latin America and the Caribbean, the new global hotspot of the pandemic.

With a daily average of over 1,000 certified deaths by COVID-19, Brazil became the country with the highest pandemic mortality – and many sources believe these numbers to be severely under-reported. In Chile, meanwhile, the government admitted that if deaths ‘suspected’ to be from COVID-19 (because people had symptoms but were never tested) were added, the death toll, officially set at 4,500 at the time of writing, would be around 7,000. Mortality is even higher in Peru, while Mexico is also reaching the scary number of 1,000 daily deaths.

Meanwhile, other countries in the region are doing substantially better. Cuba, Jamaica and Uruguay seem to have descending curves and fewer than 200 active cases each. Costa Rica was similarly performing well, then saw the number of active cases rise to 1,000 in the last week of June, but, with only 12 deaths since the beginning of the pandemic, is still among the countries that seem to be fighting it successfully.

Science still needs to explain what factors made the impact of COVID-19 much worse in Western Europe than in Eastern Europe, or why the poorer regions of southern Italy performed so much better than the rich north. Similarly, in Latin America and the Caribbean, there is



Mourners at a collective burial of COVID-19 victims in Manaus, Brazil, the Latin American country worst hit by the pandemic. Public health expenditure, on which 9 out of 10 Brazilians depend, is only some 40% of the country's total health spending.

no evident pattern to explain or predict the performance. Chile and Uruguay are the countries with the highest per capita income in the region and yet they are at opposite extremes in the table of COVID-19 mortality rates.

In terms of health expenditure per capita, Jamaica is at the bottom of the table, but it has fared much better than countries with double the money invested in health. Brazil, Cuba and Costa Rica spend between \$800-1,000 per capita a year on health, with very unequal results in terms of COVID-19 impact. Inequalities need to be taken into account here and the key question is not so much how much money is spent on health, but who spends it.

In Brazil, which has one of the highest levels of inequality in the world, almost 60% of the total health expenditure is private, while in Chile and Mexico around half of the ex-

penses in health are private. In comparison, in Jamaica, Costa Rica and Uruguay, government expenses account for between 65% and 75% of the total health expenditures, while in Cuba 90% of health expenses are public.

The people who spend their own money on health in Brazil come from the upper 10% of the population; the top 1% spend lavishly on cosmetic surgery. Public health expenditure, on which 9 out of 10 Brazilians depend, is only some 40% of the country's total health expenses, leaving Brazilians much worse off on a per capita basis than the Jamaicans. On top of this, public health expenditure in Brazil has been declining steadily since the arbitrary impeachment of President Dilma Rousseff.

The neoliberal logic, which was first put into practice in Chile by Pinochet more than four decades ago and is now the official doctrine in



People out walking in Montevideo. In Uruguay, which has fared relatively well in combatting the coronavirus outbreak, government spending accounts for over 70% of total health expenditure.

Peru and Brazil also, claims that letting the rich pay for their own health or education would enable public services to better focus on the most vulnerable.

Nothing has been further from the reality, however. As the economist Amartya Sen put it, ‘services for

the poor end up being poor services’. The poor lack the capacity to make the service providers accountable, and all over the world the destruction of universal public health systems has resulted in a diminished number of hospital beds and of doctors and nurses working in structures available to the public at large.

A recent study\* by Dr Jacob Assa from The New School for Social Research in New York and Cecilia Calderon, a statistics specialist at the United Nations Development Programme, found that a 10% increase in private health expenditure results in a 4.85% increase in COVID-19 cases and a 6.91% increase in COVID-19 deaths. This is on an average basis – some countries like the US perform worse while others like New Zealand fare a little better – but ‘the relationship is clear and statistically significant’. ‘Some of the highest mortality rates are in the US, Italy and Spain (which have around three hospital beds per 1,000 people), whereas less privatised systems have a much higher ratio of hospital beds per people, e.g. Germany (8.2), South Ko-

rea (10.9), and Japan (13.4).’

The Latin America experience appears to provide a ‘formula’ for combating the coronavirus pandemic, with five components:

1. Free and universal public health services
2. Early decision-making based on scientific evidence
3. Strong institutions
4. Trust between society and state, and
5. Accurate public information.

Most of these components, if not all, are lacking in a majority of Latin American countries, which are characterised by highly unequal societies and extremely polarised politics. In Ecuador, Chile and Bolivia, governments that had been the target of popular ire before March are enjoying a respite as the pandemic has put a lid on mass protests. But opposition forces can only grow in the coming months, when the deadly consequences of long-term systemic failures, like the destruction of public health systems, become even clearer and combine with the short-term impacts of global recession, unemployment, increased poverty and more domestic violence against women whose care work, whether paid or unpaid, is overexploited.

If the curves that everybody wants to flatten in Latin America and the Caribbean these days follow a pattern similar to that in Europe, the ‘first wave’ of infections should be over by August. A second wave is feared and is impossible to predict, but a political tsunami might well follow the COVID-19 earthquake. The region that gave birth to ‘real neoliberalism’ may then be the first to bury it. ♦

*Roberto Bissio, from Uruguay, is the coordinator of Social Watch, an international network of civil society organisations reporting on how their governments meet international commitments.*

## Endnote

- \* ‘Privatization and the Pandemic’, available at: <https://developingeconomics.org/2020/06/21/privatization-and-the-pandemic/>



The neoliberal logic, which promotes privatisation of services like healthcare, was first put into practice in Chile more than four decades ago but is facing growing opposition.



# How COVID-19 is impacting Indigenous Peoples in Brazil

While the Indigenous Peoples of Brazil have faced many serious challenges, the impacts of COVID-19 are unprecedented and terrifying. The whole health system has collapsed and as a consequence of land and resource depletion, their very survival is at stake.

BRAZIL is home to 63% of the Amazon rainforest peoples and is the country most affected by the new coronavirus in Latin America. Many Indigenous Peoples in Brazil live in remote communities. They are at a higher risk of serious infection from COVID-19 because most of them live in distant areas with limited transport, lack of access to healthcare and food supply, and with obstacles to communication such as poor Internet connection and unreliable electricity. The healthcare structure also poses a challenge and intensifies the pandemic threat for Indigenous communities.

Some Indigenous people live close enough to cities and are visited by outsiders. Living in proximity or not, they all have to travel to small towns for education, healthcare, food and other necessities. The number of those infected with COVID-19 is increasing. This article focuses on Amazonia and highlights some good work done by Indigenous healthcare officers, leaders and supporters.

## Amazonia: An alarming situation

The situation is alarming. Forty-five percent of Indigenous Peoples in Brazil live in the north of the country, particularly in the most populated state, Amazonas. Its capital, Manaus, the largest northern city, is home to 15,000-20,000 Indigenous people and more than 53 Indigenous languages are spoken. Manaus is now one of the most affected by the COVID-19 outbreak.

The health system has collapsed

**Edson Krenak**



A coronavirus-infected Indigenous woman being attended to by nurses at a municipal field hospital in Manaus, Brazil.

with a 36% increase in cases per day and the deaths of more than one hundred daily as of 20 April. The first deaths of Indigenous people from the virus also occurred in Amazonas: a 15-year-old Yanomami boy, and writer and health agent Aldevan Baniwa, 45, of the Baniwa Peoples. Those who study (it is the beginning of the school year in Brazil) and work in the cities, like Aldevan Baniwa, are oriented not to go back to their villages, creating a new situation that gives rise to need for assistance and support.

SESAI, the Health Ministry's health agency for Indigenous Peoples, employs many Indigenous nurses and a few Indigenous doctors who offer not only healthcare but also food and news from the city and hygiene products when available. Some Indigenous health agents gave first-hand accounts of the situation of Indigenous Peoples who have been successful in protecting their communities.

Zuleica Tiago Terena is an Indigenous nurse who coordinates SESA's work in 15 villages in midwest-

ern Mato Grosso do Sul state. When asked how they are fighting the coronavirus, she stated: 'In our villages, we are protecting our people by erecting physical barriers and sanitation barriers to prevent strangers, tourists, missionaries, anthropologists and other people from visiting us. We have regular educational talks and activities with the community. The local leaders responsible for those actions have support from SESA staff.

The families or workers that had to go out are isolated in quarantine after returning. There is a healthcare technician who usually lives in the village and is responsible for monitoring those families.

'I'm responsible for 15 villages, and not all of them have a local healthcare technician. It would be great if we had at least one per village. The larger villages really need healthcare workers. We do our best here. We are proud of our work for our people.

'What I see in the state of Amazonas is chaos, a collapse at all levels, in the city, state, federal and Indigenous healthcare systems. There is a complex problem because the Indigenous villages in Amazonia are near to each other, and the Indigenous workers work with different tribes in the city then go back home. I don't think that the isolation policy is clear or has been taken seriously in Amazonas. Now, they are hardest hit by the coronavirus in the north and northeast of Brazil. We need leaders and stronger leadership among and for Indigenous Peoples.'

In northern Roraima state, Indig-

enous physician Onaldo Sena from the Kaxinawa Peoples works for DSEI, the Special Indigenous Health Agency which is a decentralised management unit of the Indigenous Health Care Subsystem (SasiSUS). DSEI is a model service oriented towards a well-defined dynamic, geographic, population and administrative ethnocultural space. However, it has only 34 offices across the entire country to attend to almost 980,000 Indigenous people from 416 ethnicities in more than 6,238 villages.

Sena spoke of the situation of the Indigenous people in his area: 'I work in a healthcare unit responsible for more than 50,000 Indigenous people from seven different ethnic groups. Our patients are from isolated, urban and suburban areas. The communities that live in the hills are aware of the situation and they are blocking visitors as much as they can, but the problem is they are so afraid that even the healthcare professionals cannot visit them and offer assistance. Scared, some groups are completely closed off, in a real lockdown.

'Indigenous Peoples are part of those at high risk. We are facing an increasing problem of illegal mining and invaders in our lands in general. The media are reporting all the time about this horrible situation. There is no global and unified message to Indigenous Peoples. But there is a technical note to orient healthcare staff like us. Because of the lack of personal protection equipment and other basic materials, we cannot do much. Before attending to any emergency or request, we have to stay in quarantine, and other problems arise. The state must do more, especially with information, education and orientation. Coordinated action between agencies and organisations is necessary. Our communities are blocking visitors and staying safe.'

While Amazonas state is very often discussed, the other Indigenous regions feel abandoned. Radio Yandê and other Indigenous media gathered Indigenous leaders and listeners to discuss the problem and raise awareness, but this is not enough. Even as the media continue to disseminate information, the problem mounts in

the country and is also escalating among Indigenous Peoples. National daily *Jornal do Brasil* reported on 24 April that Indigenous leaders in the Amazon asked for international humanitarian aid in the face of abandonment and the risk they face in the midst of the coronavirus pandemic.

'There are no doctors in our communities, there are no protective materials for this pandemic ... There is no support in the food issue,' *Jornal do Brasil* cited José Gregorio Díaz from the Coordination of Indigenous Organisations in the Amazon Basin (COICA) as saying. COICA is the umbrella body of Indigenous organisations from the nine countries that share the largest tropical forest in the world.

Other sources are reporting that COVID-19 cases among Indigenous people have grown rapidly of late. On 25 April, the ISA monitoring system reported 85 confirmed cases and seven deaths. A study, 'Demographic and Infrastructure Vulnerability Analysis of COVID-19 Indigenous Lands', published on 24 April by researchers from four Brazilian universities affirms that out of the 34 DSEI units, there are six that have the highest degree of vulnerability, all in the Amazon region. High-risk Indigenous populations include: Alto Rio Negro – 19,099 people; Yanomami – 25,972; Xavante – 19,213; Xingu – 6,704; Kaiapó do Pará – 4,559; Tapajós River – 6,074.

The researchers also point to the importance of the participation of Indigenous organisations in planning and implementing preventive actions against COVID-19. 'They are the main actors, not just subjects of prevention programmes. It is people who do all kinds of prevention that they consider appropriate after obtaining all the information about Covid-19. So, any action to mitigate the vulnerability of Indigenous lands to the disease has to be done and acted out together with Indigenous organisations,' the study concludes.

### Increasing the danger: invisibility and deprivation

Because of structural problems and lack of resources, SESAI decided to not offer medical care to Indig-

enous people with COVID-19 symptoms in urban areas, only to those in Indigenous territories who might put their communities at risk. More than 300,000 Indigenous peoples live, work or study in the cities. Infected Indigenous individuals in the cities are not counted in the numbers of epidemiological monitoring agencies. This fact increases substantially the invisibility of Indigenous Peoples during this pandemic period.

Indigenous Peoples are custodians of biodiversity, a role recognised by the Intergovernmental Panel on Climate Change, a UN group of experts on climate change. Amazonia is an area that contains an estimated 200 billion tons of carbon. Indigenous ways of natural resource management are successful. The rate of deforestation on Indigenous lands is less than half that recorded in other areas, but these communities are threatened by illegal activities and large agricultural projects promoted by governments.

While Indigenous Peoples have faced many serious challenges, the impacts of COVID-19 are unprecedented and terrifying; due to land and resource depletion, they cannot now flee and escape into their territories. Some depend on the state, and many communities live in poverty and near the cities.

To lessen the emotional suffering, I end this article with a poem. Imagination has a clear path to save us in these times, moving us towards action.

*There is a valley of bones, old  
white bones, sighing bits of life...  
And the birds dare to work out  
there... yearning over the valley  
chasing a dirty urubu who scares  
the humans  
everybody looks when a cricket  
rustled  
through the bones reminding  
them that  
Life  
is breaking through laughing ◆*

*This article is reproduced from the website of Cultural Survival ([www.culturalsurvival.org](http://www.culturalsurvival.org)), a non-profit organisation which advocates for Indigenous Peoples' rights and supports Indigenous communities' self-determination, cultures and political resilience.*

# Vietnam winning new war against invisible enemy

Although Vietnam is a poor country, she successfully managed the COVID-19 pandemic, thanks to a decisive leadership which, once the disease broke out, intervened early to mobilise the people to combat the virus behind the pandemic.

**Anis Chowdhury and Jomo Kwame Sundaram**

VIETNAM, just south of coastal China, is the 15th most populous country in the world, with 97 million people. According to its Ministry of Health (MoH), as of 13 April, there were 262 confirmed cases of COVID-19, with 144 recovering or discharged from hospitals, and no deaths.

With officials acting quickly to trace and test contacts, as well as quarantine and treat the infected, Vietnam contained the first wave of infections in January. Following a second wave of 41 new cases, Vietnam imposed a national isolation order on 31 March. The country has already conducted more than 121,000 tests, with more than 75,000 people in quarantine or isolation.

After more than a dozen people, linked to Bach Mai Hospital in Hanoi, tested positive, authorities have been tracing contacts, advised more than 10,000 people who were at the hospital since 12 March to get tested, and locked down a nearby rural hamlet for 14 days.

The Australian Strategic Policy Institute noted: 'Vietnam's experience demonstrates how, by focusing on early risk assessment, effective communication and government-citizen cooperation, an under-resourced country with a precarious healthcare system can manage the pandemic. In facing an indefinite unknown, decisive leadership, accurate information and community solidarity empower people to protect themselves – and each other.'

The influential World Economic Forum, the *Financial Times* and others laud Vietnam as a low-cost



A billboard in Hanoi promoting prevention against COVID-19. Vietnam has been lauded as a COVID-19 success story to be emulated by countries with limited resources.

COVID-19 success story to be emulated by poor countries with limited resources.

## Containing infection, Vietnam-style

While much more resource-constrained, some key features of Vietnam's response are similar to other much-lauded East Asian responses, with its infection rates significantly lower than even Taiwan's. For many other developing countries struggling to cope with the COVID-19 pandemic, key aspects of its response are very relevant.

### Early action

Having experienced the SARS1, avian flu and other recent epidemics, Vietnam acted early and proactively in response to the COVID-19 threat. When only 27 COVID-19 cases had been detected in Wuhan, China, in mid-December 2019, Vietnam's MoH

issued prevention guidelines, including close monitoring of border areas and other steps to prevent infection of its population.

When China officially confirmed the first death due to the novel coronavirus on 11 January, Vietnam quickly tightened health checks at all borders and airports. Visitors' body temperatures are checked on arrival; anyone with symptoms, such as cough, fever, chest pain or breathing difficulties, is quickly isolated for testing and strictly monitored at medical facilities, while recent contacts are traced for follow-up action.

Other tough measures followed, including closing schools, rationing surgical masks, cancelling some flights, and restricting entry to most foreigners. They have been imposed unevenly, as needed, rather than as blanket, across-the-board measures. The government has asked all citizens to make online health declarations, and regularly texts updates nationwide.





Policemen manning a checkpoint in the commune of Son Loi that was placed under lockdown in February. Vietnam was the first country after China to seal off a large residential area to contain the coronavirus outbreak.

### Selective quarantine

Vietnam was the first country after China to seal off a large residential area. After cases were traced to workers returning from Wuhan, it imposed a 21-day quarantine on 13 February in part of Vinh Phuc province, north of Hanoi, where more than 10,000 people live.

The government also ordered that all arrivals in the country be quarantined, while those who arrived after 8 March are required to undergo medical evaluation. Two communes were put under lockdown on 9 March after a British tourist with the virus visited them.

### Affordable effective testing

Vietnam developed a fast, efficient and affordable test kit within a month. Many countries have already shown interest in the kit, which uses a WHO-approved technique. Rapid development of the kit followed extensive urgent consultations with a wide range of scientists coordinated by the Ministry of Science and Technology.

Rather than mass testing, key to wealthier South Korea's response, Vietnam has focused on isolating the infected and tracking down their 'pri-

mary' (direct) and 'secondary' (next-level indirect) contacts in order to trace and test those more likely to be infected.

Concerned about stigmatisation, Vietnam refers to infected persons by their case numbers. Exceptionally, the Communist Party government published the identity and itinerary of a prominent figure who had tested positive. When local businesses were reportedly ostracising foreigners, the prime minister spoke out against such discrimination.

### Social mobilisation

Medical students as well as retired doctors and nurses have been mobilised. According to Tran Dac Phu, a senior adviser to Vietnam's Emergency Operation Centre, 'We have to mobilise all of society to the best of our capability to fight the outbreak together, and it's important to find the cases early and isolate them.'

A fundraising campaign to buy medical and protective equipment for doctors, nurses, police and soldiers in close contact with patients, and for those quarantined, was launched on 19 March. By 5 April, more than 2.1 million appeals had been texted, with a considerable sum raised for the relatively poor society.

### Transparency

The MoH's online portal immediately publicises each new case to all major news outlets and the general public, with details including location, mode of infection and action taken. Information is broadcast by television and via social media, including texts to all handphones.

Different ministries have jointly developed an app, reputedly very easy to use, allowing users to: submit health and travel information to get tested; know 'hotspots' where new cases have recently been detected; and get up-to-date information regarding 'best practices' in Vietnam and the world.

Vietnam's response has earned a high level of trust among its citizens. About 62% of Vietnamese surveyed, in the single largest global public opinion study on COVID-19, think the government is doing 'right', compared with the global average of around 40%.

### Solidarity

While some rich countries act selfishly, Vietnam is following in the steps of Cuba and China in demonstrating humanitarian solidarity in the face of the Covid-19 threat to humanity.

It has shipped 450,000 protective suits to the US for healthcare professionals, and donated 550,000 masks to five European countries. Vietnam has also donated protective clothing, medical masks, testing equipment and kits – worth over \$300,000 – to Cambodia and Laos, and testing kits to Indonesia.

Emphasising the importance of social solidarity, Prime Minister Nguyen Xuan Phuc has described Vietnam's efforts to contain the virus as the 'spring general offensive of 2020', referring to the crucial 1968 Tet Offensive by 'Viet Cong' guerrillas during its last war. – IPS ◆

*Anis Chowdhury, Adjunct Professor at Western Sydney University and the University of New South Wales (Australia), held senior United Nations positions in New York and Bangkok. Jomo Kwame Sundaram, a former economics professor, was UN Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought.*

# Herd immunity in Europe – are we close?

While the lockdown has been the standard response of most countries to contain COVID-19, Sweden adopted a less harsh strategy that could on paper have led to ‘herd immunity’. Herd immunity is the idea that if a certain portion of the population is immune to an infectious disease, then the disease will stop spreading without needing the whole population to have been infected. While initially it showed promising results, Sweden’s more lenient approach proved a false alternative. *Jeremy Rossman* explains.

WHILE no country claims to be pursuing herd immunity as a strategy, some – such as Sweden – have taken a more relaxed approach to containing the coronavirus. So how has the relaxed approach fared for Sweden – is it close to achieving herd immunity? How does it compare with other European countries that took more restrictive measures?

Herd immunity is the idea that if a certain portion of the population is immune to an infectious disease, then the disease will stop spreading, without needing the whole population to have been infected. However, herd immunity requires the infection – or a vaccine, which we don’t have yet – to generate a lasting immune response that protects against reinfection. It is not known if this will occur for COVID-19, though it is likely.

Studies have shown that infection with the SARS-CoV-2 coronavirus, or a candidate vaccine, generates an antibody response, though it’s not known if those antibodies prevent reinfection. Studies have also shown that people’s immune response to the related SARS virus was protective and lasted for up to two years, suggesting that the same may be possible for SARS-CoV-2. As a public health strategy, governments have hypothesised that allowing the virus to infect the healthy portion of the population would generate the crucial herd immunity that would then protect people at high risk of severe infection.

This concept relies on shielding the high-risk groups from infection



Sweden took a more relaxed approach to containing COVID-19, resulting in significantly higher numbers of cases and fatalities than in neighbouring countries.

while slowing the spread of the virus to avoid overwhelming the healthcare system. The attraction is that this strategy would not involve locking down the population and would, in theory, allow for a quicker resolution of the country’s outbreak.

## Poster child for herd immunity

Sweden has been the poster child for herd immunity, even if it isn’t the country’s official policy. While other Scandinavian countries used lockdowns and broad public restrictions to stop the spread of COVID-19, Sweden opted for more mild interventions and personal responsibility to slow the spread. Unfortunately,

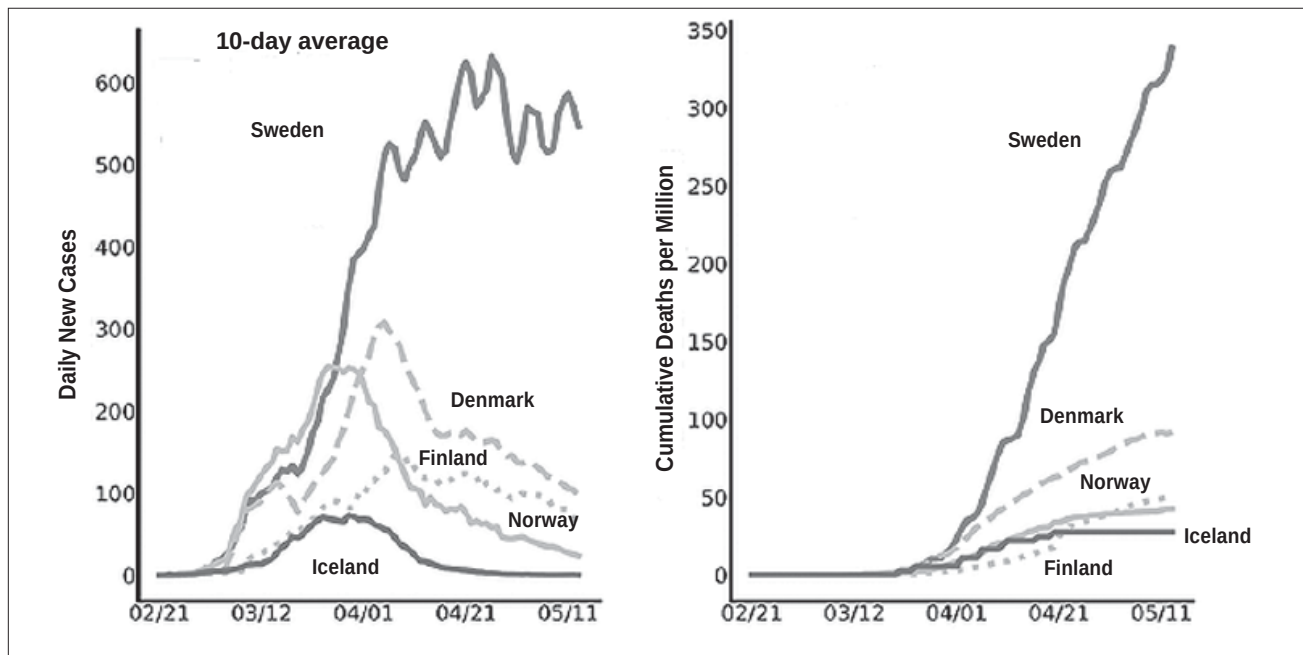
their interventions have resulted in significantly higher numbers of cases and fatalities, as seen in the figure on the next page.

Sweden has also been criticised for not doing enough to protect the elderly and high-risk groups in the country. But with the high rate of viral spread in the country, is Sweden closer to achieving herd immunity and the end to their outbreak?

## Antibody testing in Europe

One way to find out how many people in a population have been infected with SARS-CoV-2 is by conducting a seroprevalence survey. These surveys take blood samples and look for the presence of antibodies





Created by Derrick VanGennep and Vincent Brunsch of EndCoronavirus.org on 14 May 2020 from data at <https://github.com/CSSEGISandData/COVID-19>



Taking a blood sample for a COVID-19 antibody test. For COVID-19, it is estimated that achieving herd immunity would require at least 60% of the population to have protective antibodies.

against the virus to see who in a representative sample of a population has had the disease. Several countries in Europe have performed these surveys.

In the densely populated city of Stockholm, only 7.3% of the population were seen to have antibodies to COVID-19, with a lower percentage likely as an average for the whole country.

Spain reported a national average of 5% positive for COVID-19 antibodies, with 11% in the city of Madrid and 7% in Barcelona. In the UK,

recent numbers from an Office for National Statistics survey suggests that the UK also has a national average of 5% that rises to a high of 17% in London.

The World Health Organisation (WHO) recently estimated that, worldwide, the percentage of people with antibodies to COVID-19 is even lower and is thought to be less than 3%.

No country is known to have more than 5% of their population with antibodies to COVID-19, including

countries that have been more supportive of a herd immunity approach.

For COVID-19, it is estimated that achieving herd immunity would require at least 60% of the population to have protective antibodies. Every country is a long way off from this point. With nearly 5.8 million COVID-19 cases around the world and over 358,000 deaths, waiting for herd immunity would cause hundreds of thousands of additional deaths.

Importantly, waiting for herd immunity is not necessary. Many countries around the world have reduced viral transmission to the level of fewer than 100 cases per day. Even China and South Korea have reopened their economies and now see more cases imported into the country than arising domestically. This level of viral control requires continued testing, tracing and isolation of infected people, but containment is possible.

Through continued containment, we can save lives while we wait to achieve herd immunity through the only safe and realistic way possible: vaccination. ♦

*Dr Jeremy Rossman is an Honorary Senior Lecturer in Virology in the School of Biosciences at the University of Kent in the UK, and the President and Founder of the NGO, Research-Aid Networks. This article was first published in The Conversation ([theconversation.com](http://theconversation.com)).*



# International public finance and COVID-19: A new architecture is urgently needed

Arguing that the current model of financing for collective public good, including fighting pandemics and intervening in financial crises, is unsustainable, *Celine Tan* calls for a new framework for international public finance.

## COVID-19 and sustainable development

TO say that the COVID-19 pandemic is resetting the international development agenda would be an understatement. As the coronavirus outbreak tears across countries, leaving a trail of social and economic devastation in its wake, the pandemic is also tearing up the global blueprint for collective action for sustainable development agreed in 2015. Already faced with an existing financing gap of \$2.5 trillion a year,<sup>1</sup> the Sustainable Development Goals (SDGs) are destined to go severely off-track in the aftermath of the pandemic, with projections of a contraction in the global economy to rival the Great Depression. Aside from the massive and tragic loss of human lives, the pandemic is expected to result in significant declines in world trade and foreign direct investment (FDI) flows that will have substantial effects on economic activity and livelihoods.

There is an urgent need to massively scale up resources needed to tackle both the immediate health, social and economic impacts of the pandemic and the longer-term recovery measures once the crisis abates. This is much more acute for developing countries that have entered the pandemic in much more fragile and perilous economic conditions. Many developing countries were heavily indebted to official and private creditors before the crisis, including 40 low-income countries in or at high risk of facing debt distress.<sup>2</sup> Meanwhile, emerging markets have already seen unprecedented capital outflows, with overseas investors pulling out

\$100 billion since the beginning of the crisis. The slowdown in global economic output is already hitting commodity-exporting sub-Saharan African countries the hardest, as prices for oil and industrial metals have fallen sharply since the start of the pandemic.

The response of the international community has been swift, with many multilateral and bilateral institutions and private philanthropists pledging vast sums of money to support mitigation and recovery efforts of the pandemic. The International Monetary Fund (IMF) has enhanced its emergency financing funds to \$100 billion while the World Bank has pledged up to \$160 billion over the next 15 months to support developing countries to cope with the effects of the pandemic. Major sovereign creditors, including G20 countries, have agreed on a moratorium on developing-country debt payments. Regional and bilateral donors, such as the African Development Bank (AfDB), the European Union, Global Affairs Canada, France's Agence Française de Développement (AFD) and the UK's Department for International Development (DFID), have all committed to supporting health-specific and other social and economic responses to the COVID-19 pandemic. Private foundations and public-private partnerships, such as the Gates Foundation and the Global Fund, have made similar pledges to support both medical research and health interventions to stem and overcome the crisis. No doubt, there will be further commitments made in the coming weeks as the scale of the pandemic's impact becomes clearer.

## New wine in old bottles

Amidst this flurry of financial pledges, it is crucial that these financial packages are scrutinised in terms of the current framework of international public finance, especially in the context of what is called in technical circles 'financing for development'. The reason behind this is that the speed and scale of financial packages committed to developing countries obscure the political environment and institutional architecture through which they are being mobilised and disbursed. Given the historical legacies and contemporary realities of international development financing, it is imperative that the mechanisms and institutions funding global, national and local responses to COVID-19 are subjected to robust public scrutiny to ensure accountability in the use of resources and, more importantly, that the terms of such financing do not exacerbate the social, economic and ecological challenges already faced by developing countries.

It is important to note that the framework of multilateral and bilateral financing that is being utilised to channel resources to developing countries remains deeply rooted within the postcolonial rationalities that shaped the emergence of these institutions in the immediate postwar era. The circulation of financial resources from the Global North to the Global South – and the laws, institutions and policies that govern the flow of these resources – have been also central to the management of developing countries. The two institutions that have once again emerged as pivotal financiers in the current crisis – the IMF and the World Bank – have

traditionally served as powerful intermediaries between developing states and the global economy, using both their financial and epistemic leverage to exact domestic regulatory and policy change to accommodate states' insertion into the global economy. The other major pandemic financiers include the European Commission, regional development banks (RDBs) and bilateral donors from OECD states, including France, Germany, Japan, the UK and the US (the countries which also control decision-making at the IMF, World Bank and many RDBs).

Importantly, despite ostensible commitments to global coordinated action, including G20 coordination on debt relief and funding promises to more representative multilateral organisations such as the United Nations (UN) and the World Health Organisation (WHO), the bulk of the financing will primarily be channelled via bilateral and multilateral organisations controlled by powerful states. This means that the amount of financial resources extended to developing countries, and the terms that accompany such financing packages, will be largely determined by Northern policymakers and technocrats, with little input from countries and communities in receipt of such financing. Moreover, it is expected that a significant amount of financing will also be channelled through private financing mechanisms, including commercial financial instruments, private philanthropic foundations and public-private partnerships, which will be subjected to much less scrutiny than official financing platforms.

### Need for course correction

The governance and regulatory shortcomings of the framework for international public finance are not inconsequential when we consider the projected amount of financial resources (conservative estimate of between \$1 trillion and \$2.5 trillion) that will flow to developing countries as a result of the pandemic. Without clear and consistent oversight, these shortcomings can impact on short-term state responses to the pandemic and have the potential to endanger

longer-term sustainable development in three critical ways.

First, regardless of the significant volume, the amount of financing available to developing countries is likely to fall far short of their actual needs, and this simply because it remains dependent on the political will of donors and the interests of creditors.

The fundraising capacity of the IMF, for example, is limited by its archaic decision-making structure which confers effective veto power to the US. Efforts to boost the Fund's firepower last year through increases in quota subscriptions – the financial contributions countries make to the IMF as a condition of membership and its main source of funding – were thwarted by the US, thereby denying other countries, notably China, from expanding their contributions and, as a result, their decision-making power within the organisation.<sup>3</sup> Instead, the Fund has resorted to doubling New Arrangements to Borrow (NAB) and renewed its bilateral borrowing arrangements (BBAs) to maintain its \$1 trillion lending capacity.<sup>4</sup> These are funding options that are much more susceptible to creditor interests and much less egalitarian than increasing quota subscriptions or issuing additional special drawing rights (SDRs).

The use of supplemental financing as a means of topping up the IMF's liquidity is characteristic of the current landscape of international public finance. A significant amount of financing continues to be mobilised and disbursed through non-core platforms or concessional financing windows that require periodic replenishment. These are processes which often require laborious negotiations and, often, horse-trading over the terms and amount of resourcing.

Financial resources pledged by the IMF and the World Bank to low-income and some lower-middle-income countries in response to the pandemic will be drawn, as a result of this, from the IMF's Poverty Reduction and Growth Trust (PGRT) and the World Bank's International Development Association (IDA), which rely primarily on donor contributions to subsidise the cost of lending and/or to provide capital for loans, grants

and technical assistance.

Debt relief for countries indebted to the IMF or the IDA is also funded through donor contributions rather than outright cancellations by the institutions themselves. In this context, any relief on debt owed to multilateral institutions will depend on the resources available in ad hoc trust funds, such as the Catastrophe Containment and Relief Trust (CCRT) or Heavily Indebted Poor Countries Initiative Trust. As the European Network on Debt and Development (Eurodad) has calculated, the IMF's decision to extend limited short-term debt service relief to 25 countries will quickly exhaust most of the \$500 million available in the CCRT,<sup>5</sup> including the \$285 million recently pledged by the UK and Japan.

In the arena of global health, the proliferation of earmarked funds has led to chronic underfunding of core operational activities of international organisations, notably WHO and other UN development agencies, reducing their financial autonomy and flexibility to respond to pandemics. At WHO, the share of non-core funding increased from less than 50% of its budget in the 1990s to more than 80% in 2016.<sup>6</sup> Ironically, the US, which has recently announced a temporary withholding of contributions to WHO, had been instrumental, along with the UK, in advocating for a freeze in its core budget. The US and the UK also constitute the largest non-core funders, which allows them to drive the agenda of the organisation.

Second, the reliance on donor-dominated institutions to design and deliver COVID-19 financing will mean that donor interests will drive the short-, medium- and long-term solutions for many developing countries.

The aforementioned creeping 'bilateralism' or 'Trojan multilateralism'<sup>7</sup> in the constitution of international institutions responsible for financing global public goods has resulted in the widespread embedding of bilateral and, in some cases, private objectives and interests into multilateral institutions and development programmes extended to the Global South. The diversion of funds at

WHO from core to earmarked funds and the rise of so-called ‘vertical funds’ for health focused on specific health interventions, notably prevention, control and treatment of communicable diseases, have resulted in the underfunding of public health systems as a whole, radically diminishing developing countries’ capacity to deal with health emergencies.<sup>8</sup> Additionally, it is likely that the routing of existing aid funds to pandemic finance and debt relief will divert attention from other equally pressing areas, including funding for climate change mitigation and adaptation, reproductive health and maternal services and education.

Development interventions are not merely technical operations but are deeply political processes. They not only alter the economic structures within recipient states but also reconstitute state-society relations and the states’ broader relationships with external actors. As several commentators have already pointed out, over the years, financing conditionalities imposed by the IMF and the World Bank have exacerbated developing countries’ vulnerability to health epidemics and social and economic shocks resulting from natural and man-made disasters.<sup>9</sup> Yet despite evidence that these structural and macroeconomic conditionalities, such as fiscal austerity, trade liberalisation, deregulation and privatisation of social and economic sectors, are leading to significant retrenchment in health services and social protection floors, these measures have continued to be a feature of adjustment programmes tied to financial packages.<sup>10</sup>

At the same time, there has been a concerted push by the international development community – primarily by the Bretton Woods institutions and the OECD but also by the UN – towards encouraging and leveraging private financing for development. The aim has been to court commercial investors as ‘partners’ in development and humanitarian processes, a move that has prompted widespread concerns with regard to the accountability, transparency and regulation of these new channels of development finance.

Whether there will be any signif-

icant departure from this ‘business as usual’ scenario in the COVID-19 pandemic remains to be seen. On a positive note, there is some renewed commitment by most major Western states to core funding of international organisations, including the UN and WHO, and widespread agreement among international financial institutions that a departure from fiscal ceilings and a move towards fiscal stimulus and social protection measures are necessary to mitigate the social and economic dislocations of the crisis. However, there is also evidence to indicate that these policies are only to be implemented as temporary and exceptional measures to stabilise economies and that a return to fiscal austerity and deregulated markets would be expected once the crisis abates.<sup>11</sup> There are also signs that financing responses will continue to be driven by broader geopolitical and economic interests of donor states, including in regard to the securitisation of refugee and migration flows and the safeguarding of commercial interests, including private investors and commercial sovereign creditors.

Thirdly and finally, the large-scale financial response of the international community will not succeed if not matched by a similarly large-scale framework of policy coherence and accountability.

The fragmented, ad hoc and donor-driven framework of international development cooperation and public finance has meant that there is little coordination in the mobilisation and disbursement of financing at international or national levels. Despite numerous commitments to alignment, harmonisation and country ownership, there has been little uniformity, or indeed platforms for collaboration and oversight of financial support to developing countries. This means that developing countries are often left to deal with a byzantine maze of overlapping rules and jurisdictions, creating significant administrative burdens on over-stretched institutions and providing little scope for countries to engage proactively in the design of programme support.

At the same time, there is little institutional scope for accountability attached to financing by international

financial institutions or bilateral donors, including in circumstances where their policies impact on human rights. Existing mechanisms for oversight and accountability for development finance interventions are often limited to providing redress for communities affected by development projects rather than broad-based economic programmes. The World Bank’s Inspection Panel, for example, only has jurisdiction to consider breaches of operational policies relating to project-based harms, such as the impact on communities of dam construction, but not impacts emanating from its policy-based lending. Developing countries are being made to jump through numerous hoops in order to access critical financing and debt relief to tackle the pandemic and subject themselves to surveillance by international financial institutions and multilateral and bilateral donors, but there is no corresponding framework in which financiers are subjected to similar accountability and oversight.

Ultimately, financial packages will only serve as sticking plasters if broader structural issues are not addressed to remediate the conditions that led to the COVID-19 health pandemic and the social and economic impacts arising from it. Responses to the pandemic must go beyond mitigation and containment measures and towards reforming the very structural conditions of the global economy that enable the crisis to take hold and worsen.

Temporary standstills on sovereign debt repayments will be ineffective for the majority of indebted states in the longer term as they only postpone debt repayments while allowing them to accumulate more debt. The current G20 debt relief deal only covers debt owed to official bilateral creditors and is only applicable to low-income developing countries. Many countries, especially middle-income emerging market economies, will face significant risk of debt default and higher borrowing costs on international capital markets due to downgrades by credit ratings agencies.

Without outright debt cancellation and the inclusion of commercial debt, financial resources will be ulti-



mately deployed to service debt repayments rather than channelled to social – including health-related – and economic expenditures. If debt relief is funded from aid resources (for example, via debt swaps or donor-funded debt service as is the case under the CCRT), this too will reduce funds available for other fiscal expenditure, including shoring up health systems. Alongside the mobilisation and disbursement of financial resources, there needs to be the establishment of sovereign debt restructuring mechanisms and a serious reform of the global financial architecture, including allowing capital controls to prevent sudden surges in outflows from developing countries.

### Towards a new architecture

International institutions and global political and economic elites have been quick to respond to the urgent and anticipated medium- to longer-term financing needs of developing countries as a result of the COVID-19 pandemic. Yet discussions of these funding commitments have not been accompanied by a systematic evaluation of the mechanisms used to mobilise and disburse such funding. While it is important to advocate for immediate relief and support, it is as important to shine a spotlight on the framework of public finance and international development cooperation that will mobilise the pandemic-related funds. Given that there is no opportunity for substantive reform of the system during the crisis, it is imperative that we use existing mechanisms to monitor, track and account for the financial packages, while at the same time start taking the first steps towards a radical revision of the rules and premise of international public finance.

The pandemic is highlighting the urgent need to rethink the rationales and the institutional and regulatory model of international public finance. The current model of financing for collective public good, including fighting pandemics and intervening in financial crises, relies on discretionary aid contributions by developed countries and private donors rather than on collective and mandatory

pooling of funds. This model is not sustainable, accountable or redistributive. It continues instead to reproduce already existing global inequalities. Solidarity meanwhile has been increasingly replaced by philanthropy which is sustained by unequal economic relations.

Current global economic structures continue to enable the industrialised states to extract resources and accumulate profits from developing countries.

International public finance has been routinely used to mitigate the social and economic externalities of this highly unequal relationship, including financial crises, ecological disasters and health epidemics, but has not been utilised to properly redistribute global wealth. The responses to the pandemic illustrate this very well.

Moving forward, any disbursement of financial resources should take into account the resources that have already been extracted from the Global South to the Global North, including financial resources (e.g., capital remittances), natural resources (e.g., commodities) and labour resources (e.g., migrant medical personnel and care workers).

Ultimately, these financial packages, as discussed above, should be also located within an overall process of rethinking and reforming the international legal and regulatory architecture that governs the global economy. As advocated by activists, community organisations and South-focused scholars, there is a critical need, once again, to centre health, social protection, human life and the environment above profit and power. ♦

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*The IEL Collective is a group of scholars critically examining international economic law to ensure economic law and policy work for people and communities (not the other way around). For further information and other work by The IEL Collective community, please visit its website (<https://warwick.ac.uk/fac/soc/law/rsearch/centres/globe/ielcollective/blog/>).*

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# COVID-19: Scenarios for the global monetary system

Supply chains collapse, companies are facing bankruptcy, and mass unemployment ensues. COVID-19 has triggered a global financial crisis and is forcing states to develop rescue packages on a scale not seen before. In addition, the crisis has called into question the US dollar's hegemony and could redefine the global monetary system. A team of researchers from the Institute for Advanced Sustainability Studies (IASS) has developed four scenarios that show how political decisions will shape the post-corona world.

SCIENTIFIC scenarios have become an important tool for political decision-makers as they tackle the COVID-19 pandemic. Models of the corona crisis developed by researchers, and predicting shocking infection and death rates, have persuaded governments around the world to adopt strict lockdown measures and reduce economic activities to a minimum. The magnitude of this decision is now becoming increasingly apparent. The measures adopted have triggered a global economic and financial crisis that is affecting both industrialised and – even more so – developing nations, jeopardising efforts to achieve the United Nations Sustainable Development Goals.

Governments tackling this crisis face unprecedented challenges. Their task is made all the more difficult by the dearth of economic scenarios and models that could support decision-making in this situation.

In a collaboration between the IASS, Harvard University and Boston University, a team of researchers led by Steffen Murau, Joe Rini and Armin Haas has developed an innovative political-economic methodology to study the impact of global economic and financial crises precipitated by events such as the COVID-19 pandemic on the global monetary and financial system. Their findings were recently published in the *Journal of Institutional Economics*.

## A turning point in the global economic order?

At the outset of their study, the researchers examined the dynamics underpinning the development of the global monetary and financial system in recent decades. The team identified two trends that are of central importance in this context. First, while the US dollar is the centrepiece of the global financial system, a substantial share of this currency is now created by private financial institutions outside the US, and thus outside the control of the United States' central bank, the Federal Reserve (Fed). This happens, for example, when banks outside the United States create deposits by issuing loans in US dollars to finance trade within global supply chains. The researchers refer to this as 'offshore dollar creation'. Second, shadow banks have become systemically relevant entities and are creating novel forms of credit instruments that researchers now refer to as 'shadow money'.

In the case of complex and privatised structures such as the offshore dollar-based monetary and financial system, crises are key drivers of change. It is in these moments that political decision-makers lay the groundwork for future developments. The global financial crisis of 2007-09, which escalated following the collapse of US investment bank Lehman Brothers, was one such moment. That crisis began in the shadow

banking system and was essentially a bank run on offshore dollars and shadow money. The massive loss of confidence driving that crisis could only be mitigated through the introduction of an institutional innovation: a new form of cooperation between the central banks of the G7 leading industrialised countries – so-called 'swap lines' – through which central banks outside the US could borrow US dollars from the Federal Reserve to support domestic banks.

'In today's global dollar system, the Federal Reserve's US dollar swap lines are the ultimate safety net,' explains Steffen Murau, who has researched this issue first at the IASS and then at Harvard University and Boston University. 'The European Central Bank is the Federal Reserve's most important partner in this area. In times of crisis, the ECB can borrow US dollars from the Fed and then pass them on as loans to eurozone banks. The crucial issue for the future of the global US dollar system is how robust this safety net will prove to be.'

'The COVID-19 pandemic has triggered a new global crisis, the scale of which we still cannot foresee,' says Armin Haas, who leads the research team at the IASS. 'How political decision-makers respond to this crisis is crucial for the future development of the global economic order. COVID-19 is also a crisis of the global monetary and financial system based on offshore dollars.'

This aspect has been the focus of research at the IASS since 2017. ‘In our research project, we studied scenarios both with and without systemic crises and developed four alternative scenarios,’ explains Haas. ‘The scenarios explore possible developments over the next two decades and, in light of the unfolding COVID-19 pandemic, are already proving to be highly relevant for policymakers.’

### Four scenarios for the global financial system in 2040

The researchers explore four possible development pathways in their analysis. The first two presuppose that the financial system continues to evolve – resolving crises with the instruments of the existing system, much as occurred in 2008. The other two explore possible developments resulting from a collapse of the system that the Fed failed to prevent.

The analyses explore the following four scenarios:

1. A continuation of the current US dollar hegemony;
2. The co-existence of competing monetary blocs;
3. The emergence of an international monetary federation; or
4. International monetary anarchy.

In the ‘business as usual’ scenario (1), US dollar hegemony persists, with the US maintaining its role as the central stabilising factor in the financial system. In this scenario, Trumpism and its policy of ‘America First’ prove to be passing fads. The eurozone, meanwhile, remains mired in a backlog of much-needed reforms and China fails to establish itself as a rival financial centre.

‘The current COVID-19 crisis is putting extreme pressure on the global privatised US dollar system. But the Federal Reserve’s interventions in March and April have stabilised the system for the time being, allowing it to continue along its current development path. In doing so, the Federal Reserve is acting as the de facto global central bank,’ says Murau. ‘The eurozone, on the other hand, is in

troubled waters. Once again, the issue of Eurobonds is putting the EU to the test and revealing the gulf between reality and European aspirations to strengthen the euro’s international role.’

In contrast, the second scenario sees the establishment of competing monetary blocs, with the EU and China emerging as two significant rivals to the US. In this scenario, the latter no longer stands as the guarantor of global stability, while the eurozone successfully overcomes its deficits and China succeeds in internationalising its currency, the renminbi. These developments result in the further regionalism of world trade and the financial system.

‘The pandemic is exposing the failings of America’s welfare state. The collapse of the US economy could weaken the geopolitical position of the United States in the medium term. China, on the other hand, has a headstart when it comes to overcoming the effects of the pandemic and could use this to its advantage in the trade war opened by Trump,’ Murau explains.

In the third (revolutionary) scenario, the Federal Reserve proves unable to withstand the global crisis and the global US dollar system implodes in a series of defaults and bankruptcies of leading private financial institutions. However, the scenario assumes that the G20 grouping of the world’s major economies succeeds in creating an alternative global monetary system at the height of the crisis; a system built not around a single national currency, but around an international organisation. In this scenario, the international monetary hierarchy has shifted, with national currency areas now operating alongside each other. In the EU, the member states reintroduce their former currencies, but retain the euro as a regional supranational unit of account. Offshore credit money creation is completely abolished. While shadow banks continue to operate in some states, elsewhere governments push for tougher regulation aimed at

eliminating shadow money.

‘The Federal Reserve’s rescue efforts run counter to the policies of the Trump administration, which has probably not yet grasped the scope of these interventions. The question is whether the Fed can maintain this level of commitment in the medium term, especially in the event of Trump’s re-election. It is not impossible that a chain of circumstances could take the Fed’s swap network to breaking point – an event that would be comparable to the Bank of England’s cancellation of the gold standard in 1931,’ says Haas. ‘Naturally, there’s a touch of liberal utopia to our third scenario. However, proposals for this kind of system have been around in various forms for at least 150 years.’

In the fourth scenario, following the collapse of the existing system based on private offshore dollar creation, efforts by the G20 to establish an alternative monetary and financial system founder and eventually fail. Instead, international monetary anarchy reigns. As a consequence, the international payments system grows increasingly unreliable, international value chains break down and barter arrangements become commonplace in international trade. The result: a hard-hitting global depression that compels states to experiment with different institutional arrangements in order to tackle the challenges. These experiments lay the foundations for the development of a new system at some point in the future.

‘This is the only scenario in which crypto-currencies are of more than marginal importance,’ says Rini, who has previously worked in the fintech sector. ‘In our view, the strong path dependency of the global dollar system makes it unlikely that crypto will emerge as a genuine alternative – unless, of course, the current system implodes. Crypto-currencies have been largely ignored in the context of the COVID-19 crisis and have failed to profit from it so far. But this could quickly change in the event of an uncontrolled systemic collapse.’



## Charting a course for the transformation towards sustainability

‘Our scenarios are not intended to be exact predictions of the future, nor are they normative assessments or institutional blueprints,’ explains Haas. ‘What they do is extrapolate existing trends and create a space of possibility in which we can explore the development of the international monetary system along different development pathways through to 2040.’

‘The ideas presented in these scenarios are already being discussed in expert circles. What we have done is to link these ideas to political and economic development pathways and to highlight the central role of shadow banks and offshore money creation,’ says Haas. ‘These scenarios emphasise the decisive role of the US Federal Reserve as the creditor of last resort for the global dollar system and its ability to tackle the crisis.’

The development of scenarios to explore the future of the international monetary and financial system dovetails with the mission of the IASS to analyse and support global transformations towards sustainability. ‘Exploring the implications of different scenarios for the ecological transformation of our societies is integral to our research programme.’ After all, ‘financing for transitions towards sustainability will either be provided through the global financial system – or they will not take place,’ says Haas. ‘Efforts to create a sustainable and climate-friendly global economy cannot succeed in the absence of a functioning global monetary and finance system.’ – *Institute for Advanced Sustainability Studies (Germany)* ♦

*The IASS conducts research with the goal of identifying, advancing and guiding processes of social change towards sustainable development in Germany and abroad. Its research practice is transdisciplinary, transformative and co-creative. Among its central research topics are the energy transition, emerging technologies, climate change, air quality, systemic risks, governance and participation, and cultures of transformation.*  
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## Battles in the WTO

Negotiations and Outcomes of the WTO Ministerial Conferences

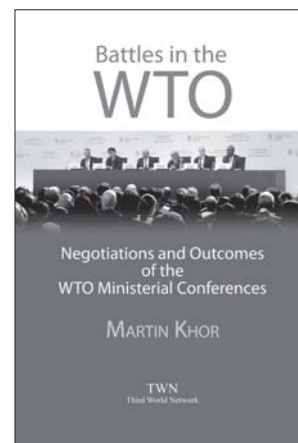
by *Martin Khor*

The World Trade Organisation has been an extremely controversial and divided organisation ever since its establishment in 1995. The big battles are most evident at its highest governing body, the Ministerial Conference, where the Trade Ministers of member states convene to chart the WTO's course.

This book is a compilation of contemporaneous reports and analyses of what unfolded at each Ministerial, as well as a few “mini-Ministerials”, that took place from the WTO's inception up to 2017. As these articles reveal, the Ministerials have been the stage on which battles over the future direction of the WTO are most prominently played out. These clashes have mainly pitted developed member states pushing to expand the WTO's ambit into new subject areas, against many developing countries which call instead for redressing imbalances in the existing set of WTO rules.

This book also shines a light on the murky decision-making methods often employed during Ministerials, where agreements are sought to be hammered out by a select few delegations behind closed doors before being foisted on the rest of the membership. Such exclusionary processes, coupled with the crucial substantive issues at stake, have led to dramatic outcomes in many a Ministerial.

The ringside accounts of Ministerial battles collected here offer important insights into the contested dynamics of the WTO and the multilateral trading system in general.



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# Corporate power and States' (in)action in response to the COVID-19 crisis

The response to the present compounded public health and economic crisis should not be a repeat of past mistakes, but should set us on a course towards transformations in economic, social and ecological governance. Such course correction requires a fundamental shift in the relation between States and corporations, says *Kinda Mohamadieh*.

THE response to the latest financial and economic crisis that unfolded in 2008 had been rightly characterised as a massive wealth transfer, where profits were privatised for the benefit of big financial corporations while losses were socialised. States bailed out failing financial institutions with no strings attached. This led to undermining the benefits accrued by citizens and small and medium enterprises from the bailouts extended by governments. It also allowed financial corporations to continue risk-taking practices similar to those that led to the crisis in the first place.

Today, many voices caution that the response to the present compounded public health and economic crisis should not be a repeat of past mistakes, but should set us on a course towards transformations in economic, social and ecological governance. Such course correction requires a fundamental shift in the relation between States and corporations, and a demonstration of willingness by States to utilise policy, institutional and legal tools that could allow a balancing in the power relations between corporations and capital on one hand, and governments, labour and citizens on the other. This includes balancing the privileges offered to globalising corporations with commensurate obligations. Without such proactive interventions by States, the current compounded crisis could potentially become another platform for big corporations to leverage their already entrenched economic and political pow-



Suppliers in the garment industry value chains in countries like Bangladesh have suffered cancellations by big corporate clients of orders and contracts for goods that are ready or are in the manufacturing phase.

ers, thus contributing to further deepening inequalities and injustices in the post-crisis period.

So far, there is no serious indication that such course correction is underway or possible. To the contrary, State responses seem either to privilege big financialised corporations or to remain inattentive to needed interventions in order to ensure that private profit-making does not trump broader social and economic priorities, including the well-being and right to life of the less-resourced.

This article discusses three areas where such imbalances in State responses to the crisis are demonstrated, particularly in their dealing, or lack thereof, with corporations and corporate power. These include the design of the stimulus packages offered by developed countries to 'their' corpo-

rations, the vulnerabilities in global value chains due to irresponsible practices by multinational corporations, and the role of financialised pharmaceutical corporations in the quest towards a COVID-19 vaccine and therapeutics.

## Corporate entrenched powers and vulnerabilities pre the COVID-19 crisis

Since the 2008 financial crisis, the non-bank corporate sector has been increasingly accumulating debt, which amounted to more than \$3 trillion during the first three quarters of 2019, making it one of the biggest chunks of global debt accumulated during that period.<sup>1</sup> In March 2020, *The Economist* reported corporate debt at \$74 trillion.<sup>2</sup> Research by the

United Nations Conference on Trade and Development (UNCTAD) explains that these unsustainable corporate debt burdens have been the result of highly leveraged corporate loans that had built up over the last decade of easy money and against a backdrop of heavily underregulated economies and deeply ingrained income inequalities.<sup>3</sup>

Before the COVID-19 pandemic, global debt had reached an all-time high of over 322% of gross domestic product (GDP) during the third quarter of 2019, amounting to \$253 trillion.<sup>4</sup> Since the debt buildup began in 2010, the debt-to-GDP ratio in developing countries, including different forms of debt – consumer, business and government – had climbed 54 percentage points to 168%.<sup>5</sup> By the end of 2019, corporate debt in the developing economies had also reached a record high of more than \$55 trillion.<sup>6</sup> In emerging markets, debt had risen more than twofold since 2010, to \$72 trillion, driven mainly by a buildup in non-financial corporate debt.<sup>7</sup> This has been the result of increasing borrowing on international markets in order to benefit from lower interest rates.<sup>8</sup>

In the United States, corporate debt relative to assets before the COVID-19 crisis was the highest in 20 years. It had accumulated as a result of broad share buybacks driven by a push from corporations to boost their shareholder profits.<sup>9</sup> Such trends focused on short-term shareholder returns are not limited to the US, however. European companies had increasingly shifted focus to short-term corporate distributions and payouts for shareholders, which doubled over the last 15 years, in comparison to shrinking spending on innovation and research.<sup>10</sup> These trends tell the story of financialised corporations whose strategy is primarily focused on share value and not necessarily advancement in innovation, production, job generation and real growth.

Thus, before the COVID-19 crisis, the corporate sector looked a lot like the financial sector in the period preceding the 2008 crisis.<sup>11</sup> Much of the big corporate sector's vulnerabilities revealed by the current crisis emanates from risky decisions taken

by these corporations in pursuit of fast accumulation of profits during the 'stable' time, enabled by lax or de-regulatory approaches by States.

Besides the State's inaction that enabled such risky and unsustainable accumulation of debts, the liberalisation and deregulation adopted by States through international trade and investment rules have been facilitating the accumulation of immense bargaining power by these corporations, and thus by capital in relation to labour. This allowed corporations to repress wages and working conditions in both developed and developing countries.<sup>12</sup> It put big business on a detachment course from productive activities and value-added investments, as it increasingly came to rely on and be driven by a financialised strategy.<sup>13</sup>

UNCTAD had documented how the world's largest corporations increasingly extract profits from the economy and achieve huge gains without a proportionate contribution towards adding decent jobs, innovative advancement or societal returns.<sup>14</sup> Moreover, the International Monetary Fund (IMF)'s research pointed out the rise of market power concentration driven by 'corporate giants', what have been called 'superstar' companies in all broad economic sectors, including in information and communication technology.<sup>15</sup>

This concentration in market power exhibits a negative relation with investment, innovation and labour shares, noted the IMF's research, 'implying that the labour share of income declines in industries where market power rises'.<sup>16</sup> This characterisation by the IMF is in line with what UNCTAD calls the 'winner takes most' distributional ethos of a hyperglobalised world order where big corporations look very much like a crocodile with corporate profits devouring the labour share of income.<sup>17</sup>

Research shows that these big corporations are capturing increasingly high market shares, allowing them to use their market position to earn excess profits.<sup>18</sup> Thus, concentration of market power and the increasing financialisation of big corporations have driven a widening wedge between big corporations and

the rest of the corporate sector<sup>19</sup> comprising small and medium enterprises.

Furthermore, a special set of exclusive privileges have been offered to highly endowed asset holders and corporations when investing abroad, in the form of an investor-State dispute settlement (ISDS) mechanism. Such mechanisms, incorporated into most international investment agreements, allow foreign investors to challenge legitimate non-discriminatory governmental action taken in the public interest.<sup>20</sup> Civil society groups have documented how investment lawyers and law firms have advised their corporate clients on the use of ISDS to challenge measures taken by governments around the world in response to the COVID-19 crisis and related economic fallout.<sup>21</sup>

While corporations had benefited from State actions and inaction in order to extract profits and accumulate economic and political power,<sup>22</sup> today many rush to the doorsteps of their governments requesting support that is claimed to be necessary for their survival.

### **Stimulus packages show no serious intention to stimulate a course correction**

The anatomy and terms of the stimulus packages and other measures launched by many developed economies to save companies tell us a lot about the nature of the interactions between States, corporations and rights holders, including workers and citizens. They also shed light on whether the choices adopted to get out of this crisis will lead us towards the economic, social and ecological transformations that many are calling for.

Stimulus packages include a combination of financial injections to stabilise banking and corporate balance sheets in addition to government spending in the form of purchases of goods and services and extended unemployment benefits and cash transfers to households. However, the latter are often just a fraction of the packages adopted.<sup>23</sup>

This is most clear in the United States, where under the Coronavirus



Aid, Relief, and Economic Security Act (also known as the CARES Act), the largest share of the package consisted of loans to business. The CARES Act encompassed the largest economic stimulus bill in modern history, more than doubling the one passed in 2009 during the financial crisis.<sup>24</sup> It amounted to \$2.2 trillion, out of which only \$193 billion went to spending on goods and services, an estimated \$111 billion to additional unemployment benefits and \$275 billion to cash transfers. Around a quarter of the total package, or \$500 billion, was dedicated to big businesses. These transfers if not repaid will need to be restructured into equity, resulting in the government owning an increasing share of corporate America.<sup>25</sup>

This money is transferred with few conditions from the side of the State, and these conditions do vary between big and smaller businesses. While there are some restrictions related to share buybacks during the term of the loan plus one year, payments of dividends and limits on executive compensation at the 2019 levels, no employee protections are included,<sup>26</sup> such as requirements to give workers paid sick leave or guarantees that companies do not lay off workers. In addition, the US Treasury Secretary is given the powers to waive any of the conditions on big corporations if deemed necessary to 'protect the interests of the federal government.'<sup>27</sup> All the borrowing that the corporations will be able to secure on top of the government's contribution will also be free from any restrictions.<sup>28</sup> In comparison, restrictions attached to the money going to small and medium-sized businesses included restraints on paying out dividends and buying back stock, outsourcing or moving jobs offshore, in addition to requirements to honour collective-bargaining agreements.<sup>29</sup>

Thus far, the United States' interventions seem to be geared towards setting the stock market on the road towards recovery while leaving behind the majority of workers and their families who will be left worse off. It has already been reported that US companies are denying workers unemployment benefits, shutting down their healthcare and laying off work-



US President Donald Trump signing the CARES Act in March. Around a quarter of the total stimulus package under the Act, or \$500 billion, was dedicated to big business.

ers.<sup>30</sup> At the same time, the US Federal Reserve's interventions have sent US stocks surging.<sup>31</sup> The decoupling of Wall Street, as a representation of the financialised economy, from the real economy is stark. Stocks, including the S&P 500 index, have rallied at a time when more than 20 million Americans were cut from payrolls and household names in the retail sector filed for bankruptcy.<sup>32</sup> The Federal Reserve's announcement of unlimited buying of treasuries and mortgage-backed securities helped stabilise debt markets, allowing big companies like Coca-Cola, Disney and Apple to access needed financing. Meanwhile, small and medium-sized companies were left unable to face the shock and had shed millions of jobs since the beginning of the crisis. Many of these businesses have reported immense complexities in accessing funds made available through the stimulus packages.

Reflecting on these discrepancies, the UN Special Rapporteur on extreme poverty and human rights has said that the US 'could use its significant wealth to resolve many of these issues, but a response that favours corporate interests and entrenches inequality will be catastrophic'.<sup>33</sup>

On the other side of the Atlantic, member States of the European Union have been split over offering bailouts to corporations registered in offshore tax havens.<sup>34</sup> While the resistance to bailing out tax dodgers has been welcomed by tax justice campaigners, many are worried that the definition of a tax haven is too nar-

row, excluding fiscal paradises within the EU itself.<sup>35</sup> Furthermore, trade unions and civil society groups have called for directing all public stimulus investments towards accelerating the transition to a just, resilient and sustainable economy,<sup>36</sup> including attaching strict climate and environmental conditions to State aid, loans, subsidies and other direct and indirect bailout support to companies, that would be monitored and enforced by the EU.<sup>37</sup>

### Global value chains used to export part of the economic crisis burdens

Amidst the multiple dimensions of the current crisis, corporations in industrialised economies, heading major global value chains, are attempting to export part of the burdens of the crisis down the value chain.

Much has been written about the breakdown in global supply chains during the current crisis, and the challenges of managing supply chain risk and disruption, especially emanating from over-dependency on certain markets. However, much less has been said about the strains and burdens exported to the lower end of the value chain, where the most vulnerable entities reside. These are often suppliers in developing countries employing thousands who, without these jobs, are left on the brink of the poverty line if not below it. These are constituencies who rarely earn enough to accumulate savings, which

means that without their jobs, their families' access to food and education would be jeopardised.

It has been reported that suppliers in the garment industry value chains have been facing mounting challenges as a result of unreasonable demands from big clients, mainly corporations in the United States and the United Kingdom. These include cancellations of orders and contracts for goods that are ready or are in the manufacturing phase. They also include requests for discounts on outstanding payments and for goods in transit, and extensions on previously agreed payment terms that could reach up to 120 days.<sup>38</sup> For example, since the coronavirus pandemic took hold, 'more than half of Bangladesh suppliers have had the bulk of their in-process, or already completed, production cancelled',<sup>39</sup> despite the contractual obligations underpinning these orders. Many of the corporate clients utilise '*force majeure* clauses' to justify their violations.

In several developing countries, the garment manufacturing industry is a major employer, particularly among women. For example, the sector accounts for more than half of all manufacturing jobs in Bangladesh and 60% in Cambodia. Overall, the International Labour Organisation estimates that there are 450 million people working in global supply chains across multiple sectors including the car industry, garment manufacturing, jewelry and food, among others. This is in addition to the untold numbers working in domestic supply chains. The latter are also significantly impacted as a result of decisions taken by multinational corporations, especially those that shape the practices of their subsidiary companies in developing countries.

These pressures on the lower end of the global value chains come from big corporations that are probably accessing support from stimulus packages offered by their governments. Such behaviour from large companies in industrialised economies is tantamount to exporting part of the burden of the economic crisis down the value chain to entities that do not have the access to liquidity and government subsidies enjoyed in the United States and European coun-

tries. In effect, these trends reflect an upholding by big corporations of their commitment to primacy of shareholder value at the expense of workers whose sweat enabled the profits accruing to those on the top of the value chain.

What we are witnessing during the COVID-19 crisis is part of the continuous story of fragilities and vulnerabilities in the lives of those who depend on jobs at the lower end of global value chains. These pressures that multinational companies have been exerting through squeezing down on the lower end of the supply chain have often been reflected in multiple pressures on the economic conditions of developing countries, including through factory closures, unpaid workers and clampdown on government tax revenue, which itself means less investment in public systems and support to local workers and the local industry.<sup>40</sup> In the current crisis, they will be reflected in a spike in unemployment and consequently poverty across many developing countries. Where jobs are retained and operations are still ongoing, these pressures could mean that manufacturers will not be in a position to provide needed gear to protect the health of their workers or organise the workplace in accordance with needed safety measures.

These situations show that private ordering is not enough to guarantee rights in such a context where power imbalances are entrenched. Indeed, it reveals the hollowness of the 'responsible sourcing' narrative and voluntary commitments to human rights due diligence that we often hear of and read about in corporate reports. The imbalances and pressures we witness are enabled by contracts that lack required guarantees particularly those pertaining to full respect of workers' rights. Even where companies are abusing the *force majeure* clauses in contracts, their contractual counterparts (i.e., the suppliers in developing countries) will probably not be in a position to pursue legal action in quest of their rights.

These situations are also the result of lack of action by the home States of multinational corporations in regard to clarifying the obligations of their companies when operating

abroad through subsidiaries or through contractual arrangements with suppliers. States do have existing obligations under international human rights law to regulate the conduct of their businesses when operating domestically or abroad.<sup>41</sup> Furthermore, the responsibilities of business in regard to respecting human rights including labour rights and undertaking human rights due diligence throughout their chain of operations have been solidified by the UN Guiding Principles on Business and Human Rights. These principles have received the consensus of the international community. However, there has been a lack of active interventions by States to develop their domestic legal framework in a way that reflects this global consensus and clarifies the obligations of companies when conducting business domestically or internationally, including through global value chains.

Discussions pertaining to an international legally binding instrument on business and human rights have been championed by a number of developing countries at the UN.<sup>42</sup> Such a treaty, if agreed, could potentially clarify States' obligations to enact domestic regulations with extraterritorial reach in order to regulate the conduct of their national businesses when investing and operating abroad.

Global value chains, as a dominant form of capitalism today, have been a vehicle for entrenching concentration of economic resources and power in the hands of multinational corporations. Today, these chains might become another avenue for exporting part of the economic crisis to developing countries, thus deepening inequalities, whereby impoverished workers are left to lift part of the burden off the shoulders of multinational companies.

### **Financialised corporate strategies could undermine fair and equitable access to COVID-19 vaccine and therapeutics**

Public money has been central to the research and development going into the search for a COVID-19 vac-

cine and therapeutics. Beneficiaries from these public contributions include major multinational pharmaceutical corporations.<sup>43</sup> For example, on 16 March, the European Commission approved a financial support package of 80 million euros to CureVac, a Germany-based biotech company, to develop and produce a vaccine. Another pharmaceutical multinational, Moderna, is getting \$483 million from the US government's Biomedical Advanced Research and Development Authority to develop a vaccine.<sup>44</sup> Similarly, Gilead received about \$70 million from the US National Institutes of Health to run clinical trials on the drug remdesivir as a potential treatment for COVID-19,<sup>45</sup> and AstraZeneca said it secured \$1 billion in funding from the US health department.<sup>46</sup>

Corporations benefiting from these public monies are already seeing returns in the form of higher stock value. For example, as a result of the announcement pertaining to the US government's contribution to Moderna, the company's shares blasted off around 13.7%, recording a 52-week high leading it to surge up to 136% during 2020.

Such public contributions that enable and underpin the pharmaceutical industry's innovation and manufacturing are not specific to the COVID-19 crisis period. A 2018 study<sup>47</sup> found that all 210 drugs approved in the US between 2010 and 2016 benefitted from publicly funded research, either directly or indirectly.<sup>48</sup>

At the same time, pharmaceutical corporations have been increasingly driven by financialised strategies that care less about innovation and value addition to global public health and instead focus on maximisation of shareholder value. These financialised corporations have primarily allocated profits for buybacks of their own corporate stock for the purpose of manipulatively boosting their stock prices and consequently serving their primary purpose of 'maximising shareholder value'. For example, between 2006 and 2015, 18 drug companies listed on the S&P 500 index in January

2016, and publicly listed from 2006 through 2015, distributed 99% of their profits to shareholders over the decade, 50% as buybacks and 49% as dividends.<sup>49</sup> These include some of the major corporations taking part in the search for a COVID-19 vaccine and medications, such as Johnson & Johnson, Gilead and Pfizer.<sup>50</sup>

Furthermore, the interests of senior executives of such financialised pharmaceutical corporations, who make decisions on pricing and licensing policies, are well intertwined with those of shareholders. This is the result of the model of stock-based compensation that rewards these executives for increases in their companies' stock prices.<sup>51</sup> The higher the stock prices go, the bigger their compensation packages will be. Executive compensation is not structured to reward the success of the pharmaceutical company in generating new medicines at affordable prices, and thus generating societal added value of a collective nature, but is pegged to private profit.

Representatives of the pharmaceutical industry have already voiced opposition to steps towards lifting the potential barriers emanating from the intellectual property regime established under the World Trade Organisation (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and other trade agreements. Thomas Cueni, Director General of the International Federation of Pharmaceutical Manufacturers and Associations, has argued against the utilisation of flexibilities built into the TRIPS Agreement and available for countries as part of their rights under this treaty.<sup>52</sup> He proposed a 'light touch coordination mechanism', implying that States' legal interventions through the use of TRIPS flexibilities or other ways of taking regulatory steps pertaining to access to COVID-19 medicines and vaccines will be unwelcomed by the pharmaceutical industry.<sup>53</sup>

In this context, and without effective governmental intervention, the actual access to a COVID-19 vaccine and therapeutics could be potentially undermined by such financialised

corporate strategies. In such a scenario, patents will give these corporations control over the pricing, manufacturing and distribution of most of these innovations. Economist Joseph Stiglitz and his co-authors have pointed out that 'commercial pharmaceutical companies have for decades been privatising and locking up the knowledge commons by extending control over life-saving drugs through unwarranted, frivolous, or secondary patents, and by lobbying against the approval and production of generics.'<sup>54</sup> It has been repeatedly pointed out that the experience of previous pandemics shows that unless deliberate steps are taken by States, universal access will not be possible<sup>55</sup> and the most vulnerable will be left out. In the absence of effective State intervention, more lives will be lost, particularly in developing countries.

Civil society groups have stressed that equitable access will be compromised without addressing the obstacles faced by developing and least developed countries,<sup>56</sup> stressing the importance of ensuring that intellectual property rights do not affect or hinder efforts to curb the COVID-19 outbreak. Doctors Without Borders has called for 'no patents or profiteering on drugs, tests or vaccines' for COVID-19.<sup>57</sup>

Governments have agreed a resolution at the 73rd World Health Assembly, held on 18-19 May, in which they called for equitable access to and fair distribution of all essential health technologies and products to combat the virus.<sup>58</sup>

Yet, governments have not provided answers regarding the interventions and legal tools they will utilise in order to ensure fair and equitable access to a future vaccine and medications for treating COVID-19. While the focus is on sharing data and knowledge that would enable rapid research and development of medicines and vaccines, there is no clarity yet on mechanisms for access to the outcomes, and ensuring fair and equitable benefit sharing.<sup>59</sup> Without effective preemptive interventions by governments to collectively address intellectual property and other potential barriers to access, profit strategies by pharmaceutical companies could



yet again prove incompatible with public health and could hijack the quest towards containing the pandemic and related economic crisis.

If serving public health and the broader public good is the collective objective pursued by the international community, then States should secure guarantees from pharmaceutical companies geared towards ensuring availability and affordability of any resulting vaccines and therapeutics to all in need worldwide, including in developing and least developed countries. Corporations receiving public funds ought to be prepared to guarantee the necessary technology transfer arrangements to manufacturers worldwide in order to rapidly scale up access.

Furthermore, States ought to utilise intergovernmental mechanisms and legal tools available through multilateral platforms such as the World Health Organisation and the WTO to ensure effective cooperation and lifting of barriers emanating from intellectual property. Otherwise, governments could in effect be funding a corporate model based on profiteering from the crisis. We could potentially face a scenario where saving lives could be undermined by the financialised corporate models and strategies of pharmaceutical corporations.<sup>60</sup>

### Conclusion: States should not enable profiteering from the crisis at the expense of individual and collective rights

The potential for a course correction on the economic, social and ecological fronts depends in big part on whether States are ready to utilise the policy, institutional and legal tools available to them in order to curb corporate power and profiteering and align private profit making with the broader public good.

For those purposes, the State's role cannot be merely as a rescuer and facilitator of corporate activities whatever these activities are and whatever impact they have on society. If so, States would be enabling a corporate

culture focused on shareholder profit, including profiteering from a public crisis, at the expense of individual and collective rights.

In such a scenario, we will be facing a repeat of the privatisation of profits and socialising of losses witnessed in the wake of the 2008 financial crisis. While corporate asset prices and profits will rise, thus driving higher incomes and concentration of wealth at the top, the rest of society will suffer from high unemployment and potential wide adoption of austerity measures. This will be a world where corporate power is further entrenched while workers and rights holders are further disempowered. ♦

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### Endnotes

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<sup>42</sup> See: <https://www.business-humanrights.org/en/binding-treaty/intergovernmental-working-group-sessions>

<sup>43</sup> The Coronavirus Global Response pledging event held on 4 May raised 7.4 billion euros of public money for the collaborative development of vaccines, treatments and diagnostics, part of which will also go to pharmaceutical companies. The pledges were made by the European Commission, France, Germany, Japan, Spain, Canada, Norway, the UK and Italy. For more details, see: K.M. Gopakumar and Chee Yoke Ling, 'Covid-19: Pledges of 7.4 billion euro raise several ambiguities', TWN Info Service on Trade, Health and Intellectual Property (11 May 2020) and published in *SUNS*, No. 9117 (11 May 2020).

<sup>44</sup> Josh Nathan-Kazis, 'Moderna, Switzerland's Lonza strike deal on potential Covid-19 vaccine' (17 April 2020), available at: [https://www.compuserve.com/tech/story/0002/20200501/KBN22D4GM\\_2](https://www.compuserve.com/tech/story/0002/20200501/KBN22D4GM_2)

<sup>45</sup> 'Remdesivir helps coronavirus patients – but at what cost?', available at: <https://www.politico.com/news/2020/05/06/remdesivir-helps-coronavirus-patients-but-at-what-cost-240230>

<sup>46</sup> *Financial Times*, 'Drug wars: how AstraZeneca overtook GSK in UK pharma', available at: <https://www.ft.com/content/20bd997e-d26a-4cf6-8f2e-3cf35784669e>

<sup>47</sup> Ekaterina Galkina Cleary, Jennifer M. Beierlein, Navleen Surjit Khanuja, Laura M. McNamee and Fred D. Ledley, 'Contribution of NIH funding to new drug approvals 2010-2016', available at: <https://www.pnas.org/content/115/10/2329>

<sup>48</sup> Jason Cone, 'Pharmaceutical corporations need to stop free-riding on publicly-funded research', available at: <https://thehill.com/opinion/healthcare/376574-pharmaceutical-corporations-need-to-stop-free-riding-on-publicly-funded>

<sup>49</sup> William Lazonick, Matt Hopkins, Ken Jacobson, Mustafa Erdem Sakinç and Öner Tulum, 'US Pharma's Financialized Business Model', Institute for New Economic Thinking, Working Paper No. 60 (13 July 2017). The paper shows that many of America's largest corporations, Pfizer and Merck among them, routinely distribute more than 100% of profits to shareholders, generating the extra cash by reducing reserves, selling off assets, taking on debt or laying off employees (Lazonick et al. 2015). Over the decade 2006-15, Johnson & Johnson, Pfizer and Merck, the three largest pharma companies, spent an annual average of \$4.2 billion, \$6.3 billion and \$3.0 billion, respectively, on buybacks.

<sup>50</sup> Jaimy Lee, 'These 23 companies are working on coronavirus treatments or vaccines – here's where things stand' (6 May 2020), available at: <https://www.marketwatch.com/story/these-nine-companies-are-working-on-coronavirus-treatments-or-vaccines-heres-where-things-stand-2020-03-06>. See also Vaxmap ([vaxmap.org](http://vaxmap.org)).

<sup>51</sup> See Lazonick et al., op. cit.

<sup>52</sup> Elaine Ruth Fletcher, 'Pharma Under the Microscope in the COVID-19 Crisis' (19 May 2020), available at: <https://healthpolicy-watch.org/pharma-under-the-microscope-in-the-covid-19-crisis/>

<sup>53</sup> Ibid.

<sup>54</sup> Joe Stiglitz, Arjun Jayadev and Achal Prabhala, 'Patents vs. the Pandemic' (April 2020).

<sup>55</sup> For example: the experience with the H5N1 outbreak when wealthy nations negotiated advance orders of vaccine to the detriment of developing countries. See: Sangeeta Shashikant and Edward Hammond, 'WHO: Where is fair and equitable benefit sharing of medical products?', TWN Info Service on Intellectual Property, Health and UN Sustainable Development (24 April 2020). See also: Ellen 't Hoen, 'A

Vaccine for All? Not If These Companies and Countries Have Their Way' (16 April 2020). The author points out that 'recent company behaviour feeds into the growing concern that businesses may seek to profit from the pandemic to the detriment of access to Covid-19 technologies. Roche initially refused to share the formula and technical specifications hospital pharmacists needed to make the lysis buffer used in the company's testing machines in the Netherlands ... Gilead applied for seven years of orphan drug exclusivity for its Covid-19 candidate drug remdesivir, a regulatory incentive for the development of medicines for rare diseases ... The US Food and Drug Administration granted the exclusivity 12 days after the World Health Organization declared the Covid-19 outbreak a pandemic. The move was met with strong criticism by civil society, and Gilead has since rescinded the orphan drug status'.

<sup>56</sup> See: Civil society call made on 24 April to the UN Secretary-General and WHO Director-General to operationalize fair and equitable benefit sharing of medical products when the ACT Accelerator was launched, available at: <https://twm.my/announcement/CSOLetter-Access%20to%20Treatment%20Developing%20and%20Least%20Developed%20Countries.pdf>. A similar call by 61 organisations, coordinated by Health Action International (HAI) and the European Alliance for Responsible R&D and Affordable Medicines, was directed to the European Commission and Parliament; available at: <https://medicinesalliance.eu/wp-content/uploads/2020/03/COVID-19-RD-public-investments-March.pdf>

<sup>57</sup> See: <https://www.doctorswithoutborders.org/what-we-do/news-stories/news/msf-pharma-no-profitteering-coronavirus-pandemic>

<sup>58</sup> See: 'WHO: Health Assembly adopts resolution on the global response to COVID-19' [extract from an article first published in *SUNS*, No. 9125 (26 May 2020)], TWN Info Service on Health, IP and UN Sustainable Development, available at: <http://www.twm.my>

<sup>59</sup> Stiglitz et al., op. cit.

<sup>60</sup> See: Lazonick et al., op. cit.



# Public spending must target inequalities, not bail out big business

States now need to invest massively in decreasing inequalities and poverty, and not just bail out large corporations, banks and investors with no human rights nor social conditions attached.

**Kanaga Raja**

SUCH public investments should also aim at reaching small and mid-sized enterprises, creating long-term sustainable employment, and prioritise the realisation of human rights, in particular economic, social and cultural rights, and the Sustainable Development Goals while taking into account the environment to avoid future climate change disasters.

This is the recommendation of Juan Pablo Bohoslavsky, the UN Independent Expert on the effects of foreign debt and other related international financial obligations of states on the full enjoyment of all human rights, in a 15 April letter to governments and international financial institutions.

Some governments seem to promote an approach consisting of ‘saving the economy’ at any cost, including by putting the health and lives of the majority of their populations at stake, said the UN rights expert. By the same token, this economy-centred approach is often accompanied by a similar lack of enthusiasm to reduce inequalities, ensure the realisation of economic and social rights of all, or to reduce deaths or health problems from pollution and climate change. Therefore, ‘saving the economy’ also means prioritising the benefit of a certain elite, he said.

States have to save lives and economies so there are jobs for people at the end and basic goods and services can be delivered during the crisis – but this must be done wisely and responsibly with health impacts as the primary consideration.

In this regard, Bohoslavsky rec-



A homeless person sits in front of a COVID-19 awareness poster outside a railway station in Bangkok. Adequate housing is key to the effective implementation of COVID-19 prevention efforts.

ommended a number of measures covering a wide range of economic, financial, monetary, fiscal, tax, trade and social policies to contribute to achieving these goals.

## Rights-rooted response

While the coronavirus is a threat to the rights to life and health, the human rights impact of the crisis goes well beyond medical and public health concerns.

The health crisis itself and the governmental measures implemented to face it are leading the world into an economic recession, he said. While it is now clear that prevention and mitigating measures to contain the pandemic as soon as possible must be taken urgently, globally and in a co-ordinated manner by states, similar consideration should be given to ad-

ressing projected adverse human rights impacts of a drastic economic downturn. ‘This is why the response must be framed and rooted in human rights law,’ the independent expert underlined.

An economic crisis is rapidly coming on the horizon, with immediate economic impacts that have already been felt through job losses.

‘We are now experiencing a “coronavirus shock”, a phenomenon at risk of greatly affecting the global economy, societies and human rights. While the scale of the crisis cannot be precisely estimated yet, there seems to be a consensus as to expect more drastic repercussions than that of the 2008 financial crisis,’ he said.

More specifically, the UN Department of Economic and Social Affairs anticipates, at best, a deceleration from the 2.5% growth previ-

ously forecast for 2020. In a more pessimistic case, it forecasts a -0.9% global economic contraction. In terms of lost income, global economic costs linked with the pandemic are currently estimated at \$1.1 trillion in 2020 in the most benign scenario, and almost \$3 trillion in the worst-case scenario.

There is no doubt about the large-scale impact of the 2008-09 global economic crisis on human rights of people around the world, said the rights expert. Equally, from a human rights perspective, potential impacts of the upcoming recession include challenges to access adequate housing, healthcare – including mental health – education, water and sanitation, social protection and work.

The impact of crises on inequality and human rights depends, to a great extent, on the existing social protection system in place, as well as the level of public spending, which serves as a stabiliser during recessions, including the way this public spending is financed, said the rights expert.

‘The aftermath of the coming crisis is expected to be particularly devastating from a human rights perspective if special measures are not urgently adopted to compensate for past shortcomings and protect the population, while paying particular attention to the most marginalised and in vulnerable situations.’

### ‘Economy first’ approach

According to Bohoslavsky, a particular concern has been the outrageous overlooking of warnings to prepare for pandemics and the lack of effective public response from a number of governments to protect the public health through proven effective measures such as social distancing and quarantines to flatten the curve of the pandemic. When life and health of populations are at stake, business as usual must not go on; there is a need to ensure that normal operations do not erode health policies to control the spread of the disease and the associated risk of a collapse of public health systems, he



**An Afghan woman observing physical distancing while receiving cash assistance from the UN World Food Programme. An immediate emergency human rights and humanitarian response should be urgently deployed in areas and groups at heightened risk of the pandemic.**

said.

Whether lives are protected or some more economic wealth is produced in a given year is a choice that has to be taken from a human rights perspective. ‘The economy as such cannot stand in first position, especially since it did allow for the majority of people to have no personal safety net. Life, and human rights, must be in the centre of concern.’

Some governments seem to promote an approach consisting of ‘saving the economy’ at any cost, including by putting the health and lives of the majority of their populations at stake. By the same token, this economy-centred approach is often accompanied by a similar lack of enthusiasm to reduce inequalities, ensure the realisation of economic and social rights of all, or to reduce deaths or health problems from pollution and climate change. In this sense, it is necessary to distinguish between big corporations’ claims to maintain their profits, and the needs of impoverished workers who try to earn their daily livelihood.

While it is important to minimise social and economic impacts of the economic recession by providing employment and thus ensuring the survival of the business sector as a whole, alternatives do exist. For ex-

ample, they could include targeted, temporary and compulsory payment holidays from taxes, rent and mortgages, other debts owed or other types of relief.

The ‘economy first’ approach should not mean leaving people on their own to cope with the pandemic, said the independent expert. ‘Besides, millions of people dying does not sound like a great contribution to the economy from a purely consequentialist viewpoint.’

In turn, implementing robust public health policies that save lives and prevent health systems from collapsing should be complemented by policies to enable the economic system to produce and deliver goods and services to fulfil basic human rights while minimising the long-term negative economic effects of the pandemic.

‘Not putting public health at the centre of the governmental action plans does not save the economy, it only leads to the worst of both worlds,’ said the rights expert.

### What can be done now

According to Bohoslavsky, an immediate emergency human rights and humanitarian response should be urgently deployed in areas and groups



at heightened risk of the pandemic.

In particular, humanitarian efforts must urgently provide relief to all individuals including those living in informal settlements and in situations of homelessness, informal workers including domestic workers, landless farmers, indigenous communities, poor neighbourhoods, internally displaced persons, refugees, migrants, persons with disabilities, older persons, children, women who are victims of violence and persons under detention and in state custody.

A welcome development is the \$2 billion coordinated global humanitarian response plan to fight COVID-19 launched by the UN Secretary-General on 25 March. 'Yet, this \$2 billion plan is negligible given that a number of developing countries do not even have resources to obtain testing kits and other medical supplies,' said the rights expert.

An effective COVID-19 testing policy should be a priority and tests should be made available for the population free of charge, in particular for health workers and also the most vulnerable and marginalised, he added. Acknowledging that the availability of test kits is linked to production, trade, distribution, economic resources and other concerns, a comprehensive approach should be envisaged by all states to provide effective solutions, including when it comes to international cooperation.

Such initiatives or any other initiatives to soften the economic fallout of the crisis, such as cash transfers and subsidies, must be designed to urgently reach those in need (whether 'banked' or 'un-banked') and benefit all those financially struggling, without any discrimination, including those who are self-employed, informal workers and unpaid care workers, who are largely women.

This should be coupled with continued efforts to fight the pandemic from a human-rights-based approach, mitigating the consequences of any potential lockdowns and restrictions that were put in place to combat the pandemic resulting in adverse human rights impacts, which in turn are leading to economic and work disruption



An effective COVID-19 testing policy should be a priority. Picture shows a mobile testing centre in New Delhi.

as well as a surge in domestic violence, said the rights expert.

As already adopted by many states, measures including unconditional cash transfers to maintain an adequate standard of living, avoiding entrenchment of inequalities and preventing people from being pushed into poverty, must be adopted immediately.

While states have the duty to protect human rights, including from abuses from third parties, businesses must respect human rights in their operations, by seeking to prevent or mitigate human rights impact and by 'doing no harm'. In this regard, businesses should abide by the Guiding Principle on Business and Human Rights and World Health Organisation (WHO) guidance for preventing the spread of COVID-19 at the workplace.

Since adequate housing is the entry point to the exercise of numerous human rights, such as education, work and health, and key to the effective implementation of prevention efforts, a moratorium on evictions should be enacted.

It is of utmost importance to ensure that emergency economic policies adopted to keep the economy functioning are consistent with massive testing, physical distancing, isolation, health measures and caring for the isolated.

On another level, individual

property rights (real, personal and intellectual) need to be aligned with other human rights. As such, property rights are not absolute and, if duly justified, states should be able to take the necessary economic and legal measures to more effectively face the current health crisis. In particular, no private economic entitlement and monopoly should trump the rights to health and life of all, said Bohoslavsky.

In view of the life-threatening situation, including for medical staff, states should also envisage instructing or taking control of some businesses that are able to produce masks and necessary gears to do so if this leads to a more effective protection of public health. Owners should be compensated according to the respective constitutional standards.

'Along this vein, it is in times of such a global health crisis that there should be complete waiver of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) stipulations with respect to medicines and other related technologies.'

The proposal made by Costa Rica to WHO to create a pool to collect patent rights, regulatory test data and other information that could be shared for developing drugs, vaccines and diagnostics, is therefore in line with international human rights standards, said the rights expert.

These efforts need to be comple-



mented by both a short- and long-term investment in public health and epidemiology research as well as cash injection in the public development of vaccines and drugs.

The independent expert also said that private debt servicing should be suspended for individuals who would otherwise be unable to cope with the public health crisis and be without income. During this period, these loans should not bear interest. In this regard, a suspension of mortgage payment should be introduced, as is already the case in a number of European countries and Argentina.

In the same vein, those in need should benefit from individual and certain corporate tax cuts or delays.

It is also crucial to suspend for at least six months debt payments and servicing to the financial sector by low-income families and poor households to avoid a situation where emergency cash transfers from states end up entering financial circuits rather than fuelling the real economy and helping the families.

A moratorium on sovereign debt repayment for debt-distressed developing countries, countries with a majority of poor population (to avoid future debt distress) and countries heavily suffering from the economic fallout of the pandemic should be immediately implemented, said the rights expert.

International financial institutions (IFIs) and other creditors should urgently mobilise their financial resources to help countries combating the pandemic, and ensure that the release of any loans or grants does not depend on the implementation of any type of conditionalities, such as austerity measures, privatisation and structural adjustment, which risk negatively impacting human rights. If anything, debt cancellation could be tied to a substantive increase in domestic spending on social protection with emphasis, for instance, on health, education and nutrition.

When it comes to the financial sector, the lack of or weak regulation has been fuelling the anticipated crisis, allowing high speculation. According to some studies, capital out-

flows from the emerging market economies have exceeded \$70 billion since the beginning of the coronavirus outbreak. In order to prevent capital flight, capital controls should be applied, as called for by a global group of academics.

The independent expert also said that states need to reconsider their fiscal policies to finance social policies, and ensure that monetary policy is consistent with both of them. Financing fiscal deficits can be legitimate if it ensures access to basic human rights for the population.

It is unacceptable in human rights terms that a few people, in particular the richest '1%', benefit from crises through speculation and other means. In this connection, immediate measures should be taken to combat such financial manoeuvres, including when it comes to COVID-19-related products and basic commodity prices.

'It is of unfortunate concern that, despite the broad agreement on the need to strengthen the fiscal space of States, the World Bank continues to promote structural reforms during the COVID-19 outbreak, which, if done as in the past, will negatively impact human rights worldwide.'

### Securing resources

According to Bohoslavsky, the current health and economic crisis shows two things. First, some aspects of the economic, social and cultural rights of immediate effect do not require resources. For instance, treatment of COVID-19 patients cannot be denied based on gender, age, race, origins, class, caste, religion or belief, and other grounds under the prohibition of discrimination.

Second, this crisis has demonstrated that money can be found when there is a sense of danger and need. Governments and the international community are pledging to inject trillions of dollars; in fact, the G20 major economies have promised to inject \$5 trillion into the global economy and 'do whatever it takes to overcome the pandemic'.

'This way of thinking is reactive rather than proactive. If even a frac-

tion of that amount had been used proactively for the realisation of human rights, to build a robust public health sector instead of subjecting it to marketisation, privatisation and cuts, to combat inequalities and poverty and the related underlying systemic issues, we would currently not be in such a dire situation,' Bohoslavsky said.

States now need to invest massively in decreasing inequalities and poverty, and not just bailing out large corporations, banks and investors with no human rights nor social conditions attached. 'We know well that they will not immediately nor spontaneously share these resources with those in most need.'

Public investments should also aim at reaching small and mid-size enterprises, creating long-term sustainable employment, and prioritise the realisation of human rights, in particular economic, social and cultural rights, and the Sustainable Development Goals while taking into account the environment to avoid future climate change disasters.

One important aspect that is missing in the policy debates, said Bohoslavsky, is the ultimate source of the funds to be injected into the economy. For sure, in the short term, the state will have to run a wide deficit as higher expenditure will not be offset by higher revenues (rather the opposite). But at a second stage, it will be necessary to reduce this deficit and face new payments on the public debt front. Given the exceptional situation, states could set a one-off wealth tax, but they can also undertake more ambitious reform.

Indeed, this is the right time to seriously engage in structural reforms for redistributive justice including progressive taxation reforms, where millionaires and billionaires and large corporate conglomerates are requested to contribute to the society in a proportional measure to their fortunes, said the independent expert. ♦

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# The future of globalisation

Although its votaries have sought to present globalisation as a triumphant process to which there has been no serious challenge, the truth is that at every juncture when a crisis has occurred since the 1990s (when the present phase of globalisation emerged), questions have been raised about its vulnerability. Now that the global economy is beset by its worst crisis since the 1930s Great Depression, there will be doubts about the future of globalisation.

**Biswajit Dhar**

THE economic crisis that has besieged the world since the onset of the COVID-19 crisis has raised some searching questions about the future of globalisation. Several Western commentators have been seriously engaged on whether the pandemic would sound the death knell for globalisation<sup>1</sup> or, at the very least, undermine the elaborate global value chains or production networks that have become its hallmark.<sup>2</sup>

This question is hardly a new one; since the middle of the 1990s, or from its very early days, many have cast doubt about the future of globalisation.<sup>3</sup> The economic recession in 2008 brought fresh doubts about globalisation, with some narrowing the problem down to financial globalisation.<sup>4</sup> Falling demand caused investment to fall, but the dramatic declines in trade resulted from 'strongly synchronised drops in trade across countries' that resulted in combined effects of several factors.<sup>5</sup> Although the excessive financialisation of economies was identified as the principal factor that caused the domino collapse of the financial system and the subsequent contagion, the systemic risks of financialisation were never addressed, despite the frequent shocks that it imparted to the real sector. This impact on their real sectors during the earlier episodes of crisis often raised the spectre of countries decoupling from the process of globalisation, but since these downturns were shortlived, countries remained engaged.

The economic crisis triggered by COVID-19 has been of a very different order, and, therefore, the questions



A port in Shanghai, China. The trade openness of some major economies, including China, has declined in recent years.

being asked about the future of globalisation seem more pertinent than ever. There are several reasons for this. From early signs of the economic stress that the pandemic is likely to cause, the world economy looks uncomfortably similar to that in the 1930s, when the Great Depression struck. The International Monetary Fund (IMF) has predicted that the 'Great Lockdown' could be the worst economic recession since the Great Depression, pulling down the global gross domestic product (GDP) in real terms by 3% in 2020. Advanced economies could experience a 6.1% fall in real GDP, while the emerging market and developing economies could see their GDP decline by 1%. The IMF's prediction was that the global economy would have a 'V-shaped' recovery, with a sharp increase in output of nearly 6% in 2021, which would be contributed to by a 5% increase in output of the advanced economies and a 9.2% and 7.2% increase by China and India respectively.

But two months after the IMF's

predictions were unveiled, the prospects for the global economy are looking distinctly much worse. The increasing strains on the global economy are currently much larger than what the IMF had predicted. In the past too, the organisation had erred in making predictions about global growth, especially when it mattered – in times of downturn. For instance, in the midst of the Great Recession in 2008, the IMF had predicted that the global economy would expand by 3% in 2009, but the global economy actually contracted by 0.5%. These estimates of the impact of COVID-19 on global GDP inform us that the impact of the pandemic would be far less than that experienced during the Great Depression, when contraction of global GDP between 1929–33 was over 15%.<sup>6</sup>

Recent estimates indicate that in 2020, the global economy could decline by 4.6%, with the US economy contracting by 5.6% and China remaining flat. Other emerging economies could decline by 4.5%, and the Indian economy is likely to experi-

**Table 1: GDP Growth of Major Country Groupings**

| Country Group                            | Average Annual Growth Rates |         |         |
|------------------------------------------|-----------------------------|---------|---------|
|                                          | 2003-07                     | 2010-14 | 2015-19 |
| World                                    | 4.5                         | 4.1     | 3.5     |
| Euro area                                | 2.2                         | 0.8     | 1.9     |
| Major advanced economies (G7)            | 2.4                         | 1.8     | 1.9     |
| Emerging market and developing economies | 7.7                         | 5.8     | 4.4     |
| ASEAN-5                                  | 5.8                         | 5.5     | 5.1     |

**Table 2: GDP Growth of Selected Emerging Market and Developing Economies**

| Country   | Average Annual Growth Rates |         |         |
|-----------|-----------------------------|---------|---------|
|           | 2003-07                     | 2010-14 | 2015-19 |
| Brazil    | 4.0                         | 3.4     | -0.6    |
| China     | 11.7                        | 8.6     | 6.7     |
| India     | 8.8                         | 7.2     | 6.7     |
| Indonesia | 5.5                         | 5.8     | 5.0     |
| Russia    | 7.5                         | 3.2     | 0.8     |

**Table 3: GDP Growth of Selected Advanced Economies**

| Country        | Average Annual Growth Rates |         |         |
|----------------|-----------------------------|---------|---------|
|                | 2003-07                     | 2010-14 | 2015-19 |
| Germany        | 1.6                         | 2.2     | 1.7     |
| Japan          | 1.7                         | 1.6     | 1.0     |
| United States  | 3.0                         | 2.1     | 2.4     |
| United Kingdom | 2.8                         | 1.9     | 1.8     |

Source (for Tables 1-3): IMF, World Economic Outlook Database: April 2020 Edition, accessed from: <https://www.imf.org/external/pubs/ft/weo/2020/01/weodata/index.aspx>

ence a 5% contraction.<sup>7</sup>

That the global economy would face serious headwinds in 2020 has also been predicted by the World Trade Organisation (WTO), which has estimated a fall in world trade volumes of 13-32%. COVID-19 has brought in such levels of uncertainty that its impact can best be explained only through a very wide range. But, the WTO's worst-case scenario of trade volume decline in 2020 is sig-

nificantly worse than the impact of the Great Depression on trade; between 1929 and 1932, trade volumes declined by almost 25%.

While there is hardly a doubt that the world economy is facing a crisis, which, as mentioned above, could be even more severe than what the 1930s had seen, the critical question is whether this downturn would undermine the future of globalisation. In recent weeks, several observers have

tried to view the challenges that the process of globalisation faces from several different perspectives. There have been arguments that the world economy is going through a phase of 'slowbalisation' or even 'deglobalisation', but these tendencies are not likely to sound a death knell for the phenomenon. Some others have sounded a more sombre note, pointing out that the pandemic has made countries aware about the vulnerabilities that they suffer from in an interconnected world. Major economies have responded in varied ways to address their vulnerabilities by announcing stimulus packages. The question is whether these policy responses could serve the cause of globalisation, which, according to some authors, they must. The pre-COVID phase witnessed the most serious economic rivalry since the middle of the previous century, with both the United States and China trying to gain ascendancy. Could the contours change after the global economy recovers from the pandemic? This article will try to reflect on the aforementioned issues.

### 'Slowbalisation' and 'deglobalisation'?

In 2016, the Dutch writer Adjiedj Bakas coined the term 'slowbalisation' to capture the sluggishness that the process of globalisation had developed. This term gained a degree of popularity as it captured the state of the global economy, which never seemed to recover after being jolted by the Great Recession of 2008. Others like O'Sullivan passed the judgement that 'globalisation is already behind us'. What then is the reality?

Our attempt to get to the reality will hinge on exploring the underlying processes of globalisation. To do so, we will provide a brief account of the basic framework behind this phenomenon, which will aid in contextualising our exploration.

The latest phase of globalisation<sup>8</sup> should ideally be marked from the adoption of the Washington Consensus. In its essence, the conceptual underpinnings of globalisation were



provided by the Washington Consensus, a term that John Williamson used to describe a set of 10 prescriptions ‘originally presented as a summary of what most people in Washington believed Latin America (not all countries) ought to be undertaking as of 1989 (not at all times)’.<sup>9</sup> The common feature of these policies was deregulation and opening up of markets to both foreign trade and investments. Interpretations of the elements of the package, however, did not enjoy the desired degree of consensus. While Williamson argued that the liberalisation of foreign investment was only limited to foreign direct investment,<sup>10</sup> several others were not quite as definitive about this policy.<sup>11</sup>

If the beginning of the 1990s is taken as the period from which globalisation took root when most developing countries ‘embraced Consensus style reforms, with the strong support from international institutions, particularly in the context of IMF stabilisation programmes and policy-based lending programmes of multilateral development banks’, the process had an uncomfortable initiation. Almost immediately afterwards, the Mexican peso crisis in 1994<sup>12</sup> and the East Asian financial crisis in 1997 were harbingers of global uncertainties, the latter resulting in the first major contagion, affecting economies beyond the region.<sup>13</sup> In effect, therefore, the ‘golden years of globalisation’ were the period after the turn of the millennium and until the Great Recession made its impact felt. More appropriately, the quinquennium 2003-07 should ideally be considered since the two years preceding it were influenced by the economic uncertainties following 9/11.

Between 2003 and 2007, the average growth of global GDP was over 5.1%, which was significantly higher than in any other comparable period since 1980. The advanced countries grew by nearly 3%, while the emerging market and developing economies grew by slightly less than 8%. In the decade of the 1990s, the global economy grew by just over 3%, while the developed and emerging market and developing economies grew by

**Table 4: Growth of Merchandise Trade of Selected Emerging Economies (%)**

| Country   | Average Annual Growth |         |         |
|-----------|-----------------------|---------|---------|
|           | 2003-07               | 2010-14 | 2015-19 |
| Brazil    | 21.3                  | 11.4    | -1.6    |
| China     | 28.7                  | 14.9    | 1.6     |
| India     | 29.2                  | 14.4    | 1.4     |
| Indonesia | 16.9                  | 12.0    | -0.1    |
| Malaysia  | 13.3                  | 10.0    | 0.7     |
| Russia    | 28.0                  | 11.3    | -1.2    |
| World     | 16.6                  | 16.3    | 7.5     |

**Table 5: Average Growth of Merchandise Trade for Advanced Countries (%)**

| Country                  | Average Annual Growth |         |         |
|--------------------------|-----------------------|---------|---------|
|                          | 2003-07               | 2010-14 | 2015-19 |
| Germany                  | 16.6                  | 6.1     | 0.5     |
| Japan                    | 12.2                  | 6.6     | -0.6    |
| Korea, Republic of       | 18.4                  | 10.5    | -0.4    |
| Netherlands              | 17.7                  | 6.3     | 1.8     |
| United States of America | 10.9                  | 9.0     | 1.0     |
| World                    | 16.6                  | 16.3    | 7.5     |

Source (for Tables 4 and 5): WTO Data Portal

2.8% and 3.6% respectively.

Individual countries, too, registered high growth rates. Among the emerging economies, India registered its highest ever growth rate for a quinquennium, at nearly 9%, and so did Brazil (4%). China grew at nearly 11%, which was slightly below its highest rate of growth registered in the first half of the 1990s. The European Union expanded by 2.2%, exceeding its 2% growth after it was formed in 1992.

The post-2008 period was a sharp contrast to the earlier period. Tables 1-3 show that all economies without exception experienced a perceptible slowdown, supporting the argument that ‘slowbalisation’ had indeed become the rule.

The tables show that even before COVID-19 spread across the world resulting in the ‘Great Lockdown’, all

the major groups of countries and individual economies had completely lost their momentum. Average growth of global GDP had declined from 4.5% in the years prior to the Great Recession to 3.5% during the past five years. China, one of the key drivers of the global economy, saw its growth rate drop from an annual average of nearly 12% during 2003-07 to less than 7% during 2015-19. In the 2000s, India had recorded its highest ever growth, averaging about 9%, and it had also registered double-digit growth for the only time in development history in 2010, but its average annual growth for 2015-19 had slowed down to below 7%.

The major economies showed similar patterns of having left their high-growth phase behind. The United States grew at 3% before the 2008 recession, while Japan grew at

**Table 6: Trade-to-GDP Ratios of Selected Emerging Economies (%)**

| Country   | Average for the Years |         |         |
|-----------|-----------------------|---------|---------|
|           | 2003-07               | 2010-14 | 2014-19 |
| Brazil    | 27.2                  | 24.5    | 26.3    |
| China     | 60.0                  | 48.3    | 38.3    |
| India     | 40.3                  | 52.7    | 41.6    |
| Indonesia | 57.8                  | 48.6    | 40.4    |
| Malaysia  | 200.7                 | 148.4   | 130.5   |
| Russia    | 55.8                  | 47.9    | 48.5    |
| World     | 55.7                  | 59.6    | 57.9    |

**Table 7: Trade-to-GDP Ratios of Selected Advanced Economies (%)**

| Country/Territory | Average for the Years |         |         |
|-------------------|-----------------------|---------|---------|
|                   | 2003-07               | 2010-14 | 2015-19 |
| Germany           | 71.3                  | 84.3    | 86.8    |
| Japan             | 27.1                  | 32.3    | 34.6    |
| Korea, Rep.       | 71.6                  | 102.7   | 81.3    |
| Netherlands       | 122.1                 | 144.6   | 155.1   |
| United States     | 25.4                  | 29.9    | 27.2    |
| European Union    | 73.7                  | 83.9    | 88.5    |
| World             | 55.7                  | 59.6    | 57.9    |

Source (for Tables 6 and 7): World Bank, World Development Indicators, online

less than 2%. But from thereon, they suffered a discernible slowdown; the United States grew by 2.4% since the middle of the previous decade, while Japan grew by just 1%.

If growing economies encouraged the forces of globalisation to expand and also provided the impetus to sustain the growth momentum, the slowing down of the major economies dampened the entire sequence. This was most visible through the impact that the slowdown had on trade and investment flows in an interconnected world.

Tables 4 and 5 show the changes in the dynamics of global trade that took place between the so-called 'golden period of globalisation', the years between 2003 and 2007, and the last decade, when the global economy showed a perceptible slowdown.

The tables show that growth of

merchandise trade has been declining consistently from the 'golden period of globalisation' in every economy. The most severe slowdown of trade was registered by India, its trade growth slowing from an annual average of over 29% during 2003-07 to 1.4% since 2015. The largest trading nation, China, also suffered a similar decline in trade growth, from nearly 29% to less than 2% during the same period.

The United States, the second largest trading nation, saw its trade growth slowing from an annual average of 11% to just 1%. Among the emerging economies, Russia's trade grew almost as fast as that of China's during the 2000s, but by the second half of the previous decade, its trade had begun to contract.

The slowing down of trade was not the most troubling element for

globalisation; it was the decoupling of some of the major economies from trade in recent years – in other words, the trade openness of these countries has declined (Tables 6 and 7).

Two patterns of trade-to-GDP ratios are clearly discernible from the tables. All emerging economies in Table 6 went through a reduction in trade openness, with Malaysia experiencing a steep fall of its trade-to-GDP ratio from over 220% in the year 2000 to just over 130% in 2018. China's trade-to-GDP ratio peaked at about 65% in 2006, but by 2018, the ratio had come down to 38%. During the last three years for which data are presented in the table, China's trade openness was the lowest in two decades. India's trade expansion continued until the beginning of the last decade, raising the trade-to-GDP ratio to 55%, but a tepid growth in trade subsequently caused the ratio to decline to about 40% in 2016.

Table 7 shows that among the advanced economies, the European Union and most of its member states consistently became more open to trade, with the exception of the years in which the impact of the Great Recession was visible. Korea and the United States became less open, with the former experiencing a significant reduction in its trade openness.

These trends are indications that over several of the major economies, the trend towards globalisation was reversing, in some cases quite significantly so. Further evidence of this trend was the manner in which global value chains (GVCs) have performed over the past several years.

One of the most striking features of the process of globalisation was the emergence of GVCs. The slicing and dicing of production across national borders has contributed to the networking of goods and services and as a result, trade has grown much faster than production in the countries participating in the GVCs. Trade liberalisation has immensely contributed to the proliferation of the GVCs, but perhaps more important has been the expansion of improved logistical and communication services and efficient trade facilitation that have helped in

reducing transaction costs.

The GVCs, whose efficiencies are determined by their ability to use 'just-in-time' strategies, are sensitive to any disruptions in the enabling environment that supports them. Not surprisingly, therefore, periods of global economic uncertainty disrupt the functioning of the value chains, which in turn causes significant decline in trade volumes. The WTO's estimate that trade volumes could decline by as much as 32% during the current year, factors in the disruption in GVCs caused by extensive lockdowns and the consequent downswing in economic activities.

While several commentators have also spoken of the adverse impact on GVCs and therefore on global trade, there is evidence that the GVCs had been shrinking as the global economy struggled to recover from the impact of the Great Recession. The evidence of this phenomenon is provided by the WTO-OECD database on Trade in Value Added (TiVA).

The TiVA database provides statistics on the contributions made by different countries and industries in the trade of a given country. In simple terms, the database allows us to segregate the exports of a country in terms of value added domestically and from the rest of the world. Thus, it helps in understanding the contribution that GVCs are making in the exports of the countries included in the database.

In this article, we use the 2018 TiVA database to gauge the extent to which exports of major trading countries depend on the GVCs or production networks. This database covers the period 2005-15.

The domestic value added in exports of emerging and advanced economies is captured in Tables 8 and 9. The countries included in the tables include some of the countries and regions, like China and members of the Association of South-East Asian Nations (ASEAN), which have extensively participated in GVCs.

The two tables show two striking features of value-added exports: firstly, all the economies covered in

**Table 8: Domestic Value Added in Exports from Emerging Economies**

| Country/Region | 2005 | 2007 | 2009 | 2011 | 2012 | 2014 | 2015 |
|----------------|------|------|------|------|------|------|------|
| Brazil         | 88.8 | 89.6 | 91.7 | 90.3 | 89.4 | 88.5 | 87.5 |
| China          | 73.7 | 75.2 | 80.5 | 78.3 | 79.2 | 80.5 | 82.7 |
| India          | 81.2 | 79.3 | 78.2 | 74.9 | 74.9 | 77.0 | 80.9 |
| ASEAN          | 68.6 | 69.9 | 71.9 | 71.1 | 70.9 | 70.8 | 71.1 |

**Table 9: Domestic Value Added in Exports from Advanced Economies**

| Country/Region | 2005 | 2007 | 2009 | 2011 | 2012 | 2014 | 2015 |
|----------------|------|------|------|------|------|------|------|
| Germany        | 81.4 | 78.9 | 81.9 | 76.8 | 76.9 | 78.3 | 79.0 |
| Japan          | 89.8 | 86.8 | 89.1 | 85.7 | 86.1 | 84.2 | 86.8 |
| Korea          | 67.3 | 65.6 | 62.9 | 57.6 | 58.0 | 62.7 | 67.4 |
| United States  | 89.2 | 88.3 | 90.6 | 87.3 | 87.6 | 88.8 | 90.5 |
| European Union | 89.6 | 88.2 | 89.2 | 86.0 | 85.7 | 87.1 | 87.8 |

Source (for Tables 8 and 9): OECD, TiVA database 2018 edition

the tables depend overwhelmingly on domestic value addition, and secondly, domestic value addition in 2015 was higher than in many of the other years for which data are captured in the tables. What this implies is that during the period 2005-15, there have been one or more years in which the domestic value addition was lower for each of the countries, but by 2015, domestic value addition had increased. This is an indication that though each of the countries had taken steps towards greater global integration during the period 2005-15, they had also taken some steps back by the terminal year.

The above findings need to be substantiated using data from industries in which GVCs have been more successful. These industries include those producing computers, electronic and electrical equipment. Tables 10 and 11 provide the trends in domestic value addition in these industries.

The trends of domestic value addition for computers, electronic and electrical equipment captured in these tables are no different from the trends for overall exports. Especially striking is the trend for China, in which domestic value addition grew from less than 60% in 2005 to 73% in 2015. Equally significant was the rising

domestic value-added trend for ASEAN members, increasing from about 52% to 57%. These trends would have got strengthened in the more recent years, as some countries, including India, have introduced policies to enable higher value addition in these industries.

The challenges that the process of globalisation has faced are quite evident, as the data presented above have shown. There are two facets to the process that we have highlighted in our discussion. The first is that the benefits from globalisation in terms of higher growth rates, which have been one of the main arguments for greater global integration of economies, are not supported by the evidence presented in this article. In fact, most countries experienced declining growth rates, giving credence to the argument about 'slowbalisation' of the global economy. Secondly, GVCs were considered as the drivers of globally integrated economies, but with production and exports becoming increasingly domestically oriented as we have shown, globalisation faces considerable uncertainties.

The response of the major economies to the COVID-induced crisis would exacerbate the uncertainties for globalisation. All the economic stimulus packages announced thus far have



one common feature: they are all aimed at reviving the domestic economies. The disruption of GVCs, and the consequent supply shortages that countries have faced, are the factors forcing countries to adopt policies that could result in further decoupling from the international markets. The following section provides an overview of the measures taken by a selected set of countries.

### Economic stimulus packages and their implications for globalisation

We could consider the announcements made by the United States and India and their orientation towards stimulating domestic industries.

#### US initiatives to revive the economy

The US has led the way by adopting the Coronavirus Aid, Relief, and Economic Security (CARES) Act.<sup>14</sup> The CARES Act has proposed an injection of \$2.2 trillion, or about 10% of the country's GDP. This stimulus package dwarfs the \$831 billion stimulus provided by the American Recovery and Reinvestment Act of 2009 to bail out the US economy from the depths of the Great Recession. In addition, the US Federal Reserve has taken further steps to provide up to \$2.3 trillion in loans to support the economy, including support for small and mid-sized companies.<sup>15</sup>

Large corporations and small businesses, taken together, were the largest beneficiaries. The CARES Act committed \$500 billion in the form of loans and loan guarantees, and other investments. \$350 billion was authorised to small businesses, or those with 500 or fewer employees.

As has always been the case with initiatives taken by the US government to revive the economy, several US agencies have announced a slew of programmes, all of which are aimed at reviving the industries in the country. The Export-Import Bank of the US (EXIM) announced the 'Strengthening American Competitiveness' initiative which 'focuses on supporting transformative US exports

**Table 10: Domestic Value Added in Exports of Computers, Electronic and Electrical Equipment from Emerging Economies**

|        | 2005 | 2007 | 2009 | 2011 | 2013 | 2014 | 2015 |
|--------|------|------|------|------|------|------|------|
| Brazil | 80.5 | 82.4 | 84.3 | 81.4 | 79.4 | 79.5 | 78.2 |
| China  | 59.9 | 62.0 | 70.2 | 68.6 | 69.8 | 71.0 | 73.0 |
| India  | 65.4 | 63.6 | 61.4 | 59.3 | 58.9 | 60.0 | 63.8 |
| ASEAN  | 51.9 | 53.0 | 56.3 | 54.4 | 56.7 | 56.9 | 57.4 |

**Table 11: Domestic Value Added in Exports of Computers, Electronic and Electrical Equipment from Advanced Economies**

|                | 2005 | 2007 | 2009 | 2011 | 2013 | 2014 | 2015 |
|----------------|------|------|------|------|------|------|------|
| Germany        | 79.7 | 77.2 | 78.9 | 75.4 | 76.9 | 77.5 | 76.0 |
| Japan          | 86.9 | 84.8 | 86.8 | 84.1 | 83.4 | 82.2 | 83.7 |
| Korea          | 63.2 | 64.2 | 61.2 | 58.5 | 61.6 | 62.9 | 64.8 |
| United States  | 86.7 | 86.3 | 90.4 | 88.4 | 88.9 | 88.9 | 90.0 |
| European Union | 83.9 | 82.7 | 84.2 | 81.7 | 83.0 | 83.7 | 83.3 |

Source (for Tables 10 and 11): OECD, TiVA database 2018 edition

and jobs, advancing America's comparative leadership in the world, and competing with China in the global marketplace'.<sup>16</sup> The initiative focuses on several key sectors, including renewable energy, wireless communication (5G), biotechnology and biomedical sciences, artificial intelligence, including quantum computing, emerging financial technologies and space technology. EXIM received a seven-year reauthorisation from the US Congress in December 2019 which directed EXIM to establish a new 'Program on China and Transformational Exports'.<sup>17</sup> The purpose of this 'program is to support the extension of loans, guarantees, and insurance, at rates and on terms and other conditions, to the extent practicable, that are fully competitive with rates, terms, and other conditions established by the People's Republic of China'. The US government has therefore expressed its intent to support its own industries to compete with China in the global markets.

#### Government of India's economic revival package

In May, the Government of India announced a Rs. 20 trillion economic

package for reviving the economy,<sup>18</sup> which, according to recent projections, could shrink in the current fiscal year (April 2020 to March 2021). An important component of the policy pronouncements made alongside the announcement of the package is to promote self-reliance by focusing on domestic production.

As a step towards realising this objective, the government revised its public procurement rules to encourage 'Make in India' and to promote manufacturing and production of goods and services in India. The new rules provide that 'local content can be increased through partnerships, cooperation with local companies, establishing production units in India or Joint Ventures (JV) with Indian suppliers, increasing the participation of local employees in services and training them'.<sup>19</sup>

Subsequently, several administrative ministries issued separate notifications interpreting the abovementioned order for their ministries. These include the Ministry of Electronics and Information Technology<sup>20</sup> and the Ministry of Chemicals and Fertilizers.<sup>21</sup>

Another critical initiative for promoting self-reliance was the an-

nouncement by the Department of Pharmaceuticals to encourage domestic manufacturing of key starting material (drug intermediates) and active pharmaceutical ingredients (APIs) by 'attracting large investments in the sector to ensure their sustainable domestic supply and thereby reduce India's import dependence on other countries'.<sup>22</sup> In order to meet these objectives, the Government of India announced incentives for up to six years. This policy is aimed at reducing India's import dependence on China for APIs. Over the years, India has become heavily dependent on China for APIs, and in some of the important categories, especially in the case of a number of antibiotics, China accounts for more than 90% of India's imports.

Through this series of policy pronouncements, the Government of India has unambiguously announced its decision to promote local manufacturing and reduce the import bill. While several of the notifications were limited to public procurement activities, the notification on pharmaceuticals would have a wider impact.

The initiatives that the US and Indian governments have taken to stimulate their economies through encouraging local production would result in decreasing their countries' imports. If the policy pronouncements are successfully implemented, these two large markets could see considerable backsliding from globalisation. Several other countries, for instance, Germany, have also given priority to local manufacturing in their stimulus packages, and if this trend takes firm root, deglobalisation seems more imminent.

### A possible China-centred globalisation post-COVID?

Since early April, news has been filtering through that China's manufacturing sector is getting back on track. Other countries will remain in a lockdown phase for at least another two months. Nobody is yet talking of the flattening of the curve, and after that happens, it will take some more time for normalcy to return in most



A pharmaceutical plant in India's Goa state. The Indian government is promoting self-reliance through domestic production, including manufacturing of active pharmaceutical ingredients.

major economies. With China getting a lead over others in kickstarting its economy, there is a distinct possibility that it would be able to further consolidate its position in the global economy.

One interesting feature of China's global economic integration, especially during the past two decades, is that after each crisis that the global economy has experienced, China has been able to consolidate its position. In the post-9/11 world, which also coincided with China joining the WTO, China was able to expand its share in global exports by a fair margin from below 3% to over 7% in 2005. After the 2008 recession, China increased its share to over 11% by 2012. Similarly, it enhanced its share in global manufacturing value added from below 8% in 1999 to 11.5% in 2005 and to over 20% in 2012. By 2018, China contributed a quarter to global manufacturing value added. The probability of yet another round of Chinese consolidation is on the cards for the reasons stated above.

China's capacity to dominate the global stage has also been enhanced by a leader who has embraced globalisation.<sup>23</sup> President Xi Jinping has thus adopted a stance that is radically different from that of the founding father of China's market-based reform, Deng Xiaoping. While Deng adopted the market philosophy without really admitting it,<sup>24</sup> Xi has not only accepted globalisation but set his sights on playing a dominant role in the process.

In May, the Report on the Implementation of the 2019 Plan for National Economic and Social Development and on the 2020 Draft Plan for National Economic and Social Development was presented before the Third Session of China's Thirteenth National People's Congress.<sup>25</sup> This provided an opportunity for China to present its development plans with a forward-looking strategy, when most economies were grappling with the uncertainties of the present. This scenario could, undoubtedly, be a new normal for globalisation. The question which then arises is: would the major economies, the votaries of globalisation in the past, accept this new normal? ♦

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# Trade policy choices during and after the pandemic

*Ranja Sengupta* questions the wisdom of developing countries continuing World Trade Organisation (WTO) talks when the pandemic is ravaging their countries and its full economic impact is not clear.

THE COVID-19 pandemic caused by the novel coronavirus has now unleashed its destructive force across the world and countries are reeling.

There are impacts in terms of continuously increasing infections and deaths, coupled with testing, containment and treatment constraints. There are also massive economic impacts of this pandemic and any efforts to address it (such as lockdowns).

The damage is felt across both developed and developing countries, partially due to lack of capacity as well as lack of timely and appropriate decision-making. The full extent has yet to unfold.

Trade remains a critical part of this scenario since the movement of goods and people across national borders has contributed much to the spread of COVID-19. But trade also matters for the policy choices to deal with the crisis.

## The responses

The solutions mooted by key institutions and countries in terms of trade policy choices require careful analysis.

There seems to be an opportunistic, even desperate, attempt by some countries to sign more trade agreements as if an agreement on paper will magically solve all real-life problems.

The WTO secretariat and some developed-country WTO members have also been trying to continue negotiations in several areas, including fisheries subsidies and agriculture, through emails, virtual meetings and online technologies.

Some plurilateral negotiations such as those on e-commerce, investment facilitation and domestic regu-

lation in services are also apparently sought to be moved forward.

The rationale for continuing these negotiations when all our countries are being ravaged by the virus, is unclear.

Given the urgent domestic situation in most countries and the digital divide that the poorer countries face, continuing with these negotiations runs several risks.

Firstly, this process is non-inclusive and opaque, and secondly, it is biased in favour of those who lead and can participate effectively through virtual means. The outcomes may be defective and often biased against developing countries and least developed countries (LDCs).

Already, the policy prescriptions being advanced by the Organisation for Economic Cooperation and Development (OECD) and certain rich countries are worrying.

In a policy brief titled 'COVID-19 and International Trade: Issues and Actions', released on 10 April, the OECD suggests a higher use of trade facilitation through the WTO's Trade Facilitation Agreement (TFA), and of e-commerce to solve the crisis.

However, these are sensitive issues for developing countries and LDCs. For example, higher use of e-commerce should not necessitate higher engagement in e-commerce negotiations that are riddled with many regulatory and financial problems for developing countries.

The OECD brief also proposes a global agreement for removal of all tariffs, coupled with either a complete ban or conditions on export restrictions, on medical and other essential products.

## Declaration by New Zealand and Singapore

These ideas are reflected in the Declaration on Trade in Essential Goods for Combating the COVID-19 Pandemic, launched on 15 April by New Zealand and Singapore. This was circulated to all WTO members on 16 April as a communique and as an invitation for others to join.

The Declaration pins down a commitment to 'eliminate all customs duties and all other duties and charges of any kind' and not to 'apply export prohibitions or restrictions' on a number of products listed under an Annex I that includes so-called essential processed food items and medical products.

An additional Annex II covers an extensive list of food products. The participating countries are expected to 'endeavour' not to apply export restrictions on these. They are also to enter into arrangements with one or more of the other participants for tariff removal on Annex II products.

The participants will also 'intensify consultations with a view to removing non-tariff barriers' and to 'expedite and facilitate the flow and transit of all products listed in Annex I and Annex II' through the WTO TFA.

The attempt to eliminate export restrictions is expected and will be echoed in many trade circles. However, it is clear that many countries will attempt to restrict export of essential products to ensure domestic supply in a crisis, even if it means denying these products to other countries.

There is no easy solution to this complex problem.

Countries imposing export re-

strictions must try to increase production at the earliest possible, so that the restrictions can be eased. In the very short run, with lockdowns galore, this may not always be possible.

However, even in a situation of export restrictions, there should be continued supply to the poorest countries, which do not have the capacity to produce these essential items.

As seen in the case of India's hydroxychloroquine export ban, the most powerful countries do not hesitate to flex their muscles, including by issuing retaliation threats. The scramble for N95 masks also showed how the highest bidders can corner limited global supplies of crucial medical products.

Interestingly, both the New Zealand/Singapore Declaration and the OECD brief (which does advocate conditions on export restrictions if these have to be imposed) do not explicitly mention preferential treatment for poorer countries.

### **Is tariff removal the way to go?**

A WTO report on 'Trade in Medical Goods in the Context of Tackling COVID 19', released on 3 April, highlights high tariffs related to, for example, soap (average tariff 17%, high 65%), protective supplies (average tariff 11.5%, high 27%) and masks (high tariff rate at 55%).

The New Zealand/Singapore Declaration and the OECD proposal suggest total removal of tariffs on medical, and if possible, food products, to help solve the crisis.

According to this free-trade mantra, import duties distort demand, which in turn prevents the most efficient producer from supplying at the lowest price to the consumer.

However, while using import duties, countries need to balance two needs: protecting domestic production and livelihoods, and meeting domestic demand.

During the current crisis, there is already excess demand, and any country that needs to import these (maybe cheaper) products to fight the pandemic will autonomously remove or reduce duties to encourage imports. They will thus be free to increase du-

ties later, if they so need.

So the world will automatically see a reduction in these tariffs on a need basis. Therefore, it is not clear why countries need to be forced to eliminate duties through this Declaration.

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### **History has clearly shown there is no 'free market' nor 'free trade'. Those with economic power will dictate.**

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The purpose seems to be a forced liberalisation of trade in these products in the longer run and undermining the objective of protecting domestic production and supply, as well as livelihoods.

The Declaration appears to be open-ended and does not specify a particular period for which this 'agreement' should be in place, although it suggests a review (and not a termination) by mid-2021.

While this may be understandable given the uncertainty over the duration of this pandemic and its after-effects, it implies that countries will liberalise these sectors, including all kinds of agricultural products, for an unknown period of time.

Tariff cuts will generally impact more on developing countries, whose tariff levels on average are much higher than those of developed countries, especially on agricultural products, which are extremely sensitive.

So are developing countries being asked to now cut this protection for their farmers and producers, and expose them to foreign competition forever?

Moreover, countries that have domestic production, perhaps infant industries, both in medical products as well as in food, will want to maintain import duties in order to develop these further.

In the aftermath of COVID-19, many countries will also urgently need to restart and strengthen domestic production capacities to ensure some extent of self-sufficiency in

such essential goods.

Even rich countries like the United States and Germany, which already have well-developed medical industries, have hinted as such. But with tariff cuts, developing countries and LDCs cannot pursue self-sufficiency.

Many small and medium-sized enterprises and small-scale farmers in developing countries and LDCs are already reeling from the impacts of the human, health and economic crisis posed by COVID-19. Any tariff removal commitment means their governments cannot protect them from foreign competition, even to maintain domestic supply.

Furthermore, production in the domestic industries in these countries may get reduced. This can create more global shortages and further increase concentration in global markets.

The WTO's 3 April report itself shows that Germany, the United States and Switzerland supply 35% of medical products, while China, Germany and the United States export 40% of personal protective products.

It is clear that in the absence of self-reliance, rich countries will still have the ability (even if it is more difficult) to buy the needed goods in a crisis. But poorer countries will definitely lack this.

The attempt to liberalise such sectors in the name of the pandemic by espousing the 'free market' as the ultimate solution, is to repeat the mistakes of the past.

History, and recent history even more so, has clearly shown there is no 'free market' nor 'free trade'. Those with economic power will dictate, and developing countries and LDCs need to develop at least partial self-reliance in key products.

They need to retain and not give away their policy flexibility in order to survive; to abstain from making further commitments in trade deals may be the best option until the world arrives at its new normal. ♦

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# Where is fair and equitable benefit sharing of medical products?

Although WHO issued a blueprint in March which linked rapid sharing of coronavirus materials and sequence information to fair and equitable sharing of resulting medical innovations, developing countries have yet to see any progress in the realisation of this blueprint. *Sangeeta Shashikant and Edward Hammond* explain.

THE World Health Organisation (WHO), in an announcement in March, linked rapid sharing of SARS-CoV-2 virus materials and sequence information to fair and equitable benefit sharing. But how this linkage will be operationalised remains obscure.

['Digital sequence information' is a placeholder term adopted by the UN Convention on Biological Diversity (CBD) while it discusses a permanent term and definition for sequence information related to genetic resources. It is generally regarded to include DNA and RNA sequences and protein (amino acid) sequences. Many experts also include in the term additional genetic and genomic information such as protein structures and epigenetic information.]

WHO's blueprint for COVID-19 research and development titled 'Co-ordinated Global Research Roadmap: 2019 Novel Coronavirus' published in March has identified access and benefit sharing as one of the immediate next steps to contribute to controlling the pandemic outbreak.

WHO said that an agreed action is: '[b]roadly and rapidly share virus materials, clinical samples and data for immediate public health purposes – It was agreed that virus materials, clinical samples and associated data should be rapidly shared for immediate public health purposes and that fair and equitable access to any medical products or innovations that are developed using the materials must be part of such sharing'.

Developing countries have responded positively to WHO's call for broad and rapid sharing; as of 21 April, they have generated and uploaded 855 complete SARS-CoV-2 sequences into the major interna-



**Research on a vaccine against the novel coronavirus at a laboratory in Copenhagen. Developing countries are concerned about whether they will have access to a COVID-19 vaccine if and when one becomes available.**

tional database used by researchers. These sequences are critical to ongoing public and private efforts to develop COVID vaccines and therapeutic treatments.

Yet there is little progress in defining exactly how the blueprint's parallel call, for fair and equitable access to medical products and innovations, will be realised.

The R&D blueprint is the outcome of a global forum on research and innovation for COVID-19 organised on 11-12 February by WHO in collaboration with the Global Research Collaboration for Infectious Disease Preparedness and Response (GLOPID-R), an international network of funders to facilitate coordination and information sharing.

A fundamental guiding principle of the blueprint is 'Committing to fair and equitable access' and, in that context: '[a]n unambiguous commitment to global solidarity and equitable access to advances made'; '[a] global

effort to enable the scaling-up of any successful intervention'; and '[a] co-ordinated effort to facilitate effective, fair and equitable access based on public health needs'.

The blueprint also recognises that 'access to the benefits of research is critical' and that 'scale up manufacturing of products (speed, access, cost)' is an important component of successful implementation of the roadmap.

It further calls on research funding grants to 'include clauses that promote timely sharing of research data relevant to the outbreak response'.

The origins of access and benefit sharing may be traced back to the Convention on Biological Diversity, which came into force on 29 December 1993. A key objective of the CBD is the 'fair and equitable sharing of the benefits arising out of the utilisation of genetic resources'.

This was further elaborated in the Convention's supplementary Nagoya





was linked on an ‘equal footing’ to access to vaccines and other benefits, recognising both as ‘equally important parts of the collective action for global public health’.

Effectively, the PIP Framework is a multilateral instrument built on CBD principles of access and benefit sharing, with commitments on access to medicines, vaccines, supplies and diagnostic kits in the context of influenza pandemic response.

With the Framework, WHO has entered into binding contracts with vaccine and pharmaceutical manufacturers to secure firm commitments to deliver diagnostics, antiviral products and vaccines during a pandemic.

According to WHO, through 13 signed Standard Material Transfer Agreements (SMTA) as at May 2019, it has secured approximately 420 million doses of influenza pandemic vaccine and 10 million treatment courses of influenza antivirals that it would be able to send to countries in need at the time of a flu pandemic, representing ‘four times the amount of vaccine the Organisation had access to during the 2009 pandemic’.

The SMTA also provides the option of manufacturers providing royalty-free licences to manufacturers in developing countries for the production of pandemic influenza vaccines, adjuvants, antiviral products and diagnostics needed in a pandemic.

The Framework also requires annual partnership contributions by influenza vaccine, diagnostic and pharmaceutical manufacturers using the WHO Global Influenza Surveillance and Response System (GISRS), for a total of \$28 million (i.e., ‘50% of the running costs of the WHO GISRS’, which were in 2011 estimated to be \$56.5 million), with the understanding that this partnership contribution will change over time.

To date, WHO has collected a total of \$198 million, with 70% allocated for national capacity-building



**Coronavirus test samples. Developing countries have been sharing COVID-19-related samples and sequence information with the major international database used by researchers.**

activities to strengthen preparedness while 30% is maintained for future pandemic response.

In 2016, a WHO Expert Review Group described the Framework as a ‘bold and innovative tool for pandemic influenza preparedness’, adding that the basic premise of this innovation is the principle of placing virus sharing and benefit sharing on an ‘equal footing’ which, according to the Expert Review Group, ‘remains relevant today’.

### Lessons for COVID-19

In recent years, the vaccine and pharmaceutical industry, developed countries and sometimes even the WHO secretariat have raised concerns over the implications of the CBD and the Nagoya Protocol, stressing the importance of rapid sharing of pathogen samples and digital sequence information but sidelining the role and importance of fair and equitable benefit sharing and especially the need for rapid sharing of technologies and medical products to respond to a pandemic outbreak.

And yet today, developing countries are sharing their SARS-CoV-2 samples and sequence information but their huge concerns over intellectual property and other barriers to access are not being addressed.

Governments are concerned about whether they will have access to much-needed technologies and medical products such as diagnostics,

but also therapeutics and vaccines as they are developed and rolled out.

On a daily basis, there are news reports about shortages and a scramble for medical supplies. A *New York Times* report titled ‘In Scramble for Coronavirus Supplies, Rich Countries Push Poor Aside’ notes: ‘As the United States and European Union countries compete to acquire scarce medical equipment to combat the coronavirus, another troubling divide is

also emerging, with poorer countries losing out to wealthier ones in the global scrum for masks and testing materials. Scientists in Africa and Latin America have been told by manufacturers that orders for vital testing kits cannot be filled for months, because the supply chain is in upheaval and almost everything they produce is going to America or Europe.’

Apart from availability, another challenge is affordability as ‘countries report steep price increases, from testing kits to masks,’ the report adds.

As therapeutics and vaccines emerge, shortages are to be expected and most affected are likely to be less developed nations. Voluntary mechanisms, while commendable, are unlikely to deliver medical products and manufacturing technologies needed to ramp up production.

What is needed is for WHO to operationalise fair and equitable benefit sharing by securing firm and binding commitments from vaccine, pharmaceutical and other manufacturers with respect to availability and affordability of medical products and the sharing of knowledge and technology. ◆

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# COVID-19 has not slowed down ecological women farmers in Peru

Undeterred by the threat posed by COVID-19 which stalks the Americas, a group of 80 indigenous women in Peru are pioneering new forms of agricultural production based on agroecology which meet the food needs of the women and their families while also contributing to the sustainable development of their communities. *Mariela Jara reports.*

IT'S eight o'clock in the morning and Pascuala Ninantay is carrying two large containers of water in her wheelbarrow to prepare with neighbouring women farmers 200 litres of organic fertiliser, which will then be distributed to fertilise their crops.

'We grow healthy, nutritious food without chemicals,' she tells Inter Press Service (IPS), describing the sustainable agriculture she practises in Huasao, a town of about 1,500 people in Quispicanchi province, 3,300 metres above sea level, in the department of Cuzco in south-central Peru.

It will take them four hours to prepare the biol, a liquid fertiliser composed of natural inputs contributed by the local farmers as part of a collective work tradition of the Quechua indigenous people, to which most of the inhabitants of Huasao and neighbouring Andes highlands villages in the area belong.

'Between all of us we bring the different ingredients, but we were short on water so I went to the spring to fill my *galoneras* [multi-gallon containers],' explains Ninantay.

The women, gathered at the home of Juana Gallegos, work in community.

While some gather insect repellent plants like nettles and muna (*Minthostachys mollis*, an Andes highlands plant), others prepare the



**Wearing masks to prevent the spread of COVID-19, a group of women farmers prepare to head out to their plots on the community lands outside of Huasao, Peru.**

huge plastic drum where they will make the mixture that includes ash and fresh cattle dung. They keep working until the container is filled with 200 litres of the fertiliser which, after two months of fermentation in the sealed drum, will be distributed among them equally.

Making organic fertiliser is one of the agroecological practices that Ninantay and 15 of her neighbours have adopted to produce food that is both beneficial to health and adapted to climate change.

They are just a few of the almost 700,000 women who, according to

official figures, are engaged in agricultural activities in Peru, and who play a key role in the food security and sovereignty of their communities, despite the fact that they do so under unequal conditions because they have less access to land, water management and credit than men.

That is the view of Elena Villanueva, a sociologist with the Flora Tristan Centre for Peruvian Women, a non-governmental organisation that for the past two years has been promoting women's rights and technical training among small-scale women farmers in Huasao and six other areas of the region, with support from two institutions in Spain's Basque Country: the Basque Development Cooperation agency and the non-governmental Mugen

Gainetik.

'During this time we have seen how much power the 80 women we have supported have gained as a result of their awareness of their rights and their use of agroecological techniques. In a context of marked machismo (sexism), they are gaining recognition for their work, which was previously invisible,' she told IPS.

This group of women farmers is convinced of the need for nutritious food that does not harm people's health or nature, and they are happy to do their small part to make that happen.



'We want to have a variety of food constantly available, but taking care of our soil, water, plants, trees and air,' says Ninantay.

'We no longer use chemicals,' says Gallegos. 'Thanks to the training we have received, we understood how the soil and our crops had become so dependent on those substances; we thought that only by using them would we have a good yield.'

'But no, with our own fertilisers we grow lettuce, tomatoes, chard, artichokes, radishes and all our big, beautiful, tasty vegetables. Everything is organic.'

Once they were producing their fresh produce using agroecological techniques, the women decided to also begin growing their staple crops of potatoes and corn organically.

'I see that the plants are happier and the leaves are greener now that I fertilise them naturally,' says Ninantay.

Villanueva says that these decisions on what to plant and how to do it contribute to new forms of agricultural production that meet the food needs of the women and their families while also contributing to the sustainable development of their communities.

'With agroecology they enrich their knowledge about the resistance of crops to climate change, they carry out integrated management of pests and diseases, and they have tools to improve their production planning,' she explains.

And even more important, 'this process raises their self-esteem and strengthens their sense of being productive citizens because they are aware that they are taking care of biodiversity, diversifying their crops and increasing their yields,' she adds.

Thanks to this, these peasant women are obtaining surpluses that they now market. Three times a week, Ninantay and the other women set up their stall in Huasao's main square where they sell their products to the local population and to tourists who come in search of local healers, famous for their fortune telling and cures, which draw on traditional rituals and ceremonies.

## Coronavirus alters local dynamics

However, the measures implemented by the central government on 15 March to curb the spread of the Covid-19 pandemic have reduced trade, by not allowing outsiders to visit Huasao, known locally as 'the village of the witchdoctors' because of its healers.

But the work in the fields has not stopped; on the contrary, the women are working harder than ever.

'We used to have the income of my husband who worked in the city, but because of the state of emergency he can no longer leave,' says Ninantay. 'My fellow women farmers are in the same boat, so we continue to harvest and sell in the square and what we earn goes to buying medicines, masks, bleach and other things for the home.'

Initially, she says, the husbands didn't want their wives to participate in the project and stay overnight away from home to attend the training workshops. But after they saw the money they were saving on food and the income the women were earning, 'they now recognise that our work is important'.

Their husbands, like most Huasao men, do not work in the fields. They work in construction or services in the city of Cuzco, about 20 km away, or migrate seasonally to mining regions in search of a better income.

So the community lands, where each family has usufruct rights on three-hectare plots, were left in the hands of women, even though the title is usually held by the men.

With the opportunity offered by the Flora Tristan project, they have increased their harvests and are no longer merely subsistence farmers but earn an income as well.

Despite the pandemic, the women obtained permission from the authorities and received training on the care and prevention measures to be followed in order to market their products under conditions that are safe for them and their customers.

Their stall at the open-air market in the town's main square is already known for offering healthy food, and on Mondays, Tuesdays and Thursdays they run out of vegetables and other products they offer. They also sell their wares in other fairs and markets.

Their stall in the municipal market is also seen as an alternative to return to more natural foods in the face of the increasing change in eating patterns in rural areas.

'Many people don't want to eat quinoa or oca (*Oxalis tuberosa*, an Andean tuber), they prefer noodles or rice,' says Ninantay. 'Children fill up on sweets and junk food and they are not getting good nutrition, and that's not right. We have to educate people about healthy eating if we want strong new generations.'

She stresses the importance of people understanding that nature, 'Mother Earth', must be respected. 'We have to recover the wisdom of our ancestors, of our grandmothers, to take care of everything that we need to live,' she warns.

'If we do not do this, our grandchildren and their children will not have water to drink, seeds to plant, or food to eat.'

Flora Tristan's Villanueva announced that 80 women farmers in the programme would participate in initiatives for the recovery of agricultural and water harvesting practices based on forestation and infiltration ditches, using native trees known as chachacommas (*Escallonia resinosa*) and quenuas (*Polylepis*).

The women hope that their experience and knowledge will be extended on a large scale, because although they share with their families, neighbours and relatives what they are learning, they believe that the authorities should help expand these practices.

'We would like not only Huasao, but all of Cuzco to be an agroecological region, so that we can help nature and guarantee healthy food for the families of the countryside and the city,' says Gallegos, convinced that if they could do it, everyone can.

— IPS

# The 'sink' for Indian capitalism

The distress to which hundreds of thousands of migrant workers were suddenly exposed by the Narendra Modi government's decision to announce a three-week-long lockdown at four hours' notice with zero planning, has also highlighted a crucial aspect of the Indian economy. This consists in the fact that the village, with its agriculture-based economy and joint-family system, continues to remain the support base for millions of urban workers who are perennially exposed to the vicissitudes of life under capitalism. When they were suddenly made income-less and homeless, and were literally thrown on the streets, the overwhelming thought in their minds was to get back to their villages, even if it involved walking hundreds of kilometres.

**Prabhat Patnaik**

IN interviews with journalists, many returning migrant workers said that back home in the village they might at least get some employment as harvest workers for the spring season crop. The village, in short, and the agricultural sector, remain the 'sink' for Indian capitalism.

Contrary to the myth propagated by its spokesmen, capitalism does not absorb all the petty producers whom it displaces. Capital accumulation is invariably accompanied by labour-saving technological change to an extent that precludes the absorption of all those it displaces together with the natural increase in the workforce. It is invariably characterised therefore by the existence of a 'sink', a space that gathers all the miserable, distressed population.

In metropolitan capitalism, this 'sink' was provided by the temperate regions of white settlement to which mass migration occurred from Europe. In these new lands, the migrants managed to get a reasonable standard of life by, in turn, displacing the original inhabitants, the Amerindians, from their land.

In the classic English debate on poverty and the industrial revolution, even those like Eric Hobsbawm who had argued that poverty had increased after the industrial revolution had conceded that things had begun to improve in England in the 1820s, and had attributed this fact to capital accumulation finally making a dent on



**Migrant workers in New Delhi returning to their villages after the lockdown in India was announced.**

destitution. In fact, however, it was not capital accumulation but emigration, which picked up after the end of the Napoleonic wars, that had made the difference. European capitalism's 'sink', which turned out not to be so distressing after all, was the 'new world', the regions of temperate settlement.

But in tropical colonies like India where those displaced by the onslaught of metropolitan capitalism had nowhere to emigrate, the 'sink' was the domestic agricultural sector, where distress and misery continued to accumulate alongside the accumulation of capital in the metropolis.

After independence, there was an interlude of dirigisme when some increase in per capita agricultural output took place, though its benefits were unevenly distributed across rural classes; and an increase in employment opportunities outside of agriculture occurred that was a little ahead of the rate of growth of the workforce.

These two developments led to a marginal improvement of living standards within agriculture, unlike the worsening that had been occurring in the last half-century of colonial rule. But now we are back again with neoliberal capitalism when those in the 'sink' are witnessing a reduction in their living standards.

No amount of talk about India emerging as an 'economic superpower' or as a '5-trillion-dollar economy' can hide this fact that peasant agriculture continues to be a 'sink' to which the distressed urban workers return, and which is witnessing growing distress over time instead of being benefited by the process of capital accumulation pulling away workers from it. Behind the so-called 'successes' of the Indian economy under neoliberalism is this ever-growing distress within the 'sink', in which ironically the majority of the country's workforce is concentrated and which determines, as we argue below,



**There is a cumulative dynamics under neoliberalism which keeps pushing the economy further and further in the direction of a worsening of the living standards of the working people.**

the conditions of the entire Indian workforce.

An implication of the fact that agriculture acts as a 'sink' for the Indian economy is the following. The bargaining strength of the urban workers, including even the organised ones, is closely associated with the per capita incomes of the agriculture-dependent working population, i.e., excluding the landlords, the capitalist farmers and those rich peasants who have diversified out of agriculture.

Even the unionised workers in India are not entirely cut off from their rural roots, and their capacity to go on a sustained strike in the sectors where they are employed often depends upon the degree of support that they can get from back 'home'. It depends, in other words, on the material conditions that prevail back home, for which we have taken per capita real income of the working people in agriculture as the index.

We can therefore visualise the conditions of life of the entire working people in the economy, consisting of workers, peasants and agricultural labourers, moving up or down synchronously. The trigger for this synchronous movement can come either from the side of agricultural growth or from the side of urban employment growth, and these two in turn are interrelated. If the per capita real agricultural income of the working people in agriculture falls because of the withdrawal of government support for the agricultural sector, then it causes a downward synchronous

movement of the conditions of the entire body of working people in the economy. Likewise, if the capacity of the urban economy to provide employment falls below even the natural rate of workforce growth, then there is a synchronous downward movement for the entire working population. These two factors, as already mentioned, are interrelated; and under neoliberalism, both factors operate.

But that is not all. There is a cumulative dynamics under neo-liberalism which keeps pushing the economy further and further in the direction of a worsening of the living standards of the working people. Let us assume, to start with, that the capacity of the prevailing growth rate in the non-agricultural sector to generate employment falls below the natural rate of growth of the workforce. This capacity, it may be recalled, depends not just on the growth rate itself but also on the rate of technological progress that accompanies it.

If the growth of the natural workforce itself cannot be absorbed by the employment opportunities created by growth, then the condition of life of the working population falls across the spectrum. This necessarily means an increase in the rate of exploitation in the economy, which, in terms of conventional national income accounting, manifests itself in an increase in the share of economic surplus in total GDP.

The rate of labour-saving technological progress itself however de-

pends on the share of economic surplus in total output, since the pattern of demand of those living off the surplus is closer to metropolitan lifestyles. Such lifestyles are not only much less employment-intensive to begin with but are also subject to rapid transformation in a further machinery-using and employment-reducing direction. Hence, with an initial increase in the rate of exploitation, the tendency is for a further increase in the rate of exploitation.

We are talking here of real per capita incomes of the working people, so that this further and further increase in the rate of exploitation means a worsening of their absolute living standards, which means an increase in the extent of absolute poverty.

This is exactly what has been happening in India, where the proportion of population not able to access the benchmark nutritional norms used officially to define poverty in the country has increased during the neoliberal period. These norms, it would be recalled, are 2,200 calories per person per day in rural areas and 2,100 calories per person per day in urban areas. According to the National Sample Survey, the proportion of people unable to access this benchmark level in rural India increased from 58% in 1993-94 to 68% in 2011-12. Likewise, the proportion unable to access the norm of 2,100 calories per person per day in urban India increased from 57% to 65% between these two dates.

The COVID-19 pandemic will worsen greatly the magnitude of poverty, since it will lead to a massive increase in urban unemployment as it has already done. But the mechanism through which this increase in poverty happens across the entire spectrum was demonstrated during the lockdown, namely, by the mass migration back towards the village by those suddenly rendered destitute in urban areas. ♦

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# E-commerce platforms: Corona warriors or disaster capitalists?

Prime Minister Modi's lockdown order in March has provided giant e-commerce platforms an opportunity to penetrate the Indian economy. *Anita Gurumurthy and Nandini Chamy explain.*

IN 2007, in her book *Shock Doctrine*, Naomi Klein argued that history is a chronicle of 'shocks' – the shocks of wars, natural disasters and economic crises – but more importantly, of their aftermath, characterised by disaster capitalism – calculated, free-market 'solutions' to crises that exploit and exacerbate existing inequalities. This is why Big-Tech-to-the-rescue in times of the virus does not strike the right chord.

It started with the lockdown order issued by the Indian central government on 24 March, with the exemption for essential services and supplies getting extended to the delivery of foods, pharma products and medical equipment through e-commerce channels. The upper classes had to be assured that their means of shopping would not be affected. Notably, the order issued no such explicit exemption to the movement of foodgrains through Food Corporation of India channels, integral to the Public Distribution System. The lockdown order was a candid admission that e-commerce companies have now become infrastructural utilities indispensable to India's aspirational middle class.

Dominant e-commerce platforms have seized this moment to position themselves as interlocutors of public interest. In the US, Amazon has stepped up to the healthcare challenge, with CEO Jeff Bezos holding parleys with the Director-General of the World Health Organisation (WHO) to 'flatten the curve' and make sure Amazon can 'protect people around the world'. China's Jack Ma, co-founder of Alibaba, sent out shipments of a million masks and 500,000 coronavirus test kits to 'friends in America'. Pledging his



Logistics workers for an e-commerce company sorting packages in Bengaluru, India. Social distancing measures and fears of contagion have led to consumers rapidly switching to e-commerce from bricks-and-mortar retail.

solidarity with the global community, Ma wrote, 'It would be irresponsible of us to sit on the fence, panic, ignore facts or fail to act.' The new global digital czars holding sway over the market, it would seem, are the charmed circle, displacing aggressive diplomacy and nationalistic propaganda.

On 27 March, after the lockdown announcement and ensuing shutdown of delivery and logistics operations on the ground, Indian e-commerce companies met the Minister of Commerce and Industry seeking an expedited channel for trucks, also submitting that differentiation of essential versus non-essential items by the government may ignore what consumers 'wanted'. Even prior to the lockdown, Flipkart had extended a hand to the government, offering to partner in any programme for the delivery of essential commodities.

This zeal that e-commerce plat-

forms have displayed is disaster capitalism's COVID-19 moment. The pot at the end of the rainbow must be claimed now, and the traditional retail sector – grocers, pushcart vendors, neighbourhood traders who paradoxically have been catering to the public in these strange and trying times – rendered irrelevant. The aftermath in a post-COVID world could easily present e-commerce a phenomenal opportunity. Zomato, the food delivery platform, is making forays into grocery and is about to launch Zomato Market. With its food delivery fleet grounded, the company is in talks with Grofers and BigBasket facing a spike in grocery orders, to optimise labour supply. Big e-commerce platforms have already coopted local stores into their logistics and supply chain. In fact, the offline is the crucial battleground for the big players in online retail – Amazon, Flipkart and JioMart – as each of them woos



A neighbourhood convenience shop or *kirana* store. Big e-commerce platforms have already coopted local stores into their logistics and supply chain.

local *kirana* stores (small neighbourhood convenience shops) to scale up last-mile reach.

### The long game

What is presented as a win-win for both big e-tail and small stores is in fact a skewed equation. Today, *kirana* stores already subsidise e-commerce big business in delivery of goods, stocking and inventory management. The end game for JioMart, Amazon and Flipkart is to eventually push their grocery and private label business through these local stores. Flipkart and Amazon are also trying aggressively to push their payment wallets PhonePe and AmazonPay, while Reliance Retail has already launched the Jio point of sale (PoS) machine for *kirana* store vendors so that it can gain a firm hold over its distribution segment. The last-mile player will still be around, only to be reduced to a replaceable cog in the corporate wheel.

Social distancing measures and fears of contagion have led to consumers rapidly switching to e-commerce from bricks-and-mortar retail. Surveys of the Indian market indicate that hyperlocal e-tailing businesses (such as grocery) registered a 45-50% growth in overall gross merchandise volume in the first two weeks of March when compared with the same period in February. At the height of the COVID-19 crisis, Alibaba-backed online grocery start-up BigBasket

acquired the milk delivery start-up DailyNinja, gaining control over the latter's network of 110,000 consumers and 2,000 milkman partners across the country. A time when most public transport networks and warehousing and logistics infrastructure have come to a grinding halt and open retail markets are shut down happens to be BigBasket's moment to consolidate its hold over microlocal retail networks.

The future is evidently online in more ways than one. When the crisis passes, it can never be a return to business-as-usual. On 20 March, the Retailers Association of India petitioned the government seeking urgent economic stimulus for traditional retail on grounds of decreasing footfalls and loss of revenues, highlighting that COVID-19 has exacerbated the financial stresses on the sector. The lockdown is only going to worsen the cash-flow crunch, and big and small retailers alike may end up simply shutting shop. And those who remain will find themselves in a radically altered market scenario – a 'new retail' sector where online and offline retail channels are seamlessly integrated and controlled by e-commerce companies.

Wholesalers, distributors and *kirana* stores may have no option but to integrate into some part of the warehousing, supply and microretail logistics network of one of the big e-commerce platform companies. Morgan Stanley has predicted that

even with the recession, e-commerce is expected to bounce back. Gaining resilience post-COVID will call for greater coordination and predictability in supply chains in a highly resource-constrained economy. The prowess to achieve economies of scale in this context – in terms of sophisticated artificial intelligence, robotics, Internet of Things – is the exclusive monopoly only of the e-commerce giants. Retail is poised to see a second digital disruption, a new normal with significantly higher concentration of market power.

The longer-term prognosis of this is worrisome. E-commerce platforms dream big. Their cash burn models are built to embrace cross-sectoral ventures. In 2018, Amazon acquired online pharmacy PillPack and established its ambitions in healthcare. This partly explains Bezos's public-spirited motivation during this crisis. Governments fighting jobless growth and recession may simply have to give in to these corporatised, new age public utilities, allowing them to lead the way. For India, this poses several critical policy concerns. What will be the fate of the draft e-commerce policy? How are 'FDI (foreign direct investment) in e-commerce' norms likely to change? Will they be re-clarified to allow e-commerce platforms to invest in or even acquire a majority stake in traditional retail?

How governments can regulate platform companies, prevent market consolidation by the digital behemoths and enable alternative platform models will be critical policy imperatives for the coming years. The dominant e-commerce narrative encapsulates a creeping dissipation of free and fair economies. A cross-movement mobilisation of workers, small traders and social justice activists is necessary to recover the idea of digital infrastructures for those at the margins and to ensure that policy can avert the disastrous consequences of a post-COVID disaster capitalism. ♦

Anita Gurumurthy and Nandini Chamy are with IT for Change, Bangalore, India. This article is reproduced from the Kafila blog (<https://kafila.online/2020/04/13/e-commerce-platforms-corona-warriors-or-disaster-capitalists/>).

# Pompeo: US knows nada

While openly admitting that neither he nor the CIA has any information on the precise origin of the COVID-19 virus in Wuhan, US Secretary of State Mike Pompeo is not averse to joining President Trump in claiming that the virus leaked out of a laboratory there. Hence *Finian Cunningham's* summing up that 'America's so-called top diplomat has zero credibility, much like his bleach-prescribing boss in the White House'.

ALL the American bluster blaming China for the COVID-19 pandemic is empty posturing. How do we know? US Secretary of State Mike Pompeo just admitted it on public TV.

Pompeo was asked about the origin of the virus and, specifically, US claims about it being leaked from a laboratory. Here's what he told Fox News on 30 April: 'This virus originated in Wuhan, China. We don't know the precise location.'

That's the best that Pompeo can do. Pretty much saying what the rest of the world already knows, that the new coronavirus emerged in the city of Wuhan. Any further detail on an alleged laboratory release, and Pompeo has zero information. And openly says so himself.

He rambled on with lots of innuendo and inanities, but the germane information to glean is Pompeo admitting that the US does not know 'the precise location' of where the virus came from.

That's a damning remark. Because Pompeo and his boss, President Trump, among others, are claiming US intelligence indicates that the virus somehow leaked out of a laboratory in Wuhan, the Wuhan Institute of Virology.

While Pompeo was inadvertently coming clean about US ignorance, Trump has been claiming that intelligence is coming in and 'we are not happy', implying that the Americans



US Secretary of State Mike Pompeo.

had something incriminating on China.

However, Pompeo's professed lack of knowledge about the origin of the virus also hasn't stopped him from asserting that China is recklessly running other laboratories creating dangerous pathogens. Ominously, he has vowed that the US will convince other nations that China is responsible for the global outbreak and that Beijing will be held liable for financial compensation. That suggests the US is busily working on finding 'evidence' to fit a predetermined conclusion blaming China.

The allegation of the virus escaping from a laboratory has been roundly rejected by international scientific assessment. The scientific consensus is overwhelmingly that the virus originated in nature, possibly in bats from where it passed into humans. A biological accident, so to speak, for which China is not and

should not be made liable.

Scientific assessment concurs with the position of the Chinese government. China has denounced the allegations made by the Trump administration as 'preposterous disinformation'.

The World Health Organisation has also concluded that the virus originated in wildlife and was not due to a laboratory release or bioengineered. But with the toxic politics flying in the US, WHO has been vilified as the 'Wuhan Health Organisation' working in cahoots with the Chinese Communist Party. So there is little chance of reason or objectivity prevailing in US discussions.

That toxic politicisation of the pandemic allows people like Pompeo to propagate his China bogeyman story and to try to blame all of America's woes on Chinese 'Commies'.

Given that the number of Americans infected by COVID-19 represents about one-third of the global total, it is understandable that the Trump administration is desperate to find a scapegoat for its own abysmal failings. The last week of April saw the US death toll exceed 60,000 – more than all the American military deaths incurred during the Vietnam War.

The forthcoming presidential election is shaping up to be a referendum on Trump's botched – some would say 'criminal' – mismanagement of the COVID-19 pandemic.

The only way for Trump to sal-



vage his re-election bid is to redirect anger onto China. Hence, China is being accused of releasing the virus from a laboratory or 'covering up' the severity of the outbreak. Neither of these claims has any substance. It's a hoax or 'fake news', as Trump likes to rail against when it suits his offended ego.

But hoax aside, Trump and odious henchmen like Pompeo are going to keep pushing the propaganda smearing China even at the risk of starting a war. He's going to make an election campaign out of it, whereby deadbeat Democrat rival Joe Biden is portrayed as 'Beijing Biden' and 'soft on China'.

Trump's political future is being bet on toxifying any discussion about COVID-19 and China, no matter how insane and reckless. Because the aim is to rally American voters behind the flag and paint China as the nation's enemy.

It's worth remembering, before we go down that path to perdition, that Pompeo just told us that US intelligence concerning the origin of the virus is non-existent.

No surprise there. US intelligence is too often shown in history to be all about concocting lies for wars, including, topically enough, the Vietnam War (as the 1964 Gulf of Tonkin incident later revealed).

Pompeo himself, as former head of the US Central Intelligence Agency (CIA), has openly bragged about lying and cheating as a professional attribute.

America's so-called top diplomat has zero credibility, much like his bleach-prescribing boss in the White House. ♦

*Finian Cunningham has written extensively on international affairs, with articles published in several languages. He is a Master's graduate in Agricultural Chemistry and worked as a scientific editor for the Royal Society of Chemistry, Cambridge, England, before pursuing a career in newspaper journalism. He is also a musician and songwriter. For nearly 20 years, he worked as an editor and writer in major news media organisations, including The Mirror, Irish Times and Independent. He is winner of the Serena Shim Award for Uncompromising Integrity in Journalism (2019). The above article is reproduced from the Sputnik News website (sputniknews.com).*

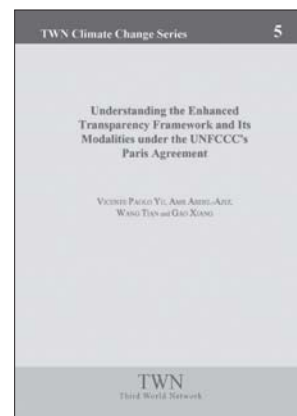
## Understanding the Enhanced Transparency Framework and Its Modalities under the UNFCCC's Paris Agreement

by Vicente Paolo Yu, Amr Abdel-Aziz,  
Wang Tian and Gao Xiang

To assess progress towards curbing global warming, Parties to the United Nations Framework Convention on Climate Change are required to provide information on actions taken to reduce emissions of greenhouse gases, deal with the impacts of climate change, and support implementation of the UNFCCC commitments. Such reporting has now been significantly scaled up under the Enhanced Transparency Framework (ETF) established by the UNFCCC's Paris Agreement.

Complying with these more rigorous reporting rules under the Paris Agreement may pose a challenge for developing countries given their capacity constraints. However, in line with

the UNFCCC principle of "common but differentiated responsibilities", a measure of flexibility is accorded to developing countries in the form of differentiated commitments with regard to the coverage and level of detail of reporting. Further, the ETF envisages the channelling of financial and technical assistance by developed countries to aid developing countries in reporting on their climate actions. researchers, civil society activists and all those interested in the climate change issue.



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# Over there is now over here

## America's pandemic role reversal

For over a century, US presidents have been justifying military adventures abroad by claiming that they wanted to keep the enemy at bay rather than fight it on American soil. But now with the outbreak of COVID-19, the US itself has been turned into a war zone with casualties greater than from any war abroad.

**Karen J Greenberg**

REMEMBER the song 'Over There'?

*'Over there, over there  
Send the word, send the word  
over there  
That the Yanks are coming,  
The Yanks are coming,  
The drums rum-tumming every-  
where...'*

Maybe not, since it was popular so long ago, but it was meant to inspire American troops saying goodbye to their country on their way to a Europe embroiled in World War I. Written by George M Cohan, the song paid homage to an American wartime urge to do good in the world, to take what was precious about this country and spread it to less fortunate, endangered peoples elsewhere. As Jon Meacham and country music star Tim McGraw reminded us, that song's message couldn't have been simpler: The good guys are coming.

A century later, that sentiment in Cohan's lyrics had merged with a related but ultimately contrary message: the supposed determination of America's leaders to keep at bay and away the dangers rife in so much of the rest of the world. As President George W Bush repeatedly assured Americans after the 9/11 attacks, this country would keep the threat of terrorism 'over there' – and so away from our shores. 'We will fight them over there so we do not have to face them in the United States of America,' he typically told American legionnaires back in 2007.

More than a decade later, Republican Senator Lindsey Graham of-



A COVID-19 patient in Washington DC being transported by medical workers. 'With COVID-19, the very idea of American exceptionalism may have seen its last days.'

fered a reminder of the lingering persistence of such an 'over there' mindset. Defending President Trump's decision to keep American forces in Iraq, Syria and Afghanistan, he explained: 'I want to fight the war in the enemy's backyard, not ours.'

Trump's version of keeping danger 'over there' manifested itself most notably in his attempts to keep the immigrant version of the dangerous Other over there. Beginning with his 'big, fat, beautiful wall' and his Muslim ban, such efforts, including most recently his 22 April proclamation of a 60-day suspension on immigration by those seeking green cards, have never ended.

One 'immigrant' he could not keep out, however, was the coronavirus, which – owing significantly to his acts (or lack of them) – has played havoc with the over-there conceit. When it comes to COVID-19, undeterred by a military presence abroad or border walls, keeping the threat to this nation at bay is no longer a pos-

sibility. Instead, an array of dangers, deprivations and fears that have long beset the rest of the world – and from which the United States considered itself largely immune – have now entered our supposedly separate, well-guarded, very exceptional American world. Like the giant 'murder hornets' from Asia detected for the first time in the United States in April, perils once reserved for places abroad are now squarely in our own backyard.

Like it or not, Over There is now Right Here.

### America as a war zone

The stage for bringing 'there' to the homeland was aptly set when President Trump declared the country at war with a disease. Suddenly, America's forever wars of the 21st century were no longer distant affairs. 'War' was here and now, and this time we weren't the invaders, but the ones who had been invaded.

Appropriately enough, in these

last months, New York City, the epicentre of the pandemic in the US, has been described by many in terms normally reserved for a war zone: the bodies of the dead laid out in rows as after battlefield encounters; tents like those seen at the outskirts of battle zones serving as makeshift hospitals in parks; sirens screaming day and night as emergency vehicles transport severely ill casualties of the virus to exhausted and overworked medical teams. And in the context of such a war at home, the military – along with the various National Guard units – has been on hand to help build temporary hospitals and distribute food and supplies.

Inside this new war zone, the basic circumstances of life have begun to resemble those long considered forever distant. For years now, we've been reading about casualty figures from places where Washington has pursued its 'over there' war on terror. As Brown University's Costs of War Project has reported, since 9/11 more than 800,000 people have been killed in US wars in Iraq, Afghanistan and the Pakistani borderlands alone.

Now, by far the largest numbers of deaths are no longer over there but right here in the United States, thanks to the invisible virus among us. The world watches us as we lose Americans by the thousands on an almost daily basis. Health systems worldwide, and particularly in Africa, have long been a focus of the World Health Organisation (WHO) and other medical groups. For decades, specialists have tried to ameliorate a lack of doctors, an absence of medical equipment, and a need for more hospitals and greater access to healthcare on that continent. That was over there. No longer.

### **Life in the US becomes precarious**

Alongside images of war, the US healthcare system is now experiencing the kind of shortages and incapacity that had previously been associated with those in impoverished countries. As a 2017 WHO report

concluded, 'Half the world lacks access to essential health services.'

As COVID-19 patients overwhelmed New York City hospitals, conditions there began to resemble those in such lands. The most basic things like access to emergency rooms or to urgent care for people with the virus (but also for those with other problems entirely) became less certain. As the numbers of COVID-19 patients soared, those experiencing other life-threatening symptoms began to be treated according to a new, far grimmer calculus. At the same time, individuals in need of emergency care for other reasons came to fear going to ERs and exposing themselves to the pandemic, sometimes dying at home instead.

In these months, for instance, the number of organ transplants fell precipitously. On 31 March, the Regional Emergency Medical Advisory Committee of New York City announced that adults in cardiac arrest were not to be transported to the hospital for additional attempts at revival if their hearts had not restarted after 20 minutes. Many cancer surgeries have been delayed until further notice.

And it's not just emergency care that's under siege. Doctors have become unavailable for non-urgent matters. Messages like this one from a medical group tell it all: 'If you are young, healthy, and sick but otherwise stable at home, please limit your calls to your doctor's office so we can manage the high volume of calls incoming from high-risk patients.' While tele-health appointments with your general practitioner have become a way of life, they are no substitute for a yearly physical, let alone in-person attention to medical disorders and diseases. Dentists are, of course, not performing regular services. How many of us will have to forgo our yearly mammograms, our regular dental check-ups, our annual physicals during this pandemic?

If lack of access to adequate healthcare is a measure of a country under wartime-like stress, the United States is no longer an exception.

### **An American world of deprivation**

Other normal expectations about American life are also breaking down in ways once associated with foreign lands. As George Packer recently wrote in the *Atlantic*, the federal government now looks more like a failed state than a vibrant democracy. As he put it, the Trump administration's reaction to the coronavirus crisis was more 'like Pakistan or Belarus – like a country with shoddy infrastructure and a dysfunctional government whose leaders were too corrupt or stupid to head off mass suffering.' In fact, the government's response to the crisis has failed in a striking set of ways, ranging from the unpreparedness of the Centers for Disease Control and Prevention (CDC) to the failure of diplomatic and domestic efforts to procure ventilators and protective masks or implement the distribution of stockpiles of medical equipment.

Meanwhile, the socio-economic level of the country has plummeted as middle-class Americans lose their jobs and begin the long fall into another existence. Since March, significant parts of the economy have been shut down and more than 33 million people laid off, with 6% of the labour force filing for unemployment in the last two weeks of that month alone. Official US unemployment recently hit 14.7%, a figure unseen since the Great Depression of the 1930s. Unemployment claims have surged catastrophically and are still climbing weekly.

For an increasing number of Americans, food insecurity has become a fact of life. Empty shelves for some products are increasingly common in grocery stores nationwide. While predictions of shortages and price increases vary from cautious denials to measured concern, certain aspects of the usual food chain do seem to be breaking down. As Shub Debgupta, an economist who focuses on supply-chain risks to food, has pointed out, supplies from other countries that the United States depends on are likely to dwindle in the coming months. So, too, will farm labour,



often made up of guest workers from across the southern border.

In the food industry and elsewhere, from grocery stores to hospitals, safe working conditions have deteriorated as the pandemic spreads, heading in directions previously associated with exploitative, impoverished and corrupt countries. The proximity of workers inside the country's meat-processing plants has, according to the CDC, already led to the infection of an estimated 5,000 workers (1,000 in a single plant).

Meanwhile, as the homelessness rate grows, many shelters have closed and those that remain open, social distancing being impossible and sanitary conditions bleak, are now potential hotbeds of infection, or as Emma Grey Ellis put it in *Wired*, 'Homelessness is incompatible with health.' And let's not forget the nightmare of nursing homes, some of which have become literal graveyards for the aged and infirm.

Prisons and detention centres have similarly become incubators for the spread of the disease, as our incarceration system suffers the kinds of deaths that might once only have been possible in countries like Chile, El Salvador, Peru or elsewhere in Latin America (where notoriously overcrowded prisons have led to the rampant spread of COVID-19). Authorities in Arizona, for instance, now predict a 99% infection rate in its prison system and, despite the release of prisoners and immigration detainees across the country, unsanitary conditions and overcrowding still make prisons, as one expert remarked, 'a ticking time bomb'.

In these and other areas where deprivation is being enhanced as the coronavirus runs wild in America, the burden has fallen overwhelmingly on low-income groups, blacks and Hispanics in particular. In doing so, it has heightened an already all-American reality. Though billionaires continue to prosper, low-income groups with heightened health-risk factors are now suffering disproportionately from COVID-19.

Blacks, for instance, have so far made up 25% of the deaths in the US

from the virus, nearly twice their numbers in the general population. In New York alone, as the disease engulfed the city, black and Latino residents are estimated to have perished at twice the rate of whites. In states like Michigan and Illinois, the disparities have been similarly pronounced, while unemployment rates among African Americans now overshadow that of whites to a degree that is breathtaking. William Rodgers, former chief economist at the Department of Labor, has estimated that, as early as March, the real unemployment rate for African Americans may already have climbed to 19% and has only increased since.

The world, in other words, is coming home.

### Long-simmering realities

In many ways, the current crisis has, of course, just exposed conditions that should have been attended to long ago. Much that suddenly seems broken was already on the brink when the coronavirus appeared. If anything, the pandemic has simply accelerated already existing trends. As a December 2019 Century Foundation report on 'racism, inequality, and health care for African Americans' concluded, 'The American health care system is beset with inequalities that have a disproportionate impact on people of colour and other marginalised groups.' In fact, in 2019, the London-based Legatum Institute's Prosperity Index had already ranked the American healthcare system 59th in the world for its standard of services.

As bad as Donald Trump and his administration have been, the growing American coronavirus disaster can't simply be blamed on them. COVID-19 has brought home to the rest of us how over here over there really was. And now, the pathetic White House leadership in this crisis has raised another possibility: autocracy.

The Trump administration's failure to handle the crisis competently stems in part from the president's perception that whatever he says, in autocratic fashion, goes – or, as he has

often put it, 'I can do whatever I want.' From his early assertion that the virus was destined to go from 15 cases to one or disappear in the warmth of April to his fantasy numbers when it came to virus testing or obtaining crucial medical equipment to his recent advocacy of ingesting disinfectants as an antidote for COVID-19, the leader of the United States has come to resemble a run-of-the-mill autocrat spreading disinformation in his own interests. It's one thing to point to the power-grabbing of Russian President Vladimir Putin, the underhanded machinations of the dictator of North Korea, or the ruthlessness of the crown prince of Saudi Arabia. It's quite another to have a power-hungry leader as our own head of state. Once again, we are not immune. There is here.

With COVID-19, the very idea of American exceptionalism may have seen its last days. The virus has put the realities of wealth inequality, health insecurity and poor work conditions under a high-powered microscope. Fading from sight are the days when this country's engagement with the world could be touted as a triumph of leadership when it came to health, economic sustenance, democratic governance and stability. Now, we are inside the community of nations in a grim new way – as fellow patients, grievors and supplicants in search of food and shelter, in search, along with so much of humanity, of a more secure existence.

The world, in other words, has turned upside down. Perhaps it's sadly time to change those famed lyrics of George M Cohan accordingly:

*'Over here, over here*

*Send the word, send the word over here.'*

Whether from there or from here, the sooner the good guys arrive, the better. ♦

*Karen J. Greenberg is a regular contributor to TomDispatch (www.tomdispatch.com), from which this article is reproduced. She is the director of the Center on National Security at Fordham Law, as well as the editor-in-chief of the CNS Soufan Group Morning Brief. She is the author of Rogue Justice: The Making of the Security State, the editor of Reimagining the National Security State: Liberalism on the Brink, and host of the Vital Interests Podcast. Julia Tedesco and Sofia Cimballa contributed research to this article.*

# ‘Our response to the coronavirus demonstrates how far America has careened off track’

Future historians may look back at 2020 as the year when America’s global reputation fell off a cliff, says *Stephen Kinzer*.

TESTING large numbers of Americans for a raging virus is ‘never going to happen’, US President Donald Trump recently asserted. The amount of money and focused energy that such a project would require is evidently beyond the capacity of the United States. Yet around the same time Trump dismissed the idea of widespread testing, his Indo-Pacific Command announced that it is seeking an extra \$20 billion to build up naval forces for confrontation with China. That contrast illuminates our national moment. Our response to the pandemic shows how far the American political project has careened off track.

Generations of Americans have grown up hearing that we live in the most powerful country on earth – or, as Senator Marco Rubio likes to say, ‘the single greatest nation in the history of all mankind’. Yet today the United States remains unchallenged in just one field: military power. We cannot produce the face masks and ventilators that our citizens need to help stave off death, and we blithely send underpaid nurses to fight a contagious disease with little protection other than plastic garbage bags, but we still build the world’s most advanced fighter jets and aircraft carriers. Meanwhile, millions of Americans live in squalor, our infrastructure is collapsing, and our vast national wealth is sequestered in the hands of a tiny elite. Never has the distortion of our collective priorities been clearer than in the last few weeks.

The United States has long considered itself a shining ‘city upon a hill’ that leads the world through farsighted benevolence and inspirational



Emergency room doctors and nurses at a hospital in New York state. ‘We have failed to protect our population from deadly viral attack and have done much to assure that other governments also fail.’

example. In recent decades, and especially since the end of the Cold War, our image as a defender of fairness and decency has palpably faded. Since the beginning of this year, it has all but evaporated.

No other developed country has responded to the current crisis with such cynicism and incompetence. Not only have we proven unable to care for our own people, but we have prevented others from effectively fighting the pandemic. The United States, accustomed to seeing itself as the pre-eminent global leader, is now devoted to cruelties as enormous as blocking a \$5 billion emergency loan for Iran’s health system, and as petty as blocking the shipment of medical supplies to small countries like the Bahamas and Barbados. The world will not soon forget this.

Future historians may look back at 2020 as the year when America’s global reputation fell off a cliff. How could it not? We have failed to protect our population from deadly viral attack and have done much to assure that other governments also fail. To many around the world, we appear dangerously disoriented, eager to spend mind-boggling amounts of money to fight distant and half-imagined military threats, but not so interested in saving lives here and now.

Blaming this dire circumstance on one person, one set of leaders or one political party is tempting but too simple. Our response to today’s health crisis reveals a deep illness that has been festering within American society and our body politic. We have sacrificed our sense of common destiny to a hyper-individualism that rejects

the concept of solidarity among human beings. Governments are supposed to assure that everyone enjoys at least a basic level of security. Ours has all but abandoned that responsibility.

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**No other developed country has responded to the current crisis with such cynicism and incompetence.**

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Can we change course? Even some who have long dismissed that possibility – or insisted that there is no reason to consider it – are now re-thinking their positions. In March, analysts for the world's largest infrastructure asset manager, Macquarie Group, issued an astonishing report concluding that the global health crisis shows 'conventional capitalism is dying', and that the world is headed for 'something that will be closer to a version of communism'. Soon afterward, the *Financial Times*, which for more than a century has been an uncompromising promoter of global capitalism, predicted in an editorial that when the acute stage of this crisis is past, 'radical reforms – reversing the prevailing policy direction of the last four decades – will need to be put on the table ... Redistribution will be on the agenda ... Policies until recently considered eccentric, such as basic income and wealth taxes, will have to be in the mix'.

Countries that survive over many centuries do so by riding the tides of history – by adjusting their political and economic systems to meet evolving challenges. There is alarmingly little prospect that the United States will be able to do that. Never since the Civil War have our politics seemed so immobile in the face of so grave a challenge. Today many Americans face suffering and death. If we do not respond to this cosmic wake-up call, our political system could face the same fate. ♦

*Stephen Kinzer is a senior fellow at the Watson Institute for International and Public Affairs at Brown University in the US. This article was first published in the Boston Globe (16 April 2020).*

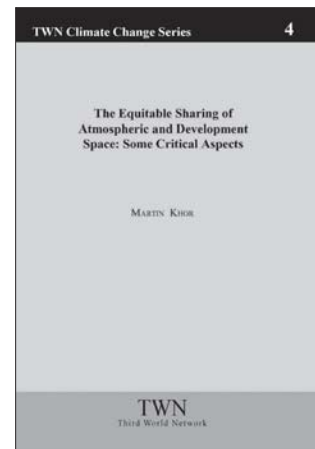
## The Equitable Sharing of Atmospheric and Development Space: Some Critical Aspects

by Martin Khor

Tackling the climate change crisis demands urgent actions to cut atmospheric emissions of the heat-trapping greenhouse gases that are causing global warming. The responsibilities this entails should at the same time be divided equitably between developed and developing countries, as recognised in the United Nations Framework Convention on Climate Change (UNFCCC).

The equity imperative is rooted in the development needs of the developing countries and in the fact that emissions of carbon dioxide and other greenhouse gases over the years mostly originated in the

developed countries. This paper fleshes out how this historical "carbon debt" and other equity considerations could be taken into account in the sharing of the global atmospheric space. Such an arrangement would, as envisioned by the UNFCCC, involve the developed countries taking the lead in emission reductions and in providing financial and technological support for a shift by developing countries to low-emission growth pathways.



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# Trump hammers Cuba while Cuba cures the sick worldwide

It seems that the more Cuba helps the world, the more it gets hammered by the Trump administration.

**Medea Benjamin and  
Leonardo Flores**

A TEAM of 85 Cuban doctors and nurses arrived in Peru on 3 June to help the Andean nation tackle the coronavirus pandemic. That same day, US Secretary of State Mike Pompeo announced another tightening of the sanctions screws.

This time he targeted seven Cuban entities, including Fincimex, one of the principal financial institutions handling remittances to the country. Also targeted were Marriott International, which was ordered to cease operations in Cuba, and other companies in the tourism sector, an industry that constitutes 10% of Cuba's gross domestic product (GDP) and has been devastated globally by the pandemic.

It seems that the more Cuba helps the world, the more it gets hammered by the Trump administration. While Cuba has endured a US embargo for nearly 60 years, Trump has revved up the stakes with a 'maximum pressure' strategy that includes more than 90 economic measures placed against the nation since January 2019. Josefina Vidal, Cuba's ambassador to Canada, called the measures 'unprecedented in their level of aggression and scope' and designed to 'deprive the country of income for the development of the economy'.

Since its inception, the embargo has cost Cuba well over \$130 billion, according to a 2018 estimate. In 2018-19 alone, the economic impact was \$4 billion, a figure that does not include the impact of a June 2019 Trump administration travel ban aimed at harming the tourist industry.

While the embargo is supposed to have humanitarian exemptions, the health sector has not been spared.



A team of Cuban doctors arriving in Angola in April to help the country fight COVID-19.

Cuba is known worldwide for its universal public healthcare system, but the embargo has led to shortages of medicines and medical supplies, particularly for patients with AIDS and cancer. Doctors at Cuba's National Institute of Oncology have had to amputate the lower limbs of children with cancer because the American companies that have a monopoly on the technology can't sell it to Cuba. In the midst of the pandemic, the US blocked a donation of facemasks and COVID-19 diagnostic kits from Chinese billionaire Jack Ma.

Not content to sabotage Cuba's domestic health sector, the Trump administration has been attacking Cuba's international medical assistance, from the teams fighting coronavirus today to those who have travelled all over the world since the 1960s providing services to underserved communities in 164 countries.

The US goal is to cut the island's income now that the provision of these services has surpassed tourism as Cuba's number one source of revenue. Labelling these volunteer medical teams 'victims of human trafficking' because part of their salaries goes to pay for Cuba's healthcare system, the Trump administration convinced Ecuador, Bolivia and Brazil to end their cooperation agreements with

Cuban doctors. Pompeo then applauded the leaders of these countries for refusing 'to turn a blind eye' to Cuba's alleged abuses. The triumphalism was shortlived: a month after that quote, the Bolsonaro government in Brazil begged Cuba to resend its doctors amid the pandemic. US allies all over the world, including in Qatar, Kuwait, South Africa, Italy, Honduras and Peru, have gratefully accepted this Cuban aid. So great is the admiration for Cuban doctors that a global campaign has sprung up to award them the Nobel Peace Prize.

The Trump administration is not just libelling doctors, but the whole country. In May, the US State Department named Cuba as one of five countries 'not cooperating fully' in US counterterrorism efforts. The main pretext was the nation's hosting of members of Colombia's National Liberation Army (ELN). Yet even the State Department's own press release notes that ELN members are in Cuba as a result of 'peace negotiation protocols'. Cuban Foreign Minister Bruno Rodríguez called the charges dishonest and 'facilitated by the ungrateful attitude of the Colombian government' that broke off talks with the ELN in 2019. It should also be noted that Ecuador was the original host of the ELN-Colombia talks, but

Cuba was asked to step in after the Moreno government abdicated its responsibilities in 2018.

The classification of Cuba as ‘not cooperating’ on counterterrorism could lead to Cuba being placed on the US’ State Sponsors of Terrorism list, which carries tougher penalties. This idea was floated by a senior Trump administration official to Reuters in May. Cuba had been on this list from 1982 to 2015, despite the fact that, according to former State Department official Jason Blazakis, ‘it was legally determined that Cuba was not actively engaged in violence that could be defined as terrorism under any credible definition of the word’.

Of course, the United States is in no position to claim that other countries do not cooperate in counterterrorism. For years, the US harboured Luis Posada Carriles, mastermind of the bombing of a Cuban civilian airplane in 1976 that killed 73 people. More recently, the US has yet to even comment on the 30 April attack on the Cuban embassy in Washington, when a man fired on the building with an automatic rifle.

While there are certainly right-wing ideologues like Secretary Pompeo and Senator Marco Rubio orchestrating Trump’s maximum pressure campaign, for Trump himself, Cuba is all about the US elections. His hard line against the tiny island nation may have helped swing the Florida gubernatorial campaign during the midterm elections, yet it’s not clear that this will serve him well in a presidential election year. According to conventional wisdom and polls, younger Cuban-Americans – who, like most young people, don’t tend to vote in midterms – are increasingly sceptical of the US embargo, and overall, Cuba isn’t the overriding issue for Cuban-Americans. Trump won the Cuban-American vote in 2016, but Hillary Clinton took between 41% and 47% of that electorate, significantly higher than any other Democrat in decades.



**A field hospital in Crema, Italy, where Cuban doctors have been treating COVID-19 patients. A total of 26 countries now have Cuban medical personnel caring for their sick.**

These are signs that Trump’s aggression towards Cuba may not pay off as an electoral strategy. Of course, the strategy might not be just about votes but also about financing and ensuring that the Cuban-American political machinery is firmly behind Trump.

The strategy has certainly not paid off when it comes to achieving the goal of regime change. The Trump administration is arguably farther from achieving regime change in Cuba now than the US has ever been in over 60 years of intervention. During Trump’s tenure, Cuba calmly transitioned from the presidency of Raul Castro to that of Miguel Díaz-Canel. In 2019, Cuban voters overwhelmingly ratified a new constitution. These aren’t signs of a country on the brink of collapse.

All Trump has achieved is to make life more difficult for the island’s 11 million inhabitants, who, like people all over the world, have been battered by the economic impact from the coronavirus. Tourism has collapsed. Income from remittances has tanked (because of new US restrictions as well as less income in the hands of the Cuban diaspora). Venezuela, once a major benefactor, is mired in its own crisis. But Cuba’s economy, which was forecast to contract by 3.7% before the pandemic hit, has been through worse, particularly during the 1991-2000 economic crisis known as the ‘special period’ after the collapse of the Soviet Union.

A change in the White House

would bring some relief, although Joe Biden has staked a rather ambivalent position, saying he would restore relations as President Obama did, but adding that he was open to using sanctions as punishment for Cuba’s support to the Venezuelan government.

It’s clear that from now until the November elections in the US, and perhaps for four more years, the Trump administration will pummel its island neighbour. Cuba will continue to seek global

condemnation on the blockade (the 2019 UN vote was 187 against versus 3 in favour – the US, Brazil and Israel) and continue to show what a good neighbour looks like. It responded to these latest provocations in the way that only Cuba does: with more global solidarity, sending COVID-19 healing brigades to Guinea and Kuwait a day after the 3 June round of sanctions. A total of 26 countries now have Cuban medical personnel caring for their sick.

That is the kind of goodwill that money just can’t buy and it greatly presents a stark contrast to the Trump administration’s shameful behaviour during the pandemic. Back in March, as Cuban doctors arrived in Italy, former Ecuadorian President Rafael Correa tweeted: ‘One day we will tell our children that, after decades of movies and propaganda, at the moment of truth, when humanity needed help at a time when the great powers were in hiding, Cuban doctors began to arrive, without asking anything in return.’ ♦

*Medea Benjamin, co-founder of Global Exchange and CODEPINK: Women for Peace, is the author of the new book, Inside Iran: The Real History and Politics of the Islamic Republic of Iran. Her previous books include: Kingdom of the Unjust: Behind the US-Saudi Connection; Drone Warfare: Killing by Remote Control; Don’t Be Afraid Gringo: A Honduran Woman Speaks from the Heart; and (with Jodie Evans) Stop the Next War Now (Inner Ocean Action Guide). Follow her on Twitter: @medeabenjamin*

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*Ernesto Cardenal Martínez* (1925-2020) who died in March this year, was a Nicaraguan Catholic priest and poet. He was a liberation theologian and served as minister of culture from 1979 to 1987 under the Sandinistas.

## Ecology

*Ernesto Cardenal*

You saw more coyotes near San Ubaldo in September.  
And more alligators, a little after the triumph,  
in the rivers, there near San Ubaldo.  
More rabbits and raccoons on the road ...  
The bird population has tripled, they say,  
especially the *piches*.  
The noisy *piches* go swim wherever they see  
the water shining.  
The Somocistas destroyed the lakes, rivers and  
mountains too.  
They diverted the course of the rivers for  
their farms.  
The Ochomogo had dried up last summer.  
The Sinecapa dried up because the landowners  
stripped the land.  
The Rio Grande of Matagalpa dried up during  
the war,  
there near the Sebaco Plains.  
They built two dams on the Ochomogo,  
And the capitalist chemical wastes  
spilled into the Ochomogo and the fish reeled  
around like drunks.  
The Boaco River carried sewage.  
The Moyua Lagoon dried up. A Somocista  
colonel  
robbed the peasants' land and built a dam.  
The Moyua Lagoon that for centuries had been  
beautiful in that spot.  
(But the little fish will soon return.)  
They stripped the land and built dams.  
Few *garrobos* in the sun, few  
armadillos.  
Somoza sold the Caribbean green tortoise.  
They exported *paslama* and iguana eggs by the  
truckload.  
The caguama tortoise finished.  
The Gran Lago swordfish finished off by Jose  
Somoza.

Facing danger of extinction the jungle jaguar,  
its soft skin the colour of the jungle,  
and the puma, the tapir in the mountains  
(like the peasants in the mountains).  
And the poor Chiquito River! Its misfortune  
that of the whole country. Somocismo reflected  
in its waters.  
The Chiquito River of Leon, fed by brooks  
of sewage, soap factory and tannery wastes,  
white water from the soap factories, red from  
the tanneries;  
plastics, chamber pots, rusty iron in the  
riverbed. This is what Somocismo left us.  
(We have to see the river pretty and clear once  
again singing its way to the sea).  
And into Lake Managua all of Managua's waste  
waters  
and chemical wastes.  
And there near Solentiname, on La Zanata  
Island:  
a great white stinking heap of swordfish  
skeletons.  
But the swordfish and freshwater sharks are  
breathing again.  
Tisma is full of royal herons again  
reflected in its mirrors.  
It has many little starlings, *piches*, guises,  
widgets.  
The plant life has benefited too.  
The armadillos are very happy with this  
government.  
We will restore our forests, rivers, lagoons.  
We will decontaminate Lake Managua.  
Not only humans longed for liberation.  
All ecology groaned for it also. The revolution  
is also one of lakes, rivers, trees, animals.

Translated from the Spanish by Marc Zimmerman



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