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A protest in Iraq against rising food prices said to have been caused by the Ukraine war. The world economy is being hit on multiple fronts – the hostilities in Ukraine, the continuing COVID-19 pandemic and tightening policy measures – and developing countries are bearing the brunt of the impact. 5

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Climate change inaction under the Paris Agreement

In the absence of viable commitments to mitigate and adapt to global warming, inaction appears to be the order of the day, with all the potentially damaging consequences it entails.

Thiago de Araújo Mendes and José Domingos Gonzalez Miguez

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The amount of greenhouse gases emitted points to an exponential growth of the global climate change problem.

THE dynamics of rising carbon dioxide (CO_2) concentration in our atmosphere is an outstanding indicator of what the average surface temperature on Earth will be like. When evaluating variations in CO_2 concentration in our atmosphere during the last 800,000 years, there are no records higher than about 300 parts per million volume (ppmv). The CO_2 concentration levels in the pre-industrial revolution period (18th century) were around 280 ppmv, levels well below the current ones (the Mauna Loa Observatory recorded a CO_2 concentration of 417 ppmv in March 2021). The Earth's average temperature according to the Intergovernmental Panel on Climate Change (IPCC) is 1.03°C above the historical average and this temperature is higher than that predicted for 2020 in all scenarios of the previous IPCC reports.

There is a physical process which objectively and unequivocally correlates the increase in the concentration of greenhouse gases (GHGs) like CO_2 with the actions of human beings, and ultimately the average temperature increase of the surface of the planet. This physical process of increasing temperature can be represented in simplified mathematical form by a 'double accumulation'. Annual emissions of GHGs accumulate in the atmosphere and increase their concentration. With concentration increase, there is a greater absorption of infrared radiation by the GHGs, causing the Earth's surface temperature increase. (The infrared radiation, which arrives on the planet as solar radiation, would otherwise be returned to space.)

Both the amount of GHGs emitted and their residence time in the atmosphere (taking into account the decay processes), as well as the warming of the Earth's surface, point to an exponential growth of the global climate change problem. Regardless of the political world, the physics of the atmosphere follows its dynamics and makes it evident that the time when a climate change mitigation action is carried out has substantive implications for global warming. The earlier the emission reduction occurs, the greater the effect on global warming reduction.

Thus, political, economic and social agents, when addressing the issue of climate change, are faced with three options. The first option is 'mitigation', which is to make anthropogenic emissions of GHGs less severe, focusing on reduction of emissions originating in the different sectors of human activities (or alternatively, increasing the removal of GHGs by sinks). The second option is 'adaptation' to the effects of the problem, that is, acting to organise social, economic and environmental processes to increase resilience and resist adverse impacts of global warming. The third option is 'inaction', that is, not acting, either deliberately or inadvertently. Deliberate inaction usually occurs when the economic or political agent decides to delay action, usually with the justification that the high costs of acting in the present are prohibitive, hoping they will be lower and less traumatic in future with advancement of energy efficiency and technology. Inadvertent inaction occurs when economic and political agents enter into agreements containing criteria to guide action but preparation of the agreed action will mean absence of action in the present.

The three options are difficult to analyse, as they involve the search for solutions that will have long-term impacts by agents who have short-term mandates. The decisions will affect present generations (who do not want to incur the costs of mitigation or adaptation) and future generations (who are growing up or have not been born and, thus, do not have the power to influence the decision). The political decision is to choose options which require promoting social, economic and climate change and which, therefore, will affect collective behaviour at local, regional, national and global levels. Arriving at a solution to global climate change is a complex undertaking. Human communities have lived for more than 10,000 years on the planet; however, the warming generated by human action has basically occurred in the last 250 years.

Thus, if the search is for efficiency in the result of the action, the first option should be adopted as a priority action for developed countries (the largest historical consumers of fossil fuels) and there should be incentives for countries that emitted little to contribute to the global effort without any binding obligation. Mitigation carried out in a place where the cost is lower, for the same amount of invested resources, would achieve more emission reductions. Therefore, seeking to carry out mitigation in the least-cost places is more efficient from an economic and environmental point of view.

This was the strategy adopted by the Kyoto Protocol, where countries that contributed the most to the problem had binding targets in the form of national 'carbon budgets' and annual measurements of results. Differentiation and comparability were at the heart of the solution, as in

The Earth's average temperature is 1.03°C above the historical average.

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1990 the emission of developed countries (Annex I countries) was around 16 tonnes of CO_2 per capita, while the global average was around 6 tonnes per capita. Each Annex I country had different national targets under the Protocol. 'Economies in transition' (EIT) – European countries that had changed from a centrally planned economy to a market economy – had mandatory mitigation targets, but not the same financial obligations as the other Annex I countries, which had much higher per capita incomes. At the time of negotiation of the Kyoto Protocol, the science indicated that in order to solve the problem, such countries should effect a reduction of 20% in relation to the emission levels of 1990 in 2010, and of 40% in 2020. However, the targets inscribed in the Protocol were only around 5% for the first commitment period (around 2010) and 18% for the second commitment period (that ended in 2020).

According to the secretariat of the UN Framework Convention on Climate Change (UNFCCC), comparing the years 1990 and 2018 (most recent data), aggregate total emissions without considering land use emissions and removals, the so-called 'land use change and forests – LULUCF', for all Annex I countries decreased by 12.5%, while with LULUCF they decreased by 16.6%. For EIT countries, GHG emissions with and without LULUCF decreased by 36.6% and 44.9% respectively in 2018 compared with 1990 levels. However, in the remaining Annex I countries (non-EIT), GHG emissions with and without LULUCF decreased by only 1.5% and 3.1% in 2018 compared with 1990 levels. It is noteworthy that some of the EIT countries had GDP losses greater than 50% throughout the 1990s. Thus, part of the mitigation achieved by them was the result of an economic downturn.

In parallel with the Kyoto Protocol, under the UNFCCC, Annex I countries committed in 2010 to providing $100 billion annually in financing for developing countries to carry out mitigation and adaptation actions by 2020 in order to control the temperature increase. However, total support provided only reached an annual average of $48.7 billion for the 2017-18 biennium, with an annual average of 83.3% reported as 'committed' and the remaining 16.7% as 'disbursed'.

The action strategy adopted under the Kyoto Protocol was subsequently politically abandoned to meet Western powers' desire to relax the rules of compliance, comparability of efforts and measurement of annual results, which had made it explicit that it was the

EIT countries that had contributed the lion's share of Annex I countries' emission reductions. The narrative used to justify the shift from the Kyoto Protocol strategy was based on an unproven assumption that if such flexibility had existed under the Protocol, the United States would have ratified the Protocol. The narrative claimed the need for a new agreement encompassing a regime that would be applicable to all countries – and would thereby transfer a substantial part of the burden of combatting climate change to developing countries.

Thus, in 2015, the Paris Agreement model was created, under which there would be 'national contributions' by all countries, whether or not they have contributed to the temperature increase. Each country would define the content and form of its own national contribution. Comparability of efforts and any sanction for non-compliance with contributions were sacrificed under the motto 'we are all in the same boat now'. However, in this ocean of inequalities, the motto effectively became 'applicable to all, but each one does whatever it can afford'.

Thus, for developed countries such rules represent a considerable backsliding relative to the rules of behaviour, comparability of efforts and transparency adopted in the Kyoto Protocol. On the other hand, developing countries lack the human, technological and economic resources to implement significant mitigation measures. Given the political, social and economic fragility of developing countries, this transfer of burden will not be translated into concrete actions and the objectives of limiting temperature rise are very unlikely to be respected.

In this scenario, there are strong implications and risks that it may not be possible to achieve adaptation within the limits of 1.5ºC or 2ºC warming without drastic long-term mitigation. An adaptation strategy on a warmer planet may potentially lead to deliberate inaction by those countries that will benefit from the positive impacts ('free riders') and will demand much higher costs for those that will suffer the adverse impacts of climate change. In short, there are indications that countries should analyse their vulnerabilities to climate change and decide whether the resources that would be better used to mitigate the problem should be used in a palliative way until a new, even higher temperature level sets out.

In light of the Paris Agreement framework, the third option – inaction – opens up two aspects:

a) deliberate inaction due to the belief that investments made in mitigation will be less costly if they are made after the current technologies' lifetime ends and they are naturally replaced by more efficient, lower-cost technologies that emit less. This goes against the UNFCCC's precautionary principle, as it is premised upon betting that such technologies will be available and socially and economically acceptable in the future;

b) inadvertent inaction – it is speculated that this is the result of the adoption of the Paris Agreement. It is a fact that the level of human and economic development in developing countries will demand an increase in human activities in sectors that emit GHGs, and that existing alternatives of renewable technologies will imply higher costs and capacity-building. The 'national contributions' of several developing countries either will not be or will only be partially implemented, ultimately leading to a potential renegotiation of the Paris Agreement on new terms, when failure to fulfil the objective of controlling the temperature rise becomes evident.

Furthermore, transfer of the mitigation burden to developing countries is unethical, insofar as the increase in temperature and concentration of GHGs is predominantly the responsibility of developed countries. In addition, cooperative mechanisms were regulated in such a way that will either lead to no cooperation or penalise trade of emission reductions by developing countries, increasing contributions that would no longer be nationally determined.

During the recent COP 26 climate conference in Glasgow, the $100 billion commitment by Annex I countries was postponed to 2023 – an additional symptom of inaction. At the same conference, the Glasgow Financial Alliance for Net Zero (GFANZ), a coalition of 450 financial institutions from 45 countries, said that limiting global warming to 1.5°C would demand annual investment of $2.6 trillion, about 30% of which would have to come from the public sector. This figure is so much higher and incompatible with the pledges by the developed countries that the capacity to realise such plans is in doubt.

This article has sought to address the question of inaction. There could be discourses which are quite 'progressive' in the sense of taking on promises of action but which may not translate into physical reality beyond rhetoric and may thus lead us to an unprecedented climate crisis. Therefore, the search for lasting solutions to climate change will necessarily involve questioning political beliefs and enhancing global governance, which must be put to the test of physical reality. ◆

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An originally longer version of the above article was published in Portuguese in the special issue 'Sustentabilidade: desafios do Brasil no seculo XXI' of the Brazilian magazine Política Democrática.

A perfect storm brewing

Buffeted by the coronavirus pandemic and shockwaves from the Ukraine war, an already fragile global economy faces the combined threat of inflation, recession and financial crisis.

Lim Mah Hui

An oilfield in Russia. The Ukraine war and sanctions imposed on Russia, a major supplier of oil and gas, have sent energy prices through the roof.

THE COVID-19 pandemic is the most serious since the Spanish flu of 1918. Worldwide, close to half a billion people have been infected and 6.2 million deaths have been officially reported as of March 2022. The actual numbers could be much higher. The economic costs are enormous, estimated at $16 trillion or 17% of 2021 world gross domestic product (GDP); not to mention the social costs of lost education, mental depression and suicide.

This is not the first pandemic, nor will it be the last. It is also not simply a health crisis. It has a web of relationships in problems that have been building up in the environment, health, economy, finance and politics. A zoonotic pandemic is bound up with an environmental crisis that results from humans' relentless and ruthless encroachment on nature and the environment, upsetting the precarious ecological balance and the distance between wild animals and the human population. It should have been expected, but we were not well prepared.

COVID-19 has laid bare many fractures and flaws in society: inability of health systems to cope with health calamities; huge socio-economic disparities that widen as the pandemic hits the poor and lower working class harder than the rich; increasing fragility of an inherently unstable financial system; and political polarisation between those who are economically left behind and the privileged minority who continue to benefit disproportionately from growth.

The pandemic landed on a wobbly financial stage. It hit the world economy hard when it was still struggling to emerge from the catastrophic 2008 Global Financial Crisis (GFC). The GFC, the most serious financial crisis since the 1932 Great Depression, resulted from four decades of excessive financialisation – the buildup of an inherently unstable and parasitic financial system – abetted by financial deregulation and neoliberal economic policies. Financialisation meant the economic centre of gravity shifted from production to financial circulation, from value creation to value extraction. Finance not only came to dominate the real economy but whipsawed it like the proverbial tail wagging the dog. Growth is driven more by debt than productivity and income gains. Speculation and investment in financial assets fanned repeated booms and busts. Financialisation breeds inequality, and inequality contributes to financial crisis, the two mutually reinforcing each other. The complex interplay of all these factors produces an unstable financial system that lunges from one financial crisis to the next, as happened in the US savings-and-loans crisis in the early 1980s, the Latin American financial crisis of the 1980s, the Asian financial crisis of 1997, and the Global Financial Crisis of 2008.

To get out of the GFC, central banks lowered interest rates and unleashed massive liquidity into the financial system through quantitative easing. While these policies bailed out banks, they were less effective in reviving the real economy. It took 11 years after the GFC for the world output gap to become marginally positive before plunging into negative territory again in 2020. Corporations borrowed cheap money for financial activities such as mergers and acquisitions and share buybacks rather than for investing in production. Cheap money also enabled the wealthy to borrow at low interest rates to invest and speculate in financial markets, pushing up stock and bond markets to new heights surpassing the pre-GFC levels. The results were higher levels of inequality and debt, the very mix that led to booms and busts and the recession in 2008. By 2019, world debt had reached $253 trillion (320% of world GDP), 70% higher than before the GFC. Inequality was also at a historic peak, with the top 1% of households owning over 50% of the world's wealth.

The pandemic has brought the sharpest decline in economic growth since the Great Depression. Governments in most countries pulled out all the stops to rescue the economy through unprecedented fiscal and monetary measures. By May 2020, the G10 industrial countries plus China had spent $15 trillion in fiscal and monetary packages to rescue their economies. Fiscal expenditure in the form of government grants and subsidies to businesses forced to shut down and individuals who lost their jobs or had income cut cushioned the negative impact. Central banks resorted to their knee-jerk reaction cutting interest rates to near zero and ramping up quantitative easing, this time purchasing not only government securities but also mortgage-backed securities and corporate bonds.

Repeating the same monetary policies that were used to fight the last financial crisis serves to sow the seeds for the next financial crisis. Ultra-low interest rates and massive liquidity again tempted corporations to binge on debt, propped up zombie companies, misallocated capital and disadvantaged savers and people who depend on wage or fixed income in favour of financial investors and speculators who profited handsomely. Global debt doubled after the Global Financial Crisis from $150 trillion in 2007 to $296 trillion at the end of June 2021. Global financial markets soared to historic highs, stretching valuations to dangerous levels.

The monumental rescue plans made for a quick rebound in the first half of 2021 mainly due to the low-base effect. But a full recovery is still tentative. It is also highly skewed, being K-shaped rather than V-shaped, with large swaths of the economy and population still very much underwater.

Policymakers are now stuck between the Scylla of inflation and Charybdis of rising interest rates. As late as the second half of 2021, the US Federal Reserve, insistent that inflation was transitory and would taper out by 2022, continued its loose monetary policies. By late 2021, however, supply chain disruptions appeared more serious and persistent, new variants of the coronavirus emerged delaying health and economic recovery, and absenteeism and labour shortages became more prevalent – all these put pressure on prices, which crept higher. By October 2021, the US monthly inflation rate had more than tripled to 6.2% from 1.7% in February 2021, and it reached 7.9% by February 2022, the steepest monthly increase in over 40 years.

The outbreak of the Ukraine war in late February added fuel to the fire, changing the ballgame and elevating inflation to a new level. The war and the sanctions imposed by the West on Russia, a major supplier of oil and gas, wheat, fertilisers and vital minerals, sent energy and food prices through the roof. These are basic commodities with extensive downstream effects on the rest of the economy. The impact is felt most keenly in Europe, which is highly dependent on Russia for energy supply, and by non-oil-producing developing economies reliant on energy and food imports. While European countries may have the fiscal policy space to blunt some of the rising costs to consumers, poorer countries are more constrained. Food shortages and huge spikes in food prices have ignited protests and riots in several Middle Eastern countries highly dependent on wheat imports. The sanctions also severely disrupted world trade and upended financial flows (remittances and payment systems). They have also prompted a rethink on the real risks for countries with vast US dollar reserves holdings and spurred their search for alternative payment and settlement systems. Some commentators have termed these financial sanctions as financial weapons of mass destruction.

We are now staring not just at inflation, but stagflation and probable recession – a nightmare scenario for central bankers. Today's conditions are reminiscent of the early 1970s when the 1973 Arab-Israeli war and the Arab oil embargo tripled the price of oil, pushing the US and other major economies into recession. In today's scenario, the chief economist of Goldman Sachs estimated that a European Union ban on Russian energy imports would cause a 2.2% hit to production and trigger a eurozone recession.

Again, today's conditions are more complicated and serious owing to the mountain of debt weighing on governments and corporations. Raising interest rates to fight inflation would not only court recession but, worse still, could trigger a financial crisis as over-leveraged companies default on their debt. It is estimated that 20% of US companies are zombie companies, i.e., whose earnings are inadequate to service debt, kept afloat only by lenders rolling over their debt when due. What about the potential losses to institutional investors like insurance companies and pension funds who hold $16 trillion of negative bonds worldwide when interest rates climb?

Central banks, trying to find an exit strategy from extraordinary monetary and fiscal liquidity injections without plunging the world into another financial crisis, no longer have the luxury of a rider trying to leisurely dismount from a tiger's back. The geopolitical conditions of the war have forced them to slam the brakes by aggressively hiking interest rates to bring inflation under control.

How we can ride out the perfect storm is anyone's guess. ◆

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Global growth to decelerate due to Ukraine war, monetary tightening

The Ukraine conflict and policy tightening in the North are expected to dampen global growth, further clouding developing countries' already dim economic prospects, according to a UN outlook report.

Kanaga Raja


As a result of the Ukraine conflict, wheat prices have reached levels not seen since the late 2000s.

GLOBAL economic growth in 2022 is projected to decrease from the earlier estimated 3.6% to 2.6%, on account of the war in Ukraine and tightening macroeconomic policies in developed economies, according to the UN Conference on Trade and Development (UNCTAD).

In an update to its *Trade and Development Report* (*TDR*) *2021*, UNCTAD said hardly any country will be immune from the deterioration of global growth prospects, although a few may benefit from higher prices and demand for their commodity exports. On the other hand, developing economies that were in a precarious situation due to debt obligations, supply shocks and terms-of-trade and exchange rate swings, will see their economic performance deteriorate even further.

'The economic effects of the Ukraine war will compound the ongoing economic slowdown globally and weaken the recovery from the COVID-19 pandemic,' said UNCTAD Secretary-General Rebeca Grynspan.

'Many developing countries have struggled to gain economic traction coming out of the COVID-19 recession and are now facing strong headwinds from the war. Whether this leads to unrest or not, a profound social anxiety is already spreading,' she added.

Economic fallout

According to the *TDR* update, published on 24 March, the global economy is, literally and metaphorically, staring down the barrel of a gun. It said stopping the war in Ukraine, rebuilding its economy and delivering a lasting peace settlement must be the priorities. But the international community will also need to deal with the widespread economic damage that the conflict is already causing in many parts of the developing world – damage that will only intensify as the conflict persists.

'The year 2022 already appeared to be one of decelerating and uneven growth. The unprecedented policy measures that helped economies around the world recover from the paralysis of the Covid pandemic have been asymmetric in their effects and short-term in scope, adding new challenges to an already testing policy environment.'

UNCTAD argued that a return to pre-2020 conditions should not be the goal of policymakers. It would diminish the hope of achieving more inclusive and sustained growth and undermine the task of building economic resilience in the era of climate change.

The threat of repeating the policy mistakes of the past is, however, rising as the fallout from the conflict in Ukraine spreads beyond its borders, it cautioned. 'The economic, financial and political reverberations from the war are unfolding at a turning point in global policy discussions, as the supportive public policy stance necessitated by the pandemic gives way to fiscal and monetary tightening.'

In the advanced economies, central banks are beginning to raise interest rates from historic lows and selling some of the assets they purchased during the decade of quantitative easing. Budgetary authorities, having issued large volumes of government debt during the pandemic, are turning their focus to reducing primary balances by raising taxes and cutting spending.

In the face of longstanding

structural problems and new geopolitical risks, macroeconomic tightening in the North, along with a general weakening of multilateral rules and practices, is set to stymie growth across the developing economies, particularly those that are closely integrated into the global financial system, UNCTAD said. This will not only endanger their fragile recovery, but also undermine their long-term development.

Already in the closing months of 2021, inflationary and exchange rate pressures began to trigger monetary tightening in a number of developing countries, with expenditure cuts anticipated in upcoming budgets. A likely effect of the conflict in Ukraine is an acceleration and widening of these measures, with the purpose of retaining volatile foreign capital.

According to the *TDR* update, two immediate impacts of the war in Ukraine have been exchange rate instability and surging commodity prices, particularly for food and fuel. The added pressure of price increases is intensifying calls for a policy response in advanced economies, including on the fiscal front, threatening a sharper-than-expected slowdown in growth.

UNCTAD said the danger for many developing countries that are heavily reliant on food and fuel imports is more profound; higher prices threaten livelihoods, discourage investment and raise the spectre of widening trade deficits. With elevated debt levels from the pandemic, sudden currency depreciation can quickly make debt service unsustainable and tip some countries into a downward spiral of insolvency, recession and arrested development.

'Whether this leads to unrest or not, a profound social malaise is already spreading,' said UNCTAD.

'As a result, the global economy, having entered 2022 on a "two-speed" recovery path, will not only shift down a gear in terms of growth but will also see many developing countries lose ground to advanced countries, while their vulnerability to shocks is heightened by rising geopolitical tensions and deepening economic uncertainty.'

UNCTAD said the impressive growth of the world economy in 2021 notwithstanding, the post-pandemic world is looking increasingly fragile, with external shocks becoming more unpredictable and complex in nature. Even in peaceful times, unregulated and unbalanced international financial markets have been the source of much of that fragility for many developing countries. At a time of international conflict and heightened geopolitical risks, finance is a central mechanism for transmission and amplification of these risks.

UNCTAD said while the immediate financial consequences of the war and sanctions on the Russian Federation have not immediately triggered an international financial crisis or contagion effects signalling a crisis for emerging market economies, this cannot be discounted yet.

The risks to countries' financial systems are further amplified by the pressure to 'rebuild fiscal buffers' by cutting non-military government spending. In fact, attempts to create fiscal space through budget cuts are bound to backfire. Building resilience requires reinforcing aggregate demand through investment and social protection, in a framework of appropriate multilateral institutions, said UNCTAD.

The existing crisis management mechanisms of the global financial architecture leave the developing economies in a particularly vulnerable position, said UNCTAD.

'The liquidity stresses that are likely to emerge in these countries in the coming phase of post-pandemic reopening, international conflict and climate emergencies, will exceed the willingness of the US Federal Reserve in its recently adopted role of unofficial lender-of-last resort.'

Globally, the issuance of $650 billion of new Special Drawing Rights (SDRs) in August 2021, of which around $275 billion were allocated to developing economies, was a welcome development, but well short of the amounts required.

UNCTAD said that in the current geopolitical context, given the ambiguous role of the Fed – pressed on the one hand by its national mandate and by its de facto global function, on the other – as well as coordination difficulties at the level of the International Monetary Fund (IMF) in times of complex crises, it is vital that governments agree to the establishment of a rules-based system of multilateral policy coordination in

As developed-country central banks tighten monetary policy, the currencies of developing countries are likely to devalue further.

finance. Ad hoc, highly selective international initiatives, such as those that were deployed in 2008-09 and during the pandemic crises, cannot provide a reliable solution for all in the coming era of complex shocks that are global in impact.

As the war in Ukraine and its consequences have taken centrestage, said UNCTAD, the budding discussions on decarbonisation and long-term development have been again put on hold. But the intertwining of finance, food and fuel shocks stemming from the war is likely to be a preview of what is in store in an overheating world.

According to the *TDR* update, the threat from rising global temperatures is already causing serious economic damage and untold suffering across the developing world. 'Mitigating this threat will require a profound change in the way the multilateral order safeguards global economic resilience on the one hand, and its ability to develop new policy mechanisms to respond to increasingly complex external shocks, on the other.'

Refugees from Ukraine arriving in Poland. 'The economic effects of the Ukraine war will compound the ongoing economic slowdown globally and weaken the recovery from the COVID-19 pandemic.'

Global growth outlook

According to the update, global growth prospects for 2022 will be affected by downside risks to both supply and demand, compounded by the war in Ukraine. On the supply side, persistent disruptions will continue to hamper economic activity. At the same time, macroeconomic tightening will weaken demand while rising prices will erode real incomes and dampen investor confidence. These pressures will only deepen the geographical, financial and socioeconomic fractures that marked the recovery in 2021.

'Global growth in 2022 will, as a result, be slower, more uneven and more fragile than we expected in September 2021,' UNCTAD said.

UNCTAD said that its estimates incorporate the two main new features of the world economic situation: the war in Ukraine and tightening macroeconomic policy in developed economies.

Before the outbreak of the war, global growth was already projected to slow in 2022 with the recovery from the pandemic shifting to more normal rates, pandemic restrictions abating and supply pressures continuing. The economic reverberations of the war have led to significant downward revisions to growth figures, as incomes are squeezed further by increased food and fuel prices, global trade is curtailed by sanctions, and confidence and financial instability issues re-emerge, said UNCTAD.

'As a result of the conflict, oil and gas prices have surged from already elevated levels, wheat prices have reached levels not seen since the late 2000s, and a wide range of other items including fertilizers, metals and manufacturing inputs are facing severe supply shortages.'

UNCTAD said that the main advanced economies are in the process of reversing the stimuli enacted during the pandemic, by tightening policy rates, unwinding central bank asset purchases, and cutting furlough programmes, transfers and support to businesses and households. 'These shifts will dampen domestic economic activity and weaken global demand. By implication, economies in the Global South, which have incurred larger costs to cope with the pandemic, face additional constraints to demand and in the balance of payments at a time when their recovery is struggling to take off.'

UNCTAD said that the war in Ukraine compounds this situation, by adding constraints to trade, financial risks and economic destruction.

Global growth, measured in constant United States dollars at market exchange rates, is expected to decelerate from 5.6% in 2021 to 2.6% in 2022, it said. Of the three-point drop, two percentage points are due to structural and policy factors predating the war and one percentage point, amounting to approximately $1 trillion in forgone income, is due to the war, assuming that the sanctions and the supply chain disruptions will last through 2022, even if the war ends.

According to the *TDR* update, the

United States, while relatively isolated from the current shocks, will see further pressure on consumption expenditure from higher fuel and food prices and may introduce a fiscal response in the form of fuel subsidies.

Consumption expenditures in the United States have returned to pre-pandemic trends, but the inflationary pressures together with flagging confidence will impose a deceleration. 'Investment has recovered strongly since the pandemic compared to European countries but the new sources of instability will likely shift resources to safe asset allocations instead of productive ventures.' These prospects will be made worse by monetary tightening. High energy prices are likely to stimulate some investment in extraction of hydrocarbons, likely crowding out any plans for a transition out of fossil fuels.

Europe will be harder hit by both high commodity prices and the conflict in Ukraine, projected UNCTAD. Across Europe, higher food and fuel prices will constrain domestic expenditure, weakening aggregate demand.

The *TDR* update said that the German economy is highly dependent on imports of natural gas from the Russian Federation, and on its own manufacturing exports which will be disrupted by sanctions and the war. Increased military expenditure will provide a moderate addition to aggregate demand.

Eastern European and Central Asian economies too will be hit hard by the conflict. Higher food prices, falling remittances and large numbers of refugees will place these economies under strain. 'The picture for the region as a whole is mixed, with some economies directly or indirectly suffering severe losses from the conflict and trade restrictions (induced by sanctions or by inability to reach exporting hubs), and others being able to gain market access and at higher prices.'

The Russian economy faces stringent external constraints imposed by the sanctions. While the Russian Federation is still exporting oil and gas, and will therefore see compensating increases of revenue due to high prices, sanctions severely limit the use of foreign exchange earnings for the purchase of imports or debt servicing, said UNCTAD.

'The Russian Federation will experience severe shortages of a wide range of imported goods, high inflation and a substantially devalued currency. While the state will likely act to cushion the shock and limit unemployment and the fall of household incomes, its capacity is limited.' Trade with China and some other partners will continue, but they will not be able to provide substitutes for the wide range of imported goods that the Russian Federation currently cannot access.

Assuming the sanctions remain in place through 2022, even if the fighting in Ukraine ends, Russia will experience a severe recession, said UNCTAD.

The Chinese economy is expected to continue with its long-term adjustment towards higher household income and consumption spending, alongside slowing of other growth components, said the *TDR* update. 'Yet, Chinese growth will not escape the effects of the supply shock, with high grain prices, disruption to exports and manufacturing and a resurgent pandemic all contributing to lower growth.'

While the authorities will be able to cushion negative external trends to an extent, through the usual channels of credit expansion and investment spending, the earlier announced target of 5.5% will challenge policymakers, said UNCTAD.

'Other economies in Asia will experience headwinds resulting from the conflict,' said the *TDR* update.

It said the Republic of Korea and other relatively strong economies of East Asia would have needed a sustained rebound of manufacturing and trade services to regain strong momentum, but these will be shaken by the gyrations of international trade resulting directly or indirectly from the war (including the milder growth prospects for China, Japan and Europe).

While economies in South and Western Asia may gain some benefits from fast growth of demand and prices of energy, they will be hampered by the adversities in primary commodity markets, especially food inflation, and will be further hit by inherent financial instabilities. India, in particular, will face restraints on several fronts: energy access and prices, primary commodity bottlenecks, reflexes from trade sanctions, food inflation, tightening policies and financial instability.

According to the *TDR* update: 'The picture is mixed in Latin American economies: consumption expenditures in Brazil, Argentina and Mexico remain below pre-pandemic levels, while Chile and Colombia have seen strong rebounds. Brazil, Argentina, Peru and Chile have seen strong recoveries in investment from the deep declines in 2020 and have benefited from the sharp rebound of global commodity markets.'

At present, it is estimated that while Latin American growth figures will decline substantially from highs achieved during the pandemic rebound, the energy and commodity exporters of the group, which represents the bulk of regional output, will still see relatively strong growth compensations.

Economies of Africa will be affected in mixed ways, said UNCTAD, but growth expectations for 2022 of the region as a whole will be lower than estimated earlier in the year. The considerable weight of oil and gas exports of the region will stimulate growth through higher volume and prices, but commodities represent a mixed bag. Only a few of the staples exported by Africa are likely to help circumvent the bottlenecks resulting from the conflict in Ukraine, but for the most part African economies are either food-dependent or face supply bottlenecks of their own. 'And while minerals may see a rebound in prices and demand, some of these products face some investment and infrastructure bottlenecks. Overall, the global shock of commodities will imply a relatively negative shock for the region as a whole, especially through food prices and domestic consumption.'

On top of that, while the stresses resulting from a continuing pandemic in the region had earlier in the year started to draw some attention and policy gestures from advanced economies, these have unfortunately faded away in the context of the conflict.

Australia, New Zealand, Canada and other developed countries closely 'allied' with the United States and Europe in the current conflict will, on the one hand, experience some of the headwinds that affect most of these countries (inflationary pressures leading to tightening policy responses, high international prices of commodities, supply shortages, etc.), said UNCTAD. On the other hand, they will see some windfall gains through export markets of their commodities and energy products, which will trigger positive terms-of-trade effects on domestic spending (including government spending) and hence growth.

Policy tapering

According to the *TDR* update, the shift to tighter macroeconomic policy in the developed countries began in late 2021-early 2022. 'This turn was triggered by concerns for inflation, which rose sharply in many of these countries as economies reopened, driven by supply chain bottlenecks, the shifting composition of consumer demand and environmental degradation. Expectations that these effects would fade quickly were, unfortunately, not fulfilled.'

In this context, developing countries are in a particularly vulnerable position. The pandemic has led to a dramatic worsening of hunger and malnutrition. Rising prices of food and fuel will exacerbate the fall in real incomes for many. Poverty, which only deepened during the pandemic with an estimated additional 80 million pushed into extreme poverty, has become an even bigger problem confronting most developing countries.

'The ability of developing countries to respond to these challenges is limited. Their policy space – already narrow due to balance of payments constraints – is being squeezed further by macroeconomic tightening in developed economies and the withdrawal of fiscal and monetary support.'

UNCTAD said there are growing financial vulnerabilities: stocks of debt, particularly external debt, have risen in many developing economies, and deepening financial integration widens the socioeconomic scope of the impact from the dynamics of the global financial cycle.

'The war in Ukraine puts macroeconomic policymakers in developed economies in a conundrum. Higher inflation raises the pressure to tighten policy. Prior to the start of the conflict, the central banks of developed countries had been hawkish about the path of interest rates.' Following the 25-basis-point rise in interest rates on 16 March 2022, the US Federal Reserve is expected to raise rates to around 1.75% over the next 12 months and up to 2.8% in 2024, with the Bank of Japan likely to follow suit, said the *TDR* update.

Alongside rising policy rates, central banks have begun the process of unwinding the large increases in quantitative easing enacted during the pandemic. By lowering the cost of public borrowing, quantitative easing helped governments in high-income countries to issue large amounts of debt, thus funding unprecedented fiscal deficits. As monetary support is withdrawn and interest rates rise, the governments of high-income countries are also shifting towards fiscal tightening, said UNCTAD.

'It is not obvious, however, that tighter monetary and fiscal policies are the correct response to inflation driven by supply-side bottlenecks. In developed countries, price controls and income support could help households cope with rising costs.'

And while the shift to monetary tapering and contractionary fiscal policy in developed countries may turn out to be a policy error for them, it may have disastrous repercussions for developing countries if it triggers appreciation of the dollar, said the *TDR* update.

In light of the dislocations caused by the war in Ukraine and the potential for financial disorder, central banks could still opt to postpone (or at least slow) tightening and instead maintain or increase the provision of liquidity. A dual strategy of liquidity provision in the form of bond purchases alongside higher interest rates may emerge.

'It is also possible that we will see divergence in the policy stances of advanced economies with the United States, which is not directly affected by the conflict and is facing higher inflation than Europe, going ahead with tightening, and the European Central Bank keeping policy accommodative to offset the impact of the conflict,' said UNCTAD.

It said that rate hikes in advanced economies, alongside disorderly movements in global financial markets, would be a devastating combination for developing economies. Volatility in commodity futures and bond markets alongside flights to safety would be reflected in higher risk premia on the financial liabilities of developing economies, in addition to the considerable pressures from rate hikes.

'Even in the absence of disorderly moves in financial markets, developing economies will face severe constraints on growth. During the pandemic, public and private debt stocks in developing countries have increased. Issues that receded from view during the pandemic, such as balance of payments constraints, high corporate leverage and rising household debt, will resurface as policy tightens.'

While the outlook for lower- and middle-income economies has darkened substantially as a result of the enduring pandemic, the dynamics of the next phase of the economic recovery remain uncertain, said

UNCTAD.

'Lessons from the experience of 2013 round of tapering point to a mixed picture: in 2013, the mere mention of monetary tapering by the Federal Reserve generated a major liquidity shock as investors withdrew funding from developing economies. This put severe pressure on exchange rates, foreign reserves and funding costs.

'Today, the likelihood and timing of a similar episode in response to current policy tightening cannot be predicted with any confidence, given the role of volatile expectations, market sentiment and herd behaviour in such episodes. The ramifications of the conflict in Ukraine and sanctions imposed on the Russian economy further compound this uncertainty.'

UNCTAD said that whether the coming period is characterised by volatile liquidity-driven cross-border financial flows, or by the slower grind of diminished policy space, fiscal and monetary tightening and squeezed incomes, it is people in the developing world who will be forced to take on a disproportionate share of the adjustment to the post-pandemic global economy.

High inflation and fiscal squeeze

As consumer price inflation moved sharply up from mid-2021 onwards in the United States and elsewhere, the debate has continued over its causes, likely duration and the appropriate policy response. The debate has entered a new phase with the added set of price shocks from the war in Ukraine, said the *TDR* update.

On the supply side, a range of factors have combined to produce shortages and bottlenecks. Global production and distribution were unable to adjust rapidly to the sudden surge in expenditure, particularly for durable goods, as economies reopened. Supplies of energy and raw materials, such as timber and metals, were unable to keep up with surging demand, and saw sharp price increases towards the end of 2021. Global energy supplies were placed under pressure by high demand in Asia, shortfalls of natural gas and reduced wind generation. The war in Ukraine has pushed some energy prices to 10-year highs along with the prices of some key commodities such as wheat and corn.

Bottlenecks and supply shortages are caused not only by supply-side issues, said UNCTAD: demand has played an important role, driven in particular by the shift in consumption from services to goods. Driven by direct cash transfers, demand for goods rose sharply in the United States, exceeding previous trends and spilling over onto global value chains. Production of key manufacturing intermediate inputs such as semiconductors remained relatively constant during the pandemic, but was unable to keep pace with surging demand for microchips in the production of vehicles and consumer goods.

For many developing countries, currency devaluation against the dollar is an important driver of inflation: domestic currency depreciation raises the domestic price of imported goods and, therefore, headline inflation measures. As the Fed and other central banks in developed countries tighten, the currencies of developing countries are likely to devalue further.

'Policy tightening in the North, in response to supply-side bottlenecks, thus worsens the problem of rising prices in developing countries.'

The *TDR* update said that in most developing countries, fiscal support in response to the pandemic amounted to a substantially lower proportion of gross domestic product (GDP) than in developed countries. Still, developing countries are now facing the prospect of global macroeconomic tightening in a particularly perilous position, given substantial debt vulnerabilities. Many support schemes introduced during the pandemic will be withdrawn just as rising food and fuel costs consume household budgets and new pressures from the conflict in Ukraine arise, including on exchange rates and the balance of payments.

Developing countries' debt service is projected to total $484 billion, 23.2% of the total external debt stock, in 2022. Public sector external debt vulnerabilities are substantial, especially in low-income countries. Public and publicly guaranteed (PPG) external debts in developing countries represented 64.4% of the total stock of external debt in 2020, increasing to 76.2% in the case of low-income countries.

UNCTAD said that short-term PPG debt-servicing needs are concerning. Developing countries are projected to require $310 billion to meet external public debt service requirements in 2022 – equivalent to 9.2% of the outstanding stock of external public debt at the end of 2020.

'Developing country bond yields have been on the rise since September 2021. The increase is widespread and is a clear signal of tighter financial conditions.' Since the breakout of the conflict in Ukraine, yields have further increased for the developing countries by 36 basis points, on average, with countries heavily dependent on food imports experiencing higher increases, said the *TDR* update.

According to UNCTAD, a total of 104 countries are net food importers. These countries had a total of $1.4 trillion in external public debt at the end of 2020 and they face $153 billion in projected debt service payments in 2022, which can be jeopardised if international food prices continue to rise.

UNCTAD said as the consequences of tapering and the conflict in Ukraine unfold, a key question is whether they will lead to a 'tantrum' of the kind seen in 2013. 'The consequences for developing country governments would be severely damaging,' it cautioned. ◆

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War or peace, barbarism or hope

With the conflict in Ukraine comes the dire threat of stagflation.

Anis Chowdhury and Jomo Kwame Sundaram

Screenshot of a US broadcast news programme highlighting stagflation fears. 'The threat of stagflation is undoubtedly more real now than six months ago.'

THE spectre of 'stagflation' threatens the world once again. This time, the risk is the direct consequence of political provocations and war, and not simply due to inexorable economic forces.

Stagflation is a composite word implying inflation with stagnation. Stagnation refers to weak, 'near zero' growth, inevitably worsening unemployment. Inflation refers to price increases – not high prices, as often implied.

The term 'stagflation' was supposedly first used in 1965 by Iain Macleod, then UK Conservative Party economic spokesperson. He later became Chancellor of the Exchequer, or finance minister, in 1970 for little over a month, the shortest tenure in modern times. In 1965, he told the UK Parliament that amid 'swiftly rising' incomes and 'completely stagnant' production, 'we now have the worst of both worlds. We have a sort of stagflation situation'.

The term caught on in the 1970s, when high inflation and unemployment ended an economic era dubbed the 'Golden Age of capitalism' to describe the post-World War Two (WW2) boom.

Normally, in a recession, the inflation rate – i.e., the overall rate at which prices increase – falls. As unemployment rises, wages come under pressure, and consumers and businesses spend less, reducing demand for goods and services, slowing price rises.

Similarly, when the economy booms, the labour market tightens, pushing up wages, in turn passed on to consumers via increasing prices. Thus, inflation rises and unemployment falls during a boom.

However, stagflation poses a dilemma for central banks. Normally, when economies stall, central banks try to stimulate growth by cutting interest rates to encourage more borrowing and thus spending. But that could also fuel further price rises and higher inflation. On the other hand, if they raise interest rates to check inflation, growth may slow even more, further worsening unemployment.

1970s' stagflation

The growth of world trade after WW2 increased demand for the US dollar, the de facto world currency under the 1944 Bretton Woods (BW) international monetary agreement.

The US financed much post-WW2 reconstruction to broaden its 'Free World' sphere of influence as the Cold War began.

Following post-WW2 reconstruction, demand for the greenback was met by greater US imports paid for with US dollars.

As foreign central banks increasingly accumulated dollar reserves, flows were reversed in the 1960s, with net resources into rather than out of the US.

During the 1960s, US economic growth was increasingly sustained by government military and social expenditure. Spending increased for both 'defence', especially the Vietnam War, and social programmes, e.g., President Lyndon B Johnson's 'war on poverty' and 'Great Society'.

As LBJ was reluctant to acknowledge the rising costs of the Vietnam War, it was difficult to raise taxes to pay for his 'swords and ploughshares' spending. Instead, spending was financed by government debt, from selling US Treasury bonds. Thus, the world financed US government spending, including the war.

By January 1967, Johnson was under pressure to cut the growing budget deficit. But it took a year and a half for the US Congress to pass his new budget with tax increases. When finally passed in mid-1968, US federal debt had grown even more as spending for both 'guns and butter' did not decline.

US monetary policy was obligingly expansionary. Unsurprisingly, inflation shot up from 1.1% during 1960-64 to 4.3% in 1965-70.

Higher inflation also eroded US competitiveness, further worsening its balance-of-payments deficit.

Inflation also undermined US

A job centre in the UK. The 1970s' growth slowdowns – with rising unemployment and inflation – in major industrial economies caught many economists off-guard.

ability to honour its BW commitment to maintain full convertibility to gold at $35 per ounce. This obligation did not go unnoticed by foreign governments and currency speculators. As inflation rose in the late 1960s, US dollars were increasingly converted to gold.

In August 1971, US President Richard M Nixon ended the exchange of dollars for gold by foreign central banks, effectively violating its BW commitment. A last-ditch attempt to salvage the international monetary system – through the shortlived Smithsonian Agreement – failed soon after. By 1973, the post-WW2 BW international monetary arrangements were effectively done with.

Commodity supply disruptions

Oil-exporting, European and other countries which held reserves in US dollars suddenly found their assets worth much less.

With Venezuela, the Middle East-led Organization of the Petroleum Exporting Countries (OPEC) reacted by dropping their earlier willingness to keep oil prices low.

In October 1973, 'nationalist' Saudi monarch Faisal embargoed oil exports to nations supporting Israel soon after President Anwar Sadat's attempted reprisal following Egypt's defeat by Israel in 1970. The oil price almost quadrupled – from $3 to nearly $12 per barrel when the embargo ended in March 1974.

This steep oil price rise was paralleled by great increases in other commodity prices during 1973-74. Besides petroleum, other primary commodity prices more than doubled between mid-1972 and mid-1974. Meanwhile, the prices of some commodities – such as sugar and urea – rose more than fivefold.

Commodity supply shocks and higher commodity prices increased production costs, consumer prices and unemployment. As rising consumer prices triggered demands for higher wages, these in turn increased consumer prices. Thus, wage-price spirals accelerated price increases and inflation.

The 1979 Iranian revolution triggered a second oil price shock. The resulting 'great inflation' saw US prices rise over 14% in 1980.

In the UK – then deemed the 'sick man of Europe' – inflation averaged 12% a year during 1973-75, peaking at 24% in 1975, while inflation in West Germany and Switzerland exceeded 5%.

In the 1960s, unemployment in the seven major industrial countries – Canada, France, West Germany, Italy, Japan, the UK and the US – rarely exceeded 3.25%. But in the 1970s, the unemployment rate never fell below that. By mid-1982, it had risen to 8%, exacerbated by interest rate hikes, ostensibly to fight inflation.

The 1970s' growth slowdowns – with rising unemployment and inflation – in major industrial economies caught many economists off-guard. Economic thinking then presumed inflation and unemployment were alternatives.

The Phillips Curve implied low unemployment came at the cost of higher inflation, and vice versa. This crude and static caricature of Keynesian economics enabled a major assault on its influence. The assault on development economics was collateral damage in this 'counter-revolution'.

Peace is our best option

In October 2021, the International Monetary Fund (IMF), the European Central Bank, the US Federal Reserve and other such institutions believed the factors driving inflation were transitory. None of these authorities saw an urgent need for interest rate hikes.

But in the last month, the war in Ukraine and sanctions against Russia have driven up the prices of commodities such as wheat and oil. This will exacerbate rising inflation in much of the developed world. The threat of stagflation is undoubtedly more real now than six months ago.

By October 2021, Google searches for 'stagflation' hit their highest level since 2008. Mention of stagflation in online news stories surged to more than 4,000 weekly by mid-March, up from slightly more than 200 at the start of the year.

This time, 'stagflation' is the direct consequence of political choices, especially for war, not unavoidable economic trends.

Developing countries are fast learning where they really stand in this unequal world of endless war, e.g., from the European treatment of Ukrainian refugees.

Peace is therefore imperative. The alternative is the barbarism of conflict among big powers in which most of us have no vested interests. Instead, our shared hope lies in ensuring peace, to focus instead on the common challenges facing humanity. – *IPS* ◆

Anis Chowdhury, Adjunct Professor at Western Sydney University (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 in 2007.

No new actions to combat debt crises offered by G20 ministers

The world's major economies are yet to come up with concrete measures to address the plight of developing countries in debt distress, even as the prospect of a sovereign debt crisis looms.

Bhumika Muchhala

The G20 finance ministers' meeting in February *(pic)* did not yield concrete action to resolve developing countries' sovereign debt woes.

FINANCE ministers and central bank governors from the Group of 20 (G20) leading economies met in Jakarta on 17-18 February to discuss global economic recovery, the debt crises in many developing countries, international financial instabilities, the voluntary channelling of Special Drawing Rights (SDRs), global tax reform, inclusive and green finance, climate finance and infrastructure investment, among other issues.

The critical crisis in the world economy today is undeniably that of unsustainable sovereign debt, with several developing countries defaulting on their debts in 2021 and several more close to a default in 2022.

On the urgent need for debt relief, restructuring and coordination, the communique of G20 finance officials welcomed 'efforts to make progress on the Common Framework for Debt Treatments beyond the DSSI [Debt Service Suspension Initiative]', and reiterated their 'commitment to step up our efforts to implement it in a timely, orderly and coordinated manner'.

They noted that creditor committees may discuss and find appropriate solutions on a case-by-case basis for those countries that have requested debt treatment, including Chad, Ethiopia and Zambia.

The communique stressed the importance for private creditors and other official bilateral creditors to commit to providing debt treatments on terms at least as favourable, to ensure fair burden sharing in line with the comparability-of-treatment principle, and affirmed the joint efforts by all actors, including private creditors, to continue working towards enhancing debt transparency.

The launch of the joint Institute of International Finance (IIF)/ Organisation for Economic Cooperation and Development (OECD) Data Repository Portal was welcomed, and all private sector lenders were encouraged to contribute data to this initiative.

Debt distress in developing countries

According to the International Monetary Fund (IMF)'s calculations in June 2021, more than half of low-income countries are in debt distress or at risk of debt distress, double the numbers of 2015. A report by the *Financial Times* disclosed that the world's poorest countries face a $10.9 billion surge in debt repayments in 2022. In 2020, 62 developing countries spent more repaying debt than they did on healthcare during a pandemic.

Over the next three years, the debt repayments as well as the interest charges on the debt, which are increasing as a result of a stronger dollar and tightening monetary policy, will hamstring governments that should be spending public finances to battle the pandemic as well as to address long-term problems such as the effects of climate change.

Already heavily indebted before the pandemic, many developing countries had no choice but to spend public finances in tackling the pandemic while tax revenues collapsed. Meanwhile, with record low interest rates, public borrowing was easy to access. As a result, sovereign debt quickly piled up.

A family outside their home in the Zambian capital Lusaka. Zambia was one of the developing countries which defaulted on their debts in 2021.

The World Bank's 2022 *Global Economic Prospects* report acknowledges that, rather than a liquidity issue, many countries actually face a solvency crisis which requires 'debt stock reductions' instead of debt re-profiling which only addresses the terms of repayment. This is a significant shift from the G20's understanding of the debt problem when it formulated the Common Framework to address unsustainable debt, in that debt treatments would not involve debt write-offs or outright cancellation.

In 2021, Argentina, Belize, Ecuador, Suriname and Zambia defaulted on their debts. In 2022, Sri Lanka, El Salvador, Tunisia and Ghana are assessed by financial journalists and analysts as being close to a debt default. Lebanon, Turkey and Ukraine are also mentioned.

According to the UN's Department of Economic and Social Affairs, 'Elevated external debt burdens, additional borrowing during the pandemic and increasing debt-servicing costs have pushed a rising number of countries to the brink of a debt crisis.'

Recent Jubilee Debt Campaign findings report that average Global South external debt payments have increased 120% between 2010 and 2021 and are higher than at any point since 2001. Average government external debt payments were 14.3% of government revenue in 2021, up from 6.8% in 2010.

Globally, 54 countries are in debt crisis, meaning that debt payments are undermining the ability of governments to protect the basic economic and social rights of their citizens. The analysis finds that a further 14 countries are at risk of both a public and private debt crisis, 22 at risk of solely a private sector debt crisis, and 21 at risk of a public sector debt crisis.

Limitations of G20's Common Framework and DSSI

Despite the G20's exclusivity as a club of the world's 20 biggest economies, it is still the pre-eminent body of global economic decision-making. The G20 finance ministers' meeting is therefore perceived as the prime venue to begin addressing the debt crises rippling across many countries. While there was some hope that the G20 finance officials would reinstate the DSSI, which took effect on 1 May 2020 and was terminated at the end of 2021, it was not revived at the recent meeting.

The DSSI was critiqued by analysts and international organisations as being inadequate, as it merely suspended debt on a temporary basis and 'kicked the can down the road' rather than sustainably restructuring debt in a fair manner that divided burden sharing between creditors and debtors. It did deliver approximately $10.3 billion in relief to more than 40 eligible countries. However, IMF and World Bank debt data reveal that the 46 lower-income countries that applied for the scheme still paid out more than three times in debt payments, or about $36.4 billion. Meanwhile, only $600 million of debt was cancelled, primarily through the IMF's Catastrophe Containment and Relief Trust (CCRT).

The lack of political enforcement by the G20 resulted in private creditors, especially big commercial banks, asset management companies, investment banks, hedge funds and oil traders, providing no relief and receiving $14.9 billion in debt repayment from the poorest countries (April 2020-June 2021).

The G20's Common Framework for Debt Treatments was established in 2020 to reduce debt burdens by a Paris Club approach, meaning a case-by-case approach that individualises debt restructuring by debtor country, rather than addressing the systemic nature of debt. The shortcomings of the Common Framework have been acknowledged by a range of actors, from the IMF and World Bank to the financial press and international civil society.

These limitations include, for example, the voluntary engagement of private creditors in the creditor committees of the Common Framework to deliver on comparability of treatment, which is a principle developed in the Paris Club to ensure that all creditors contribute with their fair share in debt restructuring and cancellation. The voluntary nature has resulted in private creditors continuing to refuse engagement in the Common Framework to date.

Importantly, none of the countries that have applied to the Common Framework thus far have had any debt cancelled. This has led to the assessment that the Common

Framework is not fit to address the challenges of creditor coordination and engagement in order to deliver debt relief on a scale sufficient to tackle the debt distress many developing countries are facing and will continue to face in the coming years.

The case-by-case approach of the Common Framework does not meaningfully address the scale, volume and systemic nature of debt restructuring and write-off of the principal debt stock required to prevent debt insolvency and crises in many developing countries.

In order to incentivise private creditor participation, the World Bank and IMF allude to credit enhancements employed in the past and the need to make debt restructuring agreements binding on all creditors by majority vote, primarily through activating aggregated collective action clauses. In theory, these clauses allow private bondholders to coordinate restructuring terms among themselves. While the communique stressed that private creditors should ensure fair burden sharing in alignment with the comparability-of-treatment principle, a specific and detailed map of how this will be achieved across all types of private creditors has not to date been provided by G20 finance officials.

Overall, the Common Framework has been viewed by financial analysts as well as many in civil society as a messy, long and costly default and restructuring process, where the problem of uncooperative private creditors, the non-participation of multilateral institutions and the risks of insufficient debt cancellation lead to years of serial debt restructuring that remain unsolved. Furthermore, the Common Framework's requirement that debt treatment has to come attached with an IMF programme exacerbates the dilemma of fiscal austerity measures that the IMF recommends in its lending frameworks.

Both the IMF and World Bank focus their recommendations on greater effectiveness of the Common Framework through steps such as clearer timelines and rules, a debt payments standstill during negotiations, inclusion of middle-income countries, and debt cancellation in cases of unsustainable debt, which goes beyond re-profiling of terms of payment.

The World Bank, in its 2022 *Global Economic Prospects* report, stresses that in its current form the Common Framework is not suitable for ensuring sufficient debt relief and a fair distribution of costs between the various creditors. The Bank also says it is problematic that public creditors have, since the early 1980s, relied on debt suspensions, payment extensions and insufficient relief to address recurring debt crises in developing countries.

As a first step, the Bank recommends that the Common Framework commit to granting comprehensive debt relief. The Bank also suggests that the participation of private creditors should be made binding through, among other steps, the route of national legislation. While restructuring negotiations are ongoing, debtor countries should be granted a debt moratorium.

Meanwhile, the IMF's 'G20 Surveillance Note' published on 16 February 2022 stresses that immediate action by the G20 is needed to arrest the rising human and economic toll of the COVID-19 pandemic. It also encourages the G20 to help ensure weaker economies have access to financial liquidity, including through the operationalisation of the Common Framework and support for the channelling of the $650 billion issuance in Special Drawing Rights.

A key aspect of the Common Framework is addressing how comparability of treatment will be effectively enforced. The IMF's 2015 'Policy on Arrears to Official Creditors' can potentially be a key advocacy strategy on this enforcement. The Fund's policy suggests that if private and bilateral creditors refuse to engage in a debt restructuring, the IMF and G20 should give the debtor country political and financial support to default on non-engaging creditors. Meanwhile, debt reduction and/or cancellation from creditors willing to engage should proceed. This IMF policy could potentially guide the G20's support to borrowing countries that choose to default on creditors refusing to participate on comparable debt restructuring terms.

As the third year of the pandemic begins, the lack of concrete action on debt in the G20 finance ministers' communique does not bode well for the timely resolution of debt distress of both low- and middle-income countries, undermining their national policy space to recover from the economic and public health toll of COVID-19. Countries on the verge of default can only hope that the G20 will not wait until full-blown debt crises take place before taking real action.

UN Conference on Trade and Development (UNCTAD) Secretary-General Rebeca Grynspan has warned that many developing countries are truly at risk of another lost decade. To prevent this outcome, governments and international financial institutions, particularly the G20's finance ministers' body, need to take immediate and urgent action to provide unconditional debt cancellation for all countries in need.

For a systemic debt solution, a meaningful, inclusive and democratic process to reform the international debt architecture is necessary. This can be effectively and efficiently achieved through the long advocated multilateral framework for sovereign debt resolution under the auspices of the United Nations. Such a framework would comprehensively address unsustainable and illegitimate debts and provide systematic, timely and fair restructuring of sovereign debt in a process convening all creditors, from bilateral and multilateral to private creditors. ◆

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Will the IMF pay for its faults in Argentina?

The International Monetary Fund's $45 billion loan to Argentina in 2018, its largest ever, was a monumental failure. Now it turns out it may also have been illegal.

Roberto Bissio

Argentine Economy Minister Martín Guzmán at a news conference in January announcing the country's new loan agreement with the IMF.

LAST 26 January, while hurried last-minute negotiations were conducted to avoid Argentina defaulting on its 2018 standby agreement (SBA) with the International Monetary Fund (IMF), 10 former leaders from Latin America and Spain demanded that the IMF 'take responsibility for having granted a record loan to the government of [former president] Mauricio Macri of $45 billion to be paid back in a short time, absolutely impossible to comply with, in order to benefit him electorally and to limit the next administrations'. The signatories, including Lula da Silva (Brazil), José Luis Rodríguez Zapatero (Spain), José Mujica (Uruguay) and Ernesto Samper (Colombia), demanded 'the immediate elimination of the loan surcharges and the granting of terms that allow for economic growth without brutal adjustments or fiscal restrictions that subject the Argentine people to conditions of impoverishment'.

Two days later, Argentina paid (on time) some $700 million to the IMF, and President Alberto Fernández announced that an agreement had been reached with the Fund for a new loan which would enable payment for the old one and contribute $5 billion to building Argentinian reserves.

This new loan is to be paid back in 10 years, with four years' grace, and will be disbursed in tranches over 30 months, during which Argentina will have its performance surveyed every three months (before each new disbursement) by the IMF.

The main indicator of compliance will be a 'fiscal path' to gradually reduce the government deficit to 2.5% of gross domestic product (GDP) in 2022 (from an estimated deficit of 3.2% in the current government budget), 1.9% in 2023 and 0.9% in 2024. This would, according to an IMF staff report, 'allow for spending increases on infrastructure and science and technology, and would protect targeted social programmes'.

The agreement still needs to be finished and signed by the negotiators and then approved by the Argentinian Congress and the IMF board. And this needs to happen soon. Under the terms of the 2018 agreement, Argentina must pay back $19 billion in 2022, including $3.9 billion in the first trimester. This sum is more than double current reserves. Without an agreement, default is unavoidable.

While President Fernández and Economy Minister Martín Guzmán celebrated the deal as a 'solution to a big problem', Máximo Kirchner, leader of the governing coalition bloc in parliament, announced his resignation from this role, out of disagreement with the negotiation strategy 'and even more so with its results'. Máximo's father was the deceased President Néstor Kirchner and his mother is ex-president and current vice-president Cristina Fernández de Kirchner. CFK, as she is frequently referred to, has been demanding that the burden of the agreement should fall on the beneficiaries of massive capital flight that the previous loan allowed or even encouraged.

Good, bad or ugly?

Alberto Fernández notoriously smiled in satisfaction when announcing the agreement, which covers the whole of the $45 billion Argentina got from the IMF since 2018 (out of $55 billion in standby) and extends repayment for 10 years. This is the maximum term admitted by the IMF, as its support to countries is supposed to be for short-term emergencies. Further, the new loan returns to Argentina the money already paid on account of the 2018 SBA and will not request any further disbursement until after the end of the current presidential term in 2024 (re-election to a second term is possible).

The agreement does not request privatisations, social expenditure cuts or even budget cuts, as long as the fiscal deficit is gradually (and slowly) reduced. With economic growth of 10% in 2021, and 4-6% forecast for 2022, minister Guzmán is confident that increased revenue can wipe out the deficit and still leave fiscal space for increased government investment in badly needed infrastructure.

Economic pundits highlighted as an Argentinian victory the public IMF staff statement that 'we have reached understandings on a framework for monetary policy implementation as part of a multipronged approach to addressing persistent high inflation'. This means that current capital controls will continue, which is unusual in IMF programmes, and that inflation is conceptualised as having multiple causes and is therefore not to be dealt with through monetary policies only, as the IMF itself had recommended to Argentina in its failed 2018 SBA.

Guzmán commented: 'No one in our political space can be happy with the IMF, but everything that could be done has been done.'

Critics of the agreement point to the IMF request that energy subsidies be cut, which will directly affect the poor, whose numbers have grown from less than a quarter of the population to over 40% due to the combined impact of COVID-19 and the economic crisis that the SBA aggravated instead of resolving. Further, Argentina will have to submit its economic policies to the oversight of the IMF every three months for the next two-and-a-half years, each time risking a disastrous end of the deal.

'Some may wonder what option I am offering,' said Máximo Kirchner. 'To start with, let's call a spade a spade: not talk about a tough negotiation when it was not, let alone talk about "benefits". Reality is hard.

Argentinians protesting the 2018 loan deal with the IMF. It has been claimed that approval of this loan may have been in violation of the IMF's own Articles of Agreement.

I saw President Kirchner burn his life in this kind of situation.'

In September 2003, President Néstor Kirchner temporarily defaulted to the IMF rather than accept its conditions. 'This was an extraordinarily gutsy move as the IMF was seen as having the power to cut off even trade credits to a country that defaulted to them. No one knew for sure what would happen. But the IMF backed down and rolled over the loans,' wrote Mark Weisbrot, co-director of the Center for Economic and Policy Research in Washington.

Ultra vires

As leader of the majority faction in the governing coalition, CFK had demanded repayment over 20 years of the 2018 loan, with no interest or conditionalities of any kind. To the argument that such conditions would be unprecedented for the IMF, the reply was that the 2018 loan was not only the biggest in IMF history, but also blatantly illegal and therefore requiring an exceptional solution.

On 27 January, just hours before the new agreement was announced, Guido Croxatto, director of the National School of the State Bar and Lawyers Corps, admitted in a TV interview[1] that the legal defenders of the Argentinian state were seriously considering challenging the 2018 standby agreement with the IMF as 'ultra vires' (beyond the powers) as it violated core provisions of the IMF's Articles of Agreement. 'When international organizations act beyond their legal capacity, they are deemed to act ultra vires. It follows that any acts that overstep the powers of international organizations – as determined in their founding treaties – are invalid and void.'

The hypothesis that the IMF acted beyond its legal powers in the 2018 agreement was developed in detail by Karina Patrício, lecturer in Commercial Law at the University of Leeds in the UK.[2] The analysis is largely based on the conclusions of the IMF itself in its Ex-Post Evaluation of Exceptional Access Under the SBA,[3] its Articles of Agreement and relevant international law: 'Substantive rules that enable the IMF's functional competence to provide balance of payments support to its members – set forth in Article I of the Articles of Agreement – were violated in the SBA in a way that is too manifest to be open to reasonable doubt, thereby raising suspicion that the SBA's approval was ultra vires. In particular, the programme was characterized by egregious assumptions and accounting inconsistencies that meant the objectives were impossible to attain.'

In light of such analysis and how this huge loan had been speedily approved when President Mauricio Macri was running for re-election, the former leaders who wrote to the IMF concluded that the Fund should 'take responsibility'.

Is the legal challenge a rhetorical argument? Is that path closed if Argentina signs a new agreement with the IMF? The answer is 'no' to both questions.

Since the IMF does not want its loans to be renegotiated, it was at pains to make it clear that the $45 billion under the new loan does not automatically cancel the pending $45 billion of the previous loan. Both agreements will co-exist. Argentina must continue repaying the 2018 loan, even if it uses for that purpose over the next 30 months the monies transferred by the IMF under the new loan. The illegality of the first would thus be independent from the validity of the new one, once it is properly approved by the IMF board and the Argentinian legislature.

Since the IMF has no review body in its governance, Patrício argues that 'only the International Court of Justice (ICJ) would have the power to advise on the legal validity of the SBA through its advisory route, either upon request of the UN's General Assembly (where Argentina or any group of Member States could initiate the process) or the IMF itself'.

If the ICJ declares the 2018 SBA void, the IMF as a UN agency must abide and the loan will cease to have legal effect. What happens next?

The scenario of an ultra vires act by the IMF would be unprecedented and therefore relevant principles of international law ought to be applied. 'In the absence of either a valid underlying agreement or an internationally wrongful act upon the SBA's approval – in which case a duty to compensate for damages would arise' – Patrício argues that 'the inter-party effects of the SBA's invalidity are to be governed by the international law of unjust enrichment'.

This means that the IMF should restitute the lending rate, surcharges, commitment fee and service charge in the transaction to Argentina, which in turn should restitute the principal to the IMF. But as Argentina is in no condition to immediately return some $40 billion still pending, negotiation of an extended time horizon for settlement is still required.

Such financial obligation, explains Patrício, would be governed by the international law of unjust enrichment and not by IMF rules. The IMF would ultimately get its money back, but without additional charges, and would not have any say over the Argentinian economy. Further, 'while there appears to be no jurisprudence in international law on liability for damages of staff members of international organizations, relevant principles of English private law in analogous cases seem to suggest that the restitution owed by the IMF to the Republic of Argentina is without prejudice of the liability for damages of staff members and officials who may be found to have provided negligent advice to the Executive Board regarding the Fund's capacity to enter into the agreement.'

'We must never again allow suffocating indebtedness,' said President Fernández in his message to Congress requesting approval of the new agreement. He described the previous IMF loan as 'misappropriation of funds' since it went mostly to finance capital flight.

'I have asked for a criminal complaint to be filed to determine who were the perpetrators and participants in the greatest fraudulent administration and embezzlement of funds in living memory.

'We are the ones who want to free ourselves from the debt that others took on. It would be good for them to recognise their mistakes,' he remarked, recalling that the agreement that formalised the relationship between the Macri administration and the IMF had not passed through the national Congress.

Christine Lagarde, who was IMF Managing Director at the time and is currently head of the European Central Bank, and the Executive Board of the IMF are clearly not free of blame, as some of its members actively pushed to expedite the 2018 SBA, others looked the other way and all approved each of the tranches without reading the warnings that the staff reports did carry, even if in veiled technical jargon.

According to the governance principles that the IMF itself recommends, a board cannot be at the same time player and referee. Whatever the path Argentina finally chooses – or is forced to choose – the 2018 SBA, the biggest failure in the IMF record, revealed severe problems in the governance of the institution charged with preserving international financial stability. At a time when dozens of countries are facing the prospect of severe debt problems in the coming months, it would help avoid further failures if there were more clarity and consensus about the rules of the game – and what to do when a player is caught cheating. ◆

Roberto Bissio is an Uruguayan journalist and coordinator of Social Watch, an international network of civil society organisations reporting on how their governments meet international commitments.

Endnotes

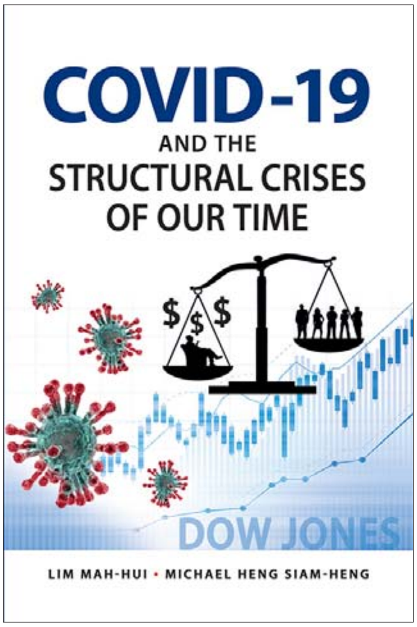
1 https://www.youtube.com/watch?v=3kzycrH3iSg

2 Patricio Ferreira Lima, Karina, 'The IMF's 2018 Stand-By Arrangement with Argentina: An Ultra Vires Act?' (10 January 2022). Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4004595

3 https://www.imf.org/en/News/Articles/2021/12/22/pr21401-argentina

A timely wake-up call

Chan Kok Peng finds much that is insightful in a book that draws linkages between the pandemic, climate change and the phenomenon of financialisation.



COVID-19 and the Structural Crises of Our Time
by Lim Mah Hui and Michael Heng Siam-Heng
Singapore: ISEAS – Yusof Ishak Institute (2022)

THIS is clearly an ambitious book, spanning over 200 pages and covering the history of economic and philosophical thought, pandemics, climate change, different economic and political systems and recent financial developments. The authors' objective is to argue that these subject matters are not separate but are all intertwined. In doing so, the authors' years of experience in academia, public and private sectors are clearly discernible in each of the six chapters. By entitling the book *COVID-19 and the Structural Crises of Our Time*, the authors are aiming to ride on a topical issue and hence appeal to the broader general public.

At first glance, the general public – unless they are students of economic history – may find the introductory part of the book heavy going as the authors introduce the thoughts of Karl Polanyi, who is a lesser-known personality than the other Karl whose name is identified with the founding of socialism. Fortunately, this quickly gives way to the authors' excellent explanation of how the world financial system has evolved and the consequences of its structural shortcomings.

From a financial perspective, the book is a wake-up call, with rising debt levels acting as one of the many alarm bells. According to the authors, total global debt surged from $150 trillion in 2007 to $253 trillion in 2019, or 320% of global gross domestic product (GDP). An update by this reviewer shows the Bank for International Settlements (BIS) expects it to reach $300 trillion by the end of 2021.

A 300% debt-to-GDP ratio, assuming an average 2% interest rate, requires global GDP to grow at 6% just to cover the interest. With COVID-19 measures likely to put a cap on economic activity and China expected to see slower growth in the next few years, the burden of interest payments is likely to be an escalating concern for many countries.

The key term used by the authors to help explain this borrowing binge is *financialisation*. The authors define it as *an addiction to and dependence on debt for growth, the ascendance of capital markets over banks, a penchant for speculation over long-term investment, the proliferation of dubious financial products and activities, and the penetration of financial values and practices into non-economic spheres of society, like health, education, housing, financial security and politics*.

In the US, the capital market now provides over 73% of the fuel to fund the nation's economic activity, compared with just 10% for China's economy. That said, the addiction to debt and the shift to capital markets over banks especially in the US would not have been possible without the major central banks pursuing unconventional monetary policies a.k.a. negative interest rates and quantitative easing. The result is a massive mispricing of risk. The general reader would surely be able to identify closely with such issues given they have been dominating the media headlines in the past few years.

While the book provides ample ammunition to critics of the current global capitalist system and its freewheeling ways, this does not mean that China offers a superior alternative in the opinion of this reviewer. While China appears to be currently winning the war against the pandemic and, in terms of economic performance, has been better than its Western counterparts, it has its fair share of shortcomings as well.

The key term used by the authors to help explain the borrowing binge is 'financialisation'.

Topmost among them must be its equally large addiction to debt and the over-reliance on the property sector as its single largest source of growth. Whether it is unfettered capitalism in Western democracies or state-directed capitalism as practised in China, the issues of dubious financial products and wealth and income inequality exist in both systems. For China, this has manifested itself through the collapse of one of its largest property developers and the need for the authorities to tighten regulations over a large chunk of the economy. The authors could perhaps come up with a sequel to the book with greater attention given to China.

Nearer home, the book also serves as a wake-up call for Malaysia. In the section discussing the financialisation of the Southeast Asian economies, the authors focus on the role of net financial flows as the main cause of the Asian financial crisis in 1997. While speculative inflows from advanced nations and their subsequent outflows from the region triggered the crisis, the problem for Malaysia now appears to be domestic investors leaving the country.

In a sense, it is a structural crisis for Malaysia as it has been experiencing net capital outflows consistently in the past 20 years with only four years of net inflows. By contrast, its ASEAN (Association of Southeast Asian Nations) neighbours, especially Indonesia and Thailand, have experienced a more sustained and larger amount of net inflows. Malaysia's loss appears to be the neighbours' gain.

This reviewer applauds the authors for their effort to link climate change, the current pandemic and the rising tide of financialisation as three of the biggest threats confronting the world today. While policy measures for climate change and the pandemic are likely to continue to play out and, as the authors rightly point out, render some of the book's conclusions redundant, there are nevertheless many lessons which the general public can learn from and be better informed just by reading the entire book. ◆

Chan Kok Peng was formerly an Asian chief economist for a large French bank and prior to this worked in major Japanese, UK and US investment banks, during which he travelled extensively to meet with global institutional fund managers. He currently lives in Singapore. The above article is reprinted from IDN-InDepthNews under a Creative Commons licence (CC BY 4.0).

Note: One of the authors of this book, Lim Mah Hui, is the Chair of the Board of the Third World Network.

Looking towards WTO MC12: What's on the table for developing countries and LDCs

Kinda Mohamadieh and *Ranja Sengupta* survey the challenges confronting developing and least-developed countries at international trade talks taking place in the shadow of a war that threatens to undermine multilateralism.

An intellectual property waiver on vaccines and other COVID-19 medical products is seen by many as central to the WTO's response to the pandemic.

Introduction: MC12 or no MC12?

ALL eyes are again on the World Trade Organization (WTO)'s 12th Ministerial Conference (MC12). Will it take place, as announced, during the week of 12 June? Will it be postponed again due to the war in Ukraine or due to COVID-19?

News reports of an informal WTO General Council meeting held on 28 March pointed out an 'emerging understanding' that it will be held on 12-15 June.[1] Yet, the political challenges emanating from the war in Ukraine are making many WTO meetings unmanageable and might still make it challenging to hold the ministerial conference. What is clear thus far is that, irrespective of whether MC12 will be held or not, the war in Ukraine has dealt another blow to multilateralism and the multilateral trading organisation. This follows earlier setbacks such as that stemming from the lack of an outcome on the TRIPS waiver proposal to address intellectual property (IP) barriers to equitable access to COVID-19 vaccines, therapeutics and diagnostics, despite the support of more than 100 WTO Members. The threat of irrelevance hangs over the WTO and keeps on intensifying.

Developing countries and least-developed countries (LDCs) are faced with this challenging reality. For them, the rules-based multilateral system is the preferred forum to pursue trade relations, because without it, the will of the most powerful will be the determining factor of the terms of trade. Developing countries and LDCs are faced with a narrative that stresses how crucial it is to harvest deliverables in order to bolster or revive trust in the multilateral system and thus contribute to ensuring its survival. Yet, despite their commitment to the multilateral trading system and its need to deliver results, developing countries and LDCs ought to take a close look at what is offered to them and what it means, in regard to each item on the agenda of negotiations as well as to the overall balance of what they will be getting in return for what they might be giving up.

The agenda of the WTO remains focused on four issues: the response to the pandemic including the TRIPS waiver, fisheries subsidies, agriculture, and WTO reforms. Issues of particular concern to developing countries and LDCs, such as strengthening special and differential treatment (S&DT), have for long been marginalised and remain so in the current context. Since the adoption in 2001 of a mandate under the WTO's Doha Work Programme to review all S&DT provisions with a view to strengthening them and making them more precise, effective and operational,[2] developing countries and LDCs have undertaken several attempts to pursue and fulfil this mandate.[3] Previously when these proposals were being considered, they were effectively undermined by developed countries, through watering down the proposed revised language on S&DT, to the point where it was of no value and certainly did not fulfil the mandate of the Doha Work Programme.

Beyond the mandate noted above, special and differential

Developing countries are seeking greater policy flexibilities to aid their small-scale fishermen in the WTO fisheries subsidies negotiations.

treatment is of systemic importance as it pertains to a fundamental principle embedded in the legal basis of the multilateral trading system. It is crucial to the effective functioning of the WTO and the ability to align trade rules with development needs of its Member States. The recent crisis induced by the COVID-19 pandemic has again underscored the reality that developing countries and LDCs are in need of special flexibilities. Developing countries and LDCs have been re-emphasising the importance of ensuring that any ongoing negotiations in the WTO do not undermine existing flexibilities and special and differential treatment rules they benefit from. They also emphasise that any future negotiations, such as those that could potentially be pursued under an Action Plan on Pandemic Response, Preparedness and Resilience, should also uphold special and differential treatment as a right for all developing countries and LDCs and give specific attention to the need for policy space, economic resilience, food security, and protecting public health.

This article will briefly review the dynamics pertaining to some of the major issues on the table of WTO deliberations, primarily the WTO response to the pandemic, fisheries subsidies, agriculture, and WTO reforms. Issues pertaining to the so-called joint statement initiatives will also be highlighted.

The WTO response to the pandemic

The WTO response to the pandemic is one of the most pressing issues on the table of the WTO, not only because of the urgency that the pandemic imposes, but also because of the expectation of a contribution by the WTO to addressing the pandemic. Yet, over two years since the pandemic was declared, this contribution has not materialised.

Procedural issues have been causing challenges to the process, particularly to developing countries and LDCs, hindering their full and effective participation. They have repeatedly stressed the importance of this process remaining Member-driven and that any text that is to be considered has to be discussed and negotiated by WTO Members.

The initial discussions on the WTO response to the pandemic, which were led by Ambassador David Walker of New Zealand who was appointed in June 2021 as facilitator of the process, revolved around a premise that what is needed is more liberalisation, interventions that will further constrain regulatory space and policy tools available to WTO Members, as well as more reliance on the private sector. Developing countries, including a coalition that presented a collective submission (which came to be known as 278, after the document number of their submission to the WTO),[4] India, along with others have stressed that the response to the pandemic should instead focus on issues of concern to developing countries and LDCs including food security, economic resilience, IP barriers to equitable access to vaccines, therapeutics and diagnostics needed to address the pandemic, and other policy space issues relevant to preparedness and resilience. Developing countries and LDCs have also stressed that any outcome should not undermine the existing flexibilities for them and should include effective special and differential treatment.

Currently, the negotiations on the declaration pertaining to a WTO response to the pandemic are paused (what delegates call a 'strategic pause'). This pause was reportedly called for by the United States. The Ambassador of Honduras, previously the Chair of the WTO General Council during 2021, has been appointed as the new facilitator of this process. Several issues of importance to developing countries and LDCs remain in need of substantial attention such as reinforcing the elements pertaining to food security, including those pertaining to net food-importing developing countries (NFIDCs), in pandemics and similar crises.

The centrality of the TRIPS waiver to the WTO response to the pandemic

Besides this, developing countries have repeatedly stressed that a General Council decision on the TRIPS waiver proposal is absolutely central to any WTO response to the pandemic. Many Member States have repeatedly stated that there cannot be a credible outcome on the pandemic response without a meaningful and workable outcome on the TRIPS waiver proposal. In this regard, the alignment in pace between the process pertaining to the TRIPS waiver and that pertaining to negotiating a declaration on the WTO response to the pandemic has been crucial for many countries. Currently, the multilateral process pertaining to the TRIPS waiver remains stalled. The only text on the table remains the waiver proposal by the 65 co-sponsors[5] and supported by more than 100 WTO Member States.

In March of this year, the media reported a leaked text from discussions facilitated by the WTO Secretariat (the WTO Director-General and Deputy Director-General).[6] This text has no official status in the multilateral process and thus cannot be considered part of the official WTO deliberations pertaining to the TRIPS waiver proposal unless it is officially submitted to the rest of the WTO membership. The leaked text has been widely criticised and it is generally agreed that it does not present a meaningful TRIPS waiver. It largely reflects the hardline positions of the European Union (EU) and the US. The EU position, as articulated in a declaration in June 2021, is to have a decision that mainly restates existing flexibilities around non-voluntary authorisations (i.e., Article 31 of the TRIPS Agreement) while providing the perception that something significant has been achieved. This position of the EU is the basis of the leaked text. The US, which has supported an IP waiver for vaccines, seems to have gone along with the EU position, while limiting the decision to vaccines and with eligibility criteria that will exclude China.

The leaked text contains a mix of clarifications and a very limited waiver of Article 31(f) of the TRIPS Agreement, which is only applicable in limited circumstances when most of the vaccine production is for export purposes. Yet the proposed text imposes several 'TRIPS-plus' conditions that will effectively make it impracticable and unworkable to use the decision. This approach contradicts the spirit and intent of the original TRIPS waiver proposal. The latter aims at temporarily eliminating IP barriers (patents, protection of undisclosed information, copyright and industrial designs) and creating freedom to operate so that there is greater policy and operational space as well as legal certainty for the entry of follow-on/generic manufacturers, with a view to expanding and diversifying local production and supply options for COVID-19 vaccines, therapeutics and diagnostics to enable more equitable access.

Further, there are reports that indicate that certain developed countries such as the EU and Canada in addition to others such as Brazil seek, in return for agreeing to this leaked COVID-19 IP text, to extract concessions from developing countries in such areas as fisheries subsidies, agriculture, WTO reforms, and the broader response to the pandemic.[7] Since this document fails to provide any additional gains and confers long-term costs, further concessions in other areas could amount to a double loss for developing countries and LDCs.

Fisheries subsidies negotiations

The most immediate deliverable for MC12 is disciplines on fisheries subsidies, mandated by Sustainable Development Goal 14.6 and driven by the objective of marine resource conservation. Negotiations have been ongoing since 2016 under three pillars: illegal, unreported, unregulated (IUU) fishing; overfished stocks (OS); and overcapacity and overfishing (OCOF).

Developing countries have been battling it out for stronger special and differential treatment especially for their small-scale fishers. However, S&DT even for low-income, resource-poor fishers continues to face proposed geographical (limited to territorial waters and not extended to the Exclusive Economic Zone or EEZ) and time (2-5 years) restrictions under the first two pillars. Small-fisher groups have been arguing that they do very much go into the EEZ to fish. The overarching objective of SDG 14.6 is to protect their livelihoods by conserving fish stocks, but the manner in which it is being applied in the WTO will achieve the exact opposite.

In an apparent move to divide and rule, countries contributing less than 0.7% of global marine capture have been given a reprieve under the OCOF pillar in the 8 November 2021 draft text (WTO document TN/RL/W/276/Rev.1) issued by the Chair of the negotiations, and this has continued in the latest 24 November 2021 version (WT/MIN(21)/W/5). But many developing countries with very large fishing populations continue to fight over an exemption period. In addition, notification requirements for all S&DT use would be mandatory and stringent while technical assistance remains voluntary. The negotiations have failed to take into account the size of fishing populations or the historical responsibility of industrial fishing nations.

Interestingly, in what is being seen as reverse S&DT for developed countries and advanced fishing countries, Article 5.1.1 of the Chair's text provides an overriding exemption for developed economies such as the EU which can comply with the provision more easily, given their advanced monitoring mechanisms often developed at tremendously high government expenditure.[8] Distant water fishing, undertaken mainly by advanced fishing nations, also gets further reprieve.

The concern going forward is that this compromised text should not be further compromised in return for any illusory gains in the current leaked text on the COVID-19 IP solution. For developing countries, it will not be worth sacrificing the interests of their small fishers for getting 'nothing' on the TRIPS waiver.

Agriculture

A similar concern is also pertinent for agriculture. The agricultural negotiations leading up to MC12 in 2021 were already heavily biased against developing countries.

Issues of great interest to them have been consistently pushed to the back by the developed countries, with the active cooperation of the Chair of the agricultural negotiations, Ambassador Gloria Peralta from Costa Rica.

First, a permanent solution on public stockholding (PSH) – which asks for a waiver on subsidies provided to poor farmers in developing countries via price support on procurement of stocks for public food programmes – has been languishing since 2013. In spite of a mandated and missed deadline for an outcome by 2017 and two concrete proposals submitted by the African Group (JOB/AG/205) and the Group of 33 (JOB/AG/214), the Chair proposed yet another postponement of a decision on PSH, this time to the 13th Ministerial Conference, in her report to the WTO's Trade Negotiations Committee (TNC) on 23 November 2021. Recently, Brazil and some other countries said they will not agree to a permanent reprieve while Canada, the US, the EU and others have been raising questions about developing countries' compliance with current notification requirements, making a case against an outcome on a permanent solution on PSH.

Second, the proposed Special Safeguard Mechanism (SSM), which would allow additional duties to counter a sudden increase in agricultural imports, was also relegated to a post-MC12 work programme, without even a deadline in sight.

On the other hand, there has been a systemic push to promote issues often inimical to the interests of developing countries. Domestic support, especially given by developed countries through extra entitlements and the Green Box, has always been a concern of developing countries. But formulae suggested in proposals on domestic support disciplines tabled by the Cairns Group (a group of farm-product-exporting countries) since 2020, imply deeper cuts for developing countries on the Amber Box. Even S&DT measures such as the Development Box and *de minimis* subsidies are being challenged. At the same time, other issues such as market access, limits on export restrictions, and additional transparency measures which are of commercial benefit to farm-product-exporting developed countries are also being consistently pushed.

There is a proposal on the table not to restrict exports meant for the World Food Programme (WFP), which is seen as the low-hanging fruit in MC12. While it looks good in principle, there are significant concerns that this is a precursor to eventual disciplines on export restrictions on all agricultural (and non-agricultural) products, even if the restrictions are imposed for reasons of domestic food security and manufacture of critical industrial products.

The emerging food crisis

The Russia-Ukraine war has recently triggered a situation of escalating food prices, primarily of wheat, edible oils, maize and barley, which is further compounded by spiralling energy and fertiliser prices, thus impacting other food products as well. This is resulting in a food crisis in many parts of the world. Supply chain blockages in Ukraine, sanctions on Russia and natural disasters affecting supplies for export markets by other countries are all compounding the problem. Especially vulnerable are several LDCs and NFIDCs as well as several other developing countries, given the already precarious food situation during the pandemic.

The Director-General of the WTO has announced[9] her intention to address food security and supply chain issues but said '*Concentrating sourcing and production at home, while understandable, could also create new vulnerabilities and may not be the best risk management strategy*', while calling on countries to export more food and fertiliser and to release food stocks into the international market. A 'high-level' conference on food security is planned to be held by the Chair of the WTO's agriculture negotiations Ambassador Peralta on 26 April.

The DG's prescription goes beyond inadequate to shocking. It continues the denial of the fact that in spite of trade liberalisation through the WTO for the last 27 years, the global food market remains extremely concentrated, in terms of countries supplying major products as well as the number of companies that operate and control the export market. The inequitable rules of the WTO Agreement on Agriculture (AoA) have ensured that subsidised agricultural products from developed countries penetrated markets in developing countries and LDCs, threatened small-scale production in these countries, and made many countries net food importers. Rather than depending on a concentrated, volatile and precarious global market, it is imperative that countries develop some form of self-sufficiency in critical food products especially in order to deal with future crises. But the WTO has again tied their hands by limiting the policy space to support farmers, boost production and strengthen public stockholding programmes for supporting both production and consumption.

Several short-term solutions can be explored, such as trying to keep supply chains open and diversified as well as keeping payment channels open for exports meant for vulnerable countries, and providing them with finance and other support. Yet, a long-term solution cannot come without WTO rules being changed in favour of allowing and strengthening policy tools in developing countries and LDCs to expand and diversify production.

Not surprisingly, the WFP proposal is being conveniently given a renewed push by the developed countries using the context of the food crisis. While this can be useful in the current context especially for exports to NFIDCs and LDCs, any long-term commitment on export restrictions which are currently allowed under Article 12 of the AoA needs to be treated with caution.

Given the challenges already

Massive domestic farm subsidies in developed countries have long been a concern for developing countries.

faced by developing countries (especially NFIDCs and LDCs), further concessions in terms of giving up the permanent solution on PSH or SSM, in return for an unworkable outcome on the COVID-19 IP issue that does not deliver any meaningful waiver, should be unthinkable. Further, if any pandemic response package is to go through, it must seriously address food security and vulnerability issues in developing countries and offer long-term solutions that can pre-empt a situation of recurring food crises. Developing countries must also kickstart a longer-term standalone process to explore food security solutions.

WTO reforms and what they potentially hide

There are major differences between what developing countries mean by 'WTO reform' and the ideas being pushed by some developed countries under the guise of reform, which have become a divisive subject among the WTO membership. In the run-up towards December 2021 when MC12 was initially scheduled to take place before its postponement, the WTO Director-General had facilitated a push to have WTO reform at the forefront of issues to be addressed in the ministerial conference. Similarly, the WTO DG is putting WTO reform on the priority agenda for the ministerial now scheduled for June 2022.[10]

Developing countries have long called for reform of the multilateral trading system in favour of developing countries and large vulnerable constituencies such as small farmers, producers, workers, patient groups and indigenous peoples. In December 2020, a collective submission by the group of African States at the WTO, India and Cuba[11] stressed that central to this reform agenda was the call to review and rebalance existing WTO rules, in order to address the implementation challenges that developing countries and LDCs have been facing and to strengthen and improve operational special and differential treatment.

In contrast, the narrative and proposals pertaining to WTO reform as promoted by developed countries, led by the US and the EU, continue to push for rules on new issues (such as rules on industrial subsidies) not multilaterally mandated and new approaches to S&DT that will eventually limit the availability of these flexibilities to developing countries and LDCs. They have also been interested in altering decision-making procedures at the WTO, including normalising plurilateral approaches to setting the WTO negotiation agenda and adopting new rules that could undermine the multilateral nature of the organisation and its ability to deliver anything useful for developing countries and LDCs. Furthermore, they are interested in extending the WTO monitoring mechanisms in ways that would put further pressure on developing countries in implementing their trade policies and open up more space for big business in the WTO under the umbrella of 'multi-stakeholderism'.

In the context of negotiating the outcome document of MC12 (i.e., the ministerial declaration), a number of mainly developed countries have been pushing for the establishment of a new working group on what they call 'improvements of the functioning of the WTO'. The EU and Brazil informally floated a proposal seeking the establishment of such a working group to consider 'institutional improvements to the functioning of the WTO' and address the WTO monitoring and deliberating function, negotiating function, and dispute settlement function.

Setting up such a body while there remains a major disagreement on what 'WTO reform' means and on the direction sought from such work will allow the US, the EU and other developed countries to utilise this platform to push for operationalising the ideas they have in mind for 'WTO reform'. Such approaches could significantly undermine and limit the ability of developing countries and LDCs to influence agenda setting and pursue issues of their interest in the negotiations. They could also legitimise a bigger role for the private sector in influencing agenda setting and negotiations in the WTO, thereby creating a more imbalanced institution that is responsive mainly to the commercial interests of big business.

It has been reported that developing countries have insisted that any discussions on WTO reform be under the umbrella of the General Council and open to all WTO Members. They also insisted that any necessary reforms to improve the WTO functions should be consistent with the principles and objectives of the multilateral trading system as set out in the Marrakesh Agreement Establishing the World Trade Organization and its multilateral trade agreements. They also underlined that the process as well as the outcomes of the review should be transparent, inclusive and give due regard to the development and policy space needs of developing and least-developed countries, and that the review and its outcomes shall not alter, or in any manner affect, Members' rights and obligations under the WTO agreements and agreed mandates.[12]

Furthermore, it has been reported[13] that under the draft outcome document, the differences between the developed countries and developing countries in regard to the WTO's negotiating function were laid bare, particularly on the issue of plurilateral negotiations. The developed countries proposed language that would undermine the multilateral nature of the organisation and the consensus requirement: '[…Many Members reaffirm commitment to exclusive multilateral negotiations. Many other Members believe that new approaches are necessary to achieve meaningful outcomes in WTO negotiations].'[14] A proposal coming from developing countries underlined strengthening the capacity of the WTO '[to perform its function as the forum for negotiations among all its Members concerning their multilateral trade relations as collectively decided by the Ministerial Conference, in accordance with Articles II.1 and III.2 of the Marrakesh Agreement Establishing the World Trade Organization and other relevant articles of the WTO Agreement, and with a view to strengthening its ability to develop an integrated, more viable multilateral trading system]'.[15]

Joint statement initiatives continue and increase in number

Plurilateral 'joint statement initiatives' on e-commerce, investment facilitation, services domestic regulation, disciplines for micro, small and medium enterprises (MSMEs), and trade and gender, announced at the WTO's 11th Ministerial Conference in Buenos Aires in 2017, continue to be deliberated among different subsets of the WTO membership. Multiple other environment-related initiatives have been added to the list, including trade and environmental sustainability structured discussions (TESSD).[16] These initiatives do not constitute part of the WTO work, as they are not officially covered by multilateral mandates of negotiation agreed at the WTO. However, most of the meetings pertaining to these plurilateral initiatives are hosted at the WTO.

These initiatives have raised multiple systemic concerns, particularly in regard to their potential undermining of WTO rules pertaining to deciding the negotiation mandates at the WTO as well as the rules pertaining to adopting the results of negotiations to make them part of WTO law. In February 2021, a submission by India, South Africa and Namibia challenged the legality of joint statement initiatives and the attempts to introduce their outcomes into the WTO.[17] In their submission, they rejected the proposition that, if the negotiated outcomes are offered on a most-favoured-nation (MFN) basis, no multilateral consensus is required for bringing the resulting framework under the umbrella of the WTO. They stressed that such a proposition would be contrary to fundamental principles and objectives of the multilateral system, enshrined in the Marrakesh Agreement Articles II.1 and III.2.[18] They also stressed that any attempt to introduce such new rules into the WTO without the consensus of the whole WTO membership will be detrimental to the functioning of the rules-based multilateral trading system, erode its integrity by subverting established rules and foundational principles, bypass the collective oversight of Members, and result in the disregard of existing multilateral mandates arrived at through consensus in favour of matters without multilateral mandates.[19]

A reference paper on services domestic regulation resulted from the Joint Initiative on Services Domestic Regulation (SDR), and was released publicly in October 2021.[20] This text will impose new 'disciplines' on how governments which adopt it can develop and administer their licensing standards and procedures, qualification requirements and procedures, and technical standards as well as other measures related to authorisations in relation to the services sector.[21] Professor Jane Kelsey has discussed the systemic implications of the development of this text by a self-selected group of WTO Members, in light of the lack of legal legitimacy of the process by which the text was produced and the means proposed for its adoption.[22] Kelsey notes the SDR text cannot claim a mandate from anywhere else. It overrides an existing multilateral mandate under Article VI.4 of the WTO General Agreement on Trade in Services (GATS). In paragraph 1 of Section I, it states that the negotiations and resulting text are pursuant to GATS Article VI.4. Kelsey contests that. This text has not been developed by the WTO Council for Trade in Services or the body established by the Council for that purpose, being the Working Party on Domestic Regulation. Kelsey points out that the process was designed to circumvent that multilateral mandate and the body authorised to oversee it.

Conclusion: How to avoid a lose-lose outcome for developing countries

Multiple issue areas with systemic implications for the multilateral trading system and for developing countries and LDCs collectively are currently under consideration at the WTO.

Multilateralism is being threatened daily by war politics as well as the chipping away at the fundamentals underpinning the multilateral trading rules that are supposed to revolve around compromise, consensus, and recognition of the special and differential treatment that is a right for developing countries and LDCs. Solidarity among developing countries is of utmost importance in these challenging times when multilateralism is facing such serious shocks and setbacks.

The TRIPS waiver has been one of the most important issues for developing countries and LDCs during the last two years because of its centrality to access and equity in the response to the COVID-19 pandemic. The core metric of assessing any outcome in this regard should remain the extent to which it enables equitable access to vaccines, therapeutics and diagnostics through ensuring freedom of operation for manufacturers from developing countries and legal certainty in this regard. This issue should remain a standalone issue in the context of the WTO response to the pandemic and should not be linked to concessions in other negotiation areas.

At the same time, other key issues such as fisheries subsidies and agriculture that are embedded in the development objectives of developing countries and LDCs must not undermine but strengthen both production and small-scale producers for long-term resilience building as well as for ensuring food and livelihood security. Besides this, a collective stand by developing countries and LDCs is crucial to ensure that plurilateral initiatives do not end up undermining the viability of the multilateral rules-based trading system, and that WTO reforms help enhance the capacity of the WTO to perform its function as the multilateral forum for negotiations among all its Members and help facilitate the effective participation of developing countries and LDCs rather than the opposite. ◆

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Endnotes

1 See https://insidetrade.com/daily-news/wto-members-coalesce-mc12-dates-amid-push-address-war-ukraine and D Ravi Kanth, 'WTO: DG calls for "convergence-building" on controversial issues for MC12', *SUNS* #9546, 31 March 2022.

2 See Doha Development Work Programme, paragraph 44.

3 The Group of 90, which is comprised of the Organisation of African, Caribbean and Pacific States, the African Group and the group of LDCs, has put forward 10 proposals in this regard which relate to transfer of technology, trade-related investment measures, technical barriers to trade, sanitary and phytosanitary measures, customs valuation, subsidies and countervailing measures, and the accession of LDCs to the WTO.

4 Includes Egypt, South Africa, Sri Lanka, Tunisia, Bolivia, Uganda, Venezuela, and Pakistan. See their initial submission entitled 'WTO response in light of the pandemic: trade rules that support resilience building, response and recovery to face domestic and global crises' (WTO document JOB/GC/278/Rev.3).

5 'Waiver from Certain Provisions of the TRIPS Agreement for the Prevention, Containment and Treatment of COVID 19', WTO document IP/C/W/669/Rev.1.

6 https://healthjusticeinitiative.org.za/2022/03/24/trips-waiver-negotiations-leaked-text/ Available at: https://www.twn.my/title2/wto.info/2022/ti220317.htm

7 D Ravi Kanth, 'Linking draft IP "compromise" with MC12 deliverables?', *SUNS* #9538, 21 March 2022. Available at: https://www.twn.my/title2/wto.info/2022/ti220317.htm

8 Subsidy estimates by U Rashid Sumaila et al. (https://doi.org/10.1016/j.marpol.2019.103695) show that total subsidies provided by countries with high Human Development Index (HDI) rankings (including China) amounted to 87%, with the low-HDI countries contributing the rest. Out of 82 maritime countries covered in the study, around 58 developing countries, excluding China, provide 44% of global subsidies while 23 developed countries contribute 35%, and China accounts for the residual 21%.

9 https://www.wto.org/english/news_e/news22_e/dgno_28mar22_e.htm

10 D Ravi Kanth, 'WTO: DG calls for "convergence-building" on controversial issues for MC12', *SUNS* #9546, 31 March 2022.

11 See WTO document WT/GC/W/778/Rev.3.

12 See supra note 10.

13 Unofficial WTO room document (RD/GC/17/Rev.2) reported on in D Ravi Kanth, 'WTO: DG calls for "convergence-building" on controversial issues for MC12', *SUNS* #9546, 31 March 2022.

14 Ibid.

15 Ibid.

16 Vicente Yu, 'Environment- and Climate-Related JSIs: Caveat Emptor', Third World Network, available at: https://www.twn.my/title2/briefing_papers/MC12/briefings/Short%20note%20-%20environment%20JSIs%20generally.pdf

17 See WTO document WT/GC/W/819.

18 Article II.1 provides that 'The WTO shall provide the common institutional framework for the conduct of trade relations among its Members ...', and Article III.2 provides that 'The WTO shall provide the forum for negotiations among its Members concerning their multilateral trade relations'.

19 Submission by India, South Africa and Namibia (WT/GC/W/819/Rev.1), 'The Legal Status of Joint Statement Initiatives and their Negotiated Outcomes', March 2021.

20 See INF/SDR/1 dated 27 September 2021.

21 Kinda Mohamadieh (2021), 'Reference Paper on Services Domestic Regulations: Overview of main content and regulatory implications', available at: https://www.twn.my/title2/briefing_papers/MC12/briefings/Reference%20paper%20on%20SDR%20TWNMC12BP%20Nov%202021%20Mohamadieh.pdf

22 Jane Kelsey (2021), 'Briefing note on Services Domestic Regulation JSI text of 27 September 2021 (INF/SDR/1)', available at: https://www.twn.my/title2/briefing_papers/twn/Domestic%20regulation%20TWNBP%20Oct%202021%20Kelsey.pdf

Doha Programme of Action for LDCs adopted

A UN conference has adopted an action plan described as the 'best opportunity for charting a recovery path for the world's most vulnerable countries'.

Prerna Bomzan

UN Photo/Loey Felipe

The Fifth UN Conference on the Least Developed Countries adopted the Doha Programme of Action on 17 March.

THE Doha Programme of Action for the Least Developed Countries for the Decade 2022-2031 (DPoA) was adopted by the first part of the Fifth United Nations Conference on the Least Developed Countries (LDC5) on 17 March at the UN headquarters in New York.

The adoption of the DPoA was overdue as LDC5, scheduled to take place in January 2022 in Doha, Qatar, was postponed due to the ongoing COVID-19 pandemic. In fact, this was the second postponement, with the conference having originally been scheduled for January 2021 following completion of the preceding Istanbul Programme of Action for LDCs (2011-2020).

On 23 February 2022, the UN General Assembly (UNGA) adopted a resolution to reschedule the conference and, 'on an exceptional basis, to hold it in two parts'. The first part, on 17 March, was to adopt the DPoA without further delay. The second part, now scheduled for 5-9 March 2023 in Doha, would adopt the political Doha Declaration as well as take stock of the DPoA implementation in its first year.

The adoption of the DPoA was by consensus, presided by the Deputy Prime Minister and Minister of Foreign Affairs of Qatar, Sheikh Mohammed bin Abdulrahman Al-Thani. However, post adoption, some member states, namely, Russia, Cuba, China, as well as the Holy See (observer status), took the floor and expressed 'reservations' as well as 'disassociation' with certain aspects and paragraphs of the DPoA. The United States also made clear its policy positions on several issues in the DPoA.

Truths and lifelines

In his opening remarks at the conference, UN Secretary-General Antonio Guterres recalled the 'two fundamental truths' which were recognised by the UN when it created the LDC category five decades ago. 'First, different histories, vulnerabilities and structural inequalities – often not of these countries' making – were posing enormous obstacles to climbing the development ladder'; and 'second, every country deserves a level playing field to unlock its human potential and build strong, resilient economies'.

Guterres drew attention to the 'five lifelines' rooted in the DPoA: the lifeline of vaccines; a global financial system that puts the LDCs first; supporting structural transformation across LDCs; climate action; and the lifeline of peace and security.

Elaborating on the challenges and required actions in relation to the five lifelines, he called out policies and decisions that 'prioritise the health and wealth of people in advanced countries over the lives of people in poor countries', as well as a 'morally bankrupt financial system' that was 'designed by the rich and powerful to benefit the rich and powerful'.

Among other crucial imperatives to tackle each of the lifelines, Guterres called for the sharing of licences and intellectual property to produce tests, vaccines and treatments towards fighting COVID-19; urgent debt relief (debt restructuring and cancellation in some cases); recapitalising multilateral development banks and rechannelling Special Drawing Rights (SDRs) towards increasing liquidity; and creating a fair tax system and combating illicit financial flows. He also proposed a 'New Agenda for Peace' that includes a 'New Social Contract within all societies'.

'Across these five lifelines – and the entire Doha Programme of Action – least developed countries can count on the total commitment of the entire UN system,' he underscored in conclusion.

The other high-level opening statement was presented by President Lazarus Chakwera of Malawi in his capacity as the Chair of the LDC Group.

At the outset, he highlighted the 'suffocating onslaught' of climate change events occurring in quicker succession than ever before, citing the case of his country which was ravaged by Cyclones Idai and Kenneth in 2019, and recently by Cyclones Ana and Gombe. This additional climate catastrophe has to be borne when LDCs are 'already choking' from unsustainable poverty (35% increase in the last two years) and debt burdens (racing towards $1 trillion) coupled with socioeconomic devastation by the COVID-19 pandemic, including inequalities in vaccine distribution and access to global markets and supply chains, he pointed out.

Chakwera stated that the current global context demands a 'collaborative, collective and courageous response' and urged for the adoption of the DPoA, which he said provides the 'best opportunity for charting a recovery path for the world's most vulnerable countries' in the form of ending hunger, setting a benchmark for official development assistance (ODA) and in deliverables such as establishment of an online university, an international investment support centre, and a system of food stockholding for LDCs.

He stressed that 'for the DPoA to succeed, it needs implementation', calling on development partners to go 'beyond fulfilling their commitments'. He also called for strong monitoring mechanisms at the global and regional levels, including coherent and consistent support from the entire UN system as well as strengthening of the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS).

At LDC5, the Malawian president highlighted the 'suffocating onslaught' of severe climate events in LDCs, such as Cyclone Ana which hit Malawi earlier this year.

'Unconscionable'

Following the adoption of the DPoA, member states took the floor by order of political and regional groups and then in their respective national capacities.

Pakistan, speaking for the developing-country Group of 77 (G77) and China, said that it is 'unconscionable' that 14% of the global population remain some of the poorest and most vulnerable, and that 'we must start with the furthest behind' to realise the collective commitment of leaving no one behind.

It said the adoption of the DPoA is an important step in that direction but 'meeting its ambitious targets will require reinvigorated global partnerships based on scaled-up means of implementation (finance, technology transfer, capacity building)'. It laid out five concrete steps in this regard: (1) addressing vaccine inequity through 'adequate and timely access to quality, safe and effective vaccines'; (2) provision of the historical ODA commitment of 0.15-0.20% of the OECD (Organisation for Economic Co-operation and Development)'s gross national income; (3) addressing the increasingly unsustainable debt burdens (six LDCs are classified as being in debt distress while 17 are at high risk of debt distress) with 'immediate actions' such as debt relief, debt restructuring, debt swap and redistribution and rechannelling of the SDRs; (4) universal access to social protection; and (5) addressing 'longstanding structural problems including enhancing international cooperation on IFFs [illicit financial flows], strengthening good practices on the recovery and return of stolen assets and enhancing intergovernmental international tax cooperation'.

On the agreed concrete DPoA deliverables, it urged for 'timely elaboration of the terms of reference' in order to progress towards their 'meaningful implementation'.

Pakistan concluded by saying that the G77 will support the implementation of the DPoA within the framework of South-South cooperation, while noting that this is not a substitute but a complement to North-South cooperation.

Botswana, speaking for the landlocked developing countries (LLDCs), welcomed the UNGA's decision to hold LDC5 in two parts, recognising that it is in the 'best interest' of the LDCs, LLDCs (17 of which are also LDCs) and the international community to adopt the DPoA without further delay.

It highlighted the gravity of the LDCs' recovery from the COVID-19 pandemic given their diminished fiscal space compounded by the debt crisis and limited productive capacities including vaccine inequity.

It was pleased to note that both the DPoA and the LLDCs' Vienna

Programme of Action (2014-2024) have much in common and are grounded in the 'same spirit of solidarity and conviction that achieving development progress is the right for all, in particular for the most vulnerable countries'.

With the Third UN Conference on the LLDCs coming up in 2024, Botswana looked forward to building on the experiences of the LDC5 preparations.

Lesotho, speaking on behalf of the African Group, said that matters of the LDCs are of great importance to them, with 33 out of the 46 LDCs located in the African continent.

It stressed that it is 'absolutely crucial' that the DPoA, along with Agenda 2030 for Sustainable Development at the same time, has a 'successful outcome not just on paper but on the ground', further pointing out that 'implementation cannot be just an idea' but rather seeing 'tangible results' in the 10-year time period.

It underscored the need to ensure that the LDCs achieve 'sustainable graduation' from the LDC category, and reiterated that through the DPoA, 'we need to ensure smooth and sustainable transition strategy consistent with all UNGA resolutions on smooth transition coupled with improved coordination of the UN system and support of the LDCs' development and trading partners'.

Barbados, speaking for the Caribbean Community (CARICOM), reiterated 'its solidarity with the LDCs with whom we share many characteristics such as vulnerability to climate change, weakness of our means of production and dependence of our economies on exogenous factors'.

It urged international partners to 'redouble their efforts' to enable LDCs to address their structural constraints and challenges hindering their development efforts, and also called for 'equitable and timely availability' of COVID-19 vaccines, 'increased financial support' to address indebtedness and 'reverse the decline in ODA'.

Antigua and Barbuda, on behalf of the Alliance of Small Island States (AOSIS), also said that 'we share similar challenges with that of our colleagues' [eight small island developing states (SIDS) are also LDCs], hence its steadfast support and advocacy for the LDCs.

It highlighted that climate change and the current global economic crisis resulting from the COVID-19 pandemic are 'disproportionately' affecting the LDCs and SIDS, reinforcing the need for ODA support and development finance.

While pursuing the goal of having 'no LDCs by 2030' (the DPoA strives towards a target of 15 additional LDCs to meet the graduation criteria by 2031), AOSIS pointed out the impact of 'premature graduation' with graduated countries still dependent on the UN system and development partners. In this regard, it stressed on prioritising 'measures beyond GDP that take into account the unique vulnerability of graduated LDCs and SIDS'. It further committed to continuing to lead the process for the development of a 'multi-vulnerability index' to address the gaps of GDP measurement.

Starting the 'real work'

Bangladesh, speaking on behalf of the LDC5 Preparatory Committee Co-Chairs (the other Co-Chair being Canada), was pleased with the adoption of the DPoA by consensus after a 'long and strenuous yet meaningful and rewarding' preparatory process.

It said that the 'real work will start with the implementation' of the DPoA, which contains 'excellent architecture of comprehensive follow-up and monitoring mechanisms', further urging development partners, countries of the South, the entire UN system, the private sector and civil society to remain 'constructively engaged and deliver on their respective commitments'.

It called upon the UN agencies to prioritise integrating the DPoA into their strategic plans and programmes, and underlined the 'pivotal role' of the OHRLLS, requesting all to support the office towards strengthening its capacity to fulfil its mandate.

Laos, which will be graduating from the LDC category in 2026 (along with Bangladesh and Nepal), stated that 'despite having met graduation thresholds, it does not imply challenges will end'. It said that ODA remains a crucial source of external financing for LDCs and that 'continued necessary support must be ensured so that graduating countries will not slip back to LDC' status.

Nepal, as a member of the core negotiating team of the DPoA, emphasised that for the effective implementation of the DPoA, the first step must be to ensure 'synergy' between climate action, recovery from COVID-19, and the twin implementation of the DPoA and Agenda 2030.

It underscored that due attention has to be given to countries in the graduation pipeline and those recently graduated to ensure their smooth transition. (Currently, 16 LDCs are in different stages of graduation, with only four LDCs completely graduated since 2011.)

It also stressed on the fulfilment of commitments by development partners on ODA, market access, debt relief, technology transfer, technical assistance, capacity building and Aid for Trade.

Indonesia said 'no country is safe until everyone is safe'; thus, renewed and strengthened global partnership is key, including realisation of ODA and other commitments according to the Addis Ababa Action Agenda on Financing for Development.

It underlined that in its presidency of the G20 major economies grouping for 2022, 'vaccine equity is the top priority', and that it is 'committed to make it a reality'.

India said that while considering robust measures to address debt and liquidity problems, 'we shouldn't duplicate measures and platforms already in place such as of the G20, IMF [International Monetary Fund] and World Bank'.

It stressed the need to 'ensure that

developed countries deliver on their commitments to combat climate change' and deliver on 'finance and adaptation for developing countries'.

Turkey, as the host of the previous LDC Conference (LDC4) as well as a member of the Preparatory Committee and Co-Chair of the Friends of the LDCs, welcomed the DPoA and underlined the need to 'deliver commitments on the ground in a timely manner'. As the host to the UN Technology Bank for the LDCs, it said that it has renewed its financial commitment to the Bank for the next five years.

Brazil said that its partnership with the LDCs has been based on 'solidarity, horizontality and non-conditionality through South-South cooperation'. It said that it could provide insights in some areas of the DPoA such as promotion of investments, where it advocates for a 'new model of bilateral agreements more focused on cooperation and less on judicial dispute settlement', encouraging this new approach for the international investment support centre for the LDCs.

Reservations

Russia said the 'DPoA does not reflect a consensus actually', due to decisions in there that have 'neglected' UN decisions.

In particular, it pointed to the issue of human security, a 'concept not accepted by all countries'.

It also had concerns about the use of 'cybersecurity' in the DPoA as an 'obsolete term', saying that the document should use the terminology 'agreed in the context of relevant UNGA resolutions in the use of ICT [information and communications technology]'.

Further, Russia had concerns around the issue of access to energy in the DPoA given the elevation of 'cleaner and renewable energy' compared with traditional fossil fuel energy.

In view of the entire context of concerns, in closing, it said that it 'disassociates' itself from paragraphs 3, 108, 115, 116, 129, 155 and 251 of the DPoA, further asking to include its position on the record.

Cuba registered its concern on the issue of 'human security', stating that the DPoA contains 'formulations that do not enjoy consensus'. It reiterated that 'UNGA resolution 68/290 does not define the concept of human security' and hence, the term 'does not enjoy consensus, neither in its conceptualisation nor in its implementation'. It said that it was only 'by virtue of our solidarity' with the LDCs that it joined the decision to adopt the DPoA; however, 'this does not imply that we accept the notion that there is consensus on this term'.

Cuba also underscored that 'developed countries must honour their historical responsibility and international commitments, including ODA, as well as more ambitious climate change mitigation and adaptation targets'. Further, it emphasised on taking 'real steps to achieve a fairer and more equitable international economic order without which the challenges facing LDCs cannot be met'.

China expressed concerns in relation to issues around 'debt relief' and 'debt suspension' in the DPoA, stating that such terms are 'too vague and widely open to interpretation' and do not accurately reflect the commitments made by the international community on debt. In this context, it decided to 'disagree' with some particular paragraphs on their formulations on debt relief and debt suspension.

As the key contributor to the G20's policy on debt suspension, it said the G20's Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments beyond the DSSI are the proper tools to handle the narrative on debt relief and debt management since they enjoy international consensus. (Since these are G20 initiatives, there is no formal international consensus.)

The Holy See expressed its reservations on the issues of sexual and reproductive health care and gender.

The United States, while extending consensus to the DPoA, made clear its policy positions on several issues, underscoring that the DPoA is 'non-binding and does not create new, or affect, existing rights or obligations under international law nor does it create any new financial commitments'.

It stressed that the 'indicators, governance proposals and language developed through the 2030 Agenda and reflected in the DPoA set no new precedent for international financial institutions'.

'UN negotiations including the outcome document of the Addis Ababa Action Agenda and the DPoA are immaterial to our position on trade and have no relevance for US trade policy, for our trade obligations or commitments or for the agenda at the WTO,' it emphasised.

It further clarified that it is 'not committed to the UN ODA targets of 0.7 per cent GDP nor to 0.15-0.20 per cent GNI to LDCs', and pointed out that the 'proper fora to discuss eligibility and allocation of concessional assistance are the boards of the multilateral development banks and the OECD'.

In closing, the US also raised concerns that the DPoA uses terminology that 'lacks agreed upon international definitions including the right to development and illicit financial flows', adding that regarding the latter, member states should focus more on 'preventing and combating corruption related crimes at home'.

Statements were also made by other LDCs and developing countries, namely, Senegal, Angola, Ethiopia, Cambodia, Bhutan, the Maldives, the Gambia, Uganda, Egypt, Morocco, Algeria and South Africa.

Australia, Japan, the United Kingdom, South Korea and Hungary took the floor from among the developed countries. ◆

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ECONOMICS

LDCs and their ‘development’: Litmus test of international cooperation

Barbara Adams and *Julie Kim* underline the pivotal role of international support measures by high-income countries and multilateral institutions in helping the LDCs progress along the development path.

ONE of the global processes falling prey to the Omicron variant of the COVID-19 virus was the Fifth UN Conference on the Least Developed Countries (LDCs), originally scheduled for the end of January in Doha, Qatar. It was replaced with a meeting in New York on 17 March 2022 for the adoption of the Doha Programme of Action (DPoA); a full meeting will be held in March 2023, where governments will gather with stakeholders ‘to build new plans and partnerships for the delivery of the DPoA over the following decade’.

The LDC conferences and programmes of action have a long history of marking the state of global solidarity with countries most in need of cooperation and of the underlying root causes for global inequalities. 2021 was the year to mark the 50th anniversary of establishing the LDC category. The DPoA is the fourth in a series of decade-long Programmes of Action which foster the ambition of graduating from the LDC category.[1]

Unlike the Low-Income Countries designation of the Bretton Woods institutions [viz., the International Monetary Fund (IMF) and the World Bank], the LDC category relies not only on gross national income (GNI) per capita, but also on the human assets index and the economic and environmental vulnerability index. Also, unlike the approach of the international financial institutions, the category includes commitments of the LDCs and, crucially, of their ‘development partners’, in the form of international support measures (ISMs).

The pivotal role of ISMs has been re-emphasised and put under the microscope in the face of the climate crisis, the COVID-19 pandemic and the looming debt crisis – all threats to LDCs that they neither wholly caused nor can address by domestic measures alone. While the DPoA underscores that LDCs have the primary responsibility for their development, it reiterates that development partners commit to providing ‘concrete and substantial support’ in solidarity.

> ***Solidarity is not charity; in an interconnected world, it is common sense. It is the principle of working together, recognizing that we are bound to each other, and that no community or country can solve its challenges alone. It is about our shared responsibilities to and for each other, taking account of our common humanity and each person’s dignity, our diversity and our varying levels of capacity and need.***
> *UN Secretary-General Antonio Guterres, ‘Our Common Agenda’ (2021)*

Before the pandemic, LDC progress on development was unstable at best and lagging at worst.[2] Graduating from the LDC category is meant to indicate sustained efforts and results towards development, economic and otherwise. While some LDCs have expressed concern about losing the bulk of the ISMs upon graduation, inching closer to graduation at all seems far-fetched with the pandemic setting back progress. The UN Committee for Development Policy (CDP) that oversees the graduation process found that on top of LDCs not being on track pre-pandemic, the crisis is ‘reversing years of progress towards achieving the SDGs [Sustainable Development Goals]’ globally, and that returning to the pre-COVID situation is neither feasible nor advisable.[3] Without the international community’s coordinated assistance on finance, LDCs could be left behind in pandemic recovery and, as documented by the UN Conference on Trade and Development (UNCTAD), face ‘a risk of a lost decade of development and of remaining on the margins of the global economy’.[4]

> ***Remember, whenever a country gets in debt too much, it’s as much the result of bad lending as it is bad borrowing.***
> *Joseph Stiglitz, LDC Future Forum 2021*

Distressed by debt and illicit financial flows

Crippling debt is an immediate and looming crisis for LDCs. Two new measures designed to help debtor countries during the current crisis were heralded: the IMF allocation of Special Drawing Rights (SDRs), and the Group of 20 major economies’ Debt Service Suspension Initiative

(DSSI). The SDRs were to provide extra liquidity to IMF member countries in need, but were allocated according to the countries' respective IMF quotas, which total only 3.2% for low-income countries compared with 17.4% for the United States. Efforts to 're-channel' these funds were called for and the G20 pledged such action in 2020, but it remains unimplemented.

As for the DSSI, it is only a suspension of debt repayment, nothing more than 'kicking the can down the road'. The DPoA notes with concern that '4 LDCs were classified as in debt distress, while the number of LDCs at high risk of debt distress increased to 16' as of February 2021. The CDP study on the impact of COVID-19 emphasises that the DSSI is only temporary and 'clearly insufficient', especially as it excludes multilateral lenders that make up more than a third of total debt, and this failure contributes to LDCs spending more on debt service than on the health sector. In its 2022 *Global Economic Prospects* report, focusing on low-income countries, the World Bank says that many countries face a crisis of solvency, and that a reduction of debt stock is required.[5]

The so-called Mbeki Report of 2015 records over $1 trillion over the last 50 years in losses due to illicit financial flows (IFFs) from Africa, home to 33 LDCs.[6] It is estimated that governments worldwide lose $600 billion in taxes annually.[7] In Zambia, copper mining makes up 80% of export earnings, but only 30% of the tax revenue and 12% of the gross domestic product (GDP),[8] enabled by lucrative tax incentives to multinational mining companies. Combined with other tax avoidance techniques, such as overestimating production costs, such measures allowed the companies to report no profits made. The widely recognised lacuna of international tax cooperation and prolonged debate over the definition of IFFs mean tax avoidance and evasion continue unabated, undermining not only development for LDCs but also their mobilisation of domestic resources to invest in important public programmes like healthcare during the pandemic.

International support measures

ISMs are fundamental to LDC development, encompassing financial resources, capacity building and technical assistance. In concert with development and trade partners, LDCs are given special and differential treatment to support their development path. However, upon graduation, LDCs are confronted with the loss of ISMs and have to compete globally for trade, finance and investment, on top of pressures of the pandemic and seeking to achieve the SDGs.

Attempts to expand ISMs have been fragmented and designed without guaranteeing compliance from development partners. For example, donors have consistently failed to meet the target of allocating 0.15% to 0.20% of their GNI as official development assistance for LDCs.[9] The DPoA emphasises the importance of extending ISMs to graduated LDCs with the extension or gradual phasing out of trade preferences to 'avoid their abrupt reduction'. Such measures would ensure sustainable and irreversible graduation and contribute to holding LDCs and development partners mutually accountable.

> ***You have to realize that some of the gap between the rich countries and upper-middle-income countries is actually smaller than the gap between upper-middle-income countries and the LDCs. And they are given three, five years to jump from LDC to upper-middle-income in terms of what they are allowed to do.***
> *Ha-joon Chang, LDC Future Forum 2021*

This short article addresses only a few of the issues that LDCs confront, but these are indicative of the intertwined reality of domestic and external policy and support measures. It is imperative for development and trade partners, be they higher-income countries or international financial institutions, to acknowledge LDCs' increased vulnerabilities to exogenous shocks. This requires the reevaluation and redesign of ISMs with rigorous attention to the quality of and adherence to the ISMs during the pre- and post-graduation process. As a first step, should this not include benchmarks and indicators for the 'partners' as well as for the LDCs? ◆

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Endnotes

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It's a bird… it's a plane… it's ESG

More and more funds are pouring into financial instruments that purportedly meet environmental, social and governance (ESG) criteria. But just how sustainably sound is this wave of 'ethical' investments?

An offshore oil platform. A study of the world's 20 largest ESG funds found that 17 held investments in fossil-fuel companies.

Alexander Kozul-Wright

OVER the past decade, the amount of money flowing into 'sustainable' investment funds has swelled from a drip feed into a flood. More than ever, public and private entities have embraced environmental, social and governance (or ESG) criteria as financial risk benchmarks.

Last year, ESG assets under management were reported anywhere from $3-35 trillion. The wide margin of error is indicative of the confusion hanging over the industry. However, while the absolute size of the market remains in doubt, vast sums have flowed into ethically-labelled securities in recent years.

Sustainably-labelled debt grew at a clip in 2021, with issuance exceeding $1.6 trillion, up from $760 billion in 2020. A record $650 billion also poured into ESG-focused funds in 2021, up $100 billion from the year before. On average, two new ESG-linked funds were launched every day in 2021.

Two key factors are underpinning this development. The first is improving ESG audit systems, galvanised by market developments from accountants, data analytics companies and law firms. The second factor reflects how political battlegrounds, responding to public pressure, are adapting to ESG-related challenges. Tens of central banks around the world now consider environmental factors in assessing systemic banking risk.

At the very least, this is forcing company boards and portfolio managers to confront increasingly onerous ESG rules, changing the zeitgeist one cash flow statement at a time. At its best, it may also undermine corporate assets and investments linked to high carbon emissions and illegal activities.

Lay of the land

Although the US represents the largest market for ESG, there has also been growing interest from developing countries. In September 2020, the government of Egypt issued a $750 million 'green' bond that was five times oversubscribed, resulting in interest savings of $19 million. ESG instruments generally benefit from competitive prices due to high demand.

Increasing numbers of lenders – from sovereigns to SMEs – are raising ESG-linked capital, supplying debt and equity to investors, which is then repackaged and traded as fund holdings and structured products. These initiatives primarily focus on enhancing the socio-economic and green data generated by firms and projects.

ESG analysis is designed to adjust the traditional risk-return calculus to gauge non-financial indicators, like an entity's carbon footprint or how it manages its labour force. For it to work well, two conditions need to be met: first, reliable information about the use of ESG proceeds is required; and second, investors have to respond to this information.

Many ESG 'products' are now available; market players can purchase dividends in companies with robust ESG track records, or they can increase their exposure to mutual and exchange traded funds with clear ESG mandates. Investors, notably young retail investors, typically buy these instruments in good faith.

Market participants can also trade fixed income securities with an ESG label. Proceeds from 'green' bonds are exclusively earmarked for environmental activities. Meanwhile, the 'social' and 'governance' components of ESG are frequently sold as 'sustainability' bonds, whose proceeds are used to finance (or re-finance) projects with positive societal impacts.

Alongside the explosion of individual securities, the use of ESG indices has grown in recent years to track the performance of multiple sustainable instruments at the same time, mainly in advanced economies. However, the market has also been extended to developing countries. In June 2021, Bloomberg launched an Emerging Market Fixed Income ESG Index.

ESG framing and guidance services form an important, though patchy, part of the industry and include a cast of actors who help define an investment's sustainability. Framework developers include the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC) and the International Capital Market Association (ICMA).

Other bodies that develop rules and standards include market regulators, international organisations and credit rating agencies (though ESG factors are not directly used as rating criteria by Moody's, S&P and Fitch). For the time being, however, there is no harmonised rulebook that entities must comply with in order to market their products as ESG.

Cure or anaesthetic?

As with ethical consumption, the popular adoption of regulated sustainable finance would be a welcome development. However, a lack of commonly adopted industry standards means that ESG scorecards remain inconsistent and difficult to measure.

A key concern is that unclear definitions, together with rising pressure to meet demand, is resulting in misleadingly packaged products. Moreover, companies typically charge higher fees for ESG-related services, creating questionable incentives linked to sustainable financing.

Last year, *The Economist* conducted a study of the world's 20 largest ESG funds and found that 17 held investments in fossil-fuel companies. A similar 2021 report by climate think-tank InfluenceMap found that 71% of ESG equity funds it assessed had portfolios that were not aligned with the Paris climate accords.

For now, sporadic industry oversight means that greenwashing remains rife. ESG rating providers use their own (typically non-transparent) sources of information, most of which rely on self-reporting by the companies they rate. Some have accused the movement of virtue-signalling. Others have gone further, accusing ESG labels of duping ethical investors to raise profits without fundamentally changing business practices.

Last year, Tariq Fancy – Blackrock's chief sustainable investment officer from 2018 to 2019 – warned that ESG investors continue to be 'exceedingly focused on the short term, a time horizon for which few believe that good sportsmanship is linked with points'. The view that maximising profit is consistent with 'responsible' investing will remain open to criticism so long as the negative externalities created by polluting and unethical firms go untaxed.

Green gold standard

The European Union (EU) is aiming to ratify a 'Green Deal' this summer, which would seek to establish a blueprint for sustainable finance, including a common green-bond standard. Underpinning the deal is a compendious taxonomy covering roughly 70 forms of economic activity, informing investors about what is, and isn't, green.

Despite some initial setbacks (several countries have lobbied the European Commission to ensure their favoured energy sources will be labelled as sustainable – natural gas in the case of Poland and Romania), roughly 11,000 European companies may have to disclose how their sales and capital expenditure qualify as 'green' later this year.

Several market commentators have already predicted that the EU's Green Deal will become a global standard against which all climate financing will be measured. There's a strong possibility that international financiers will have to adopt the Green Deal anyway, as European firms may be forced to start reporting green data in line with EU standards.

That said, even if the bloc eventually agrees to a new classification system, half of the world's oil and gas is produced by national oil companies (NOCs), which are not subject to shareholder interests. OPEC's flagship NOCs preside over roughly 70% of the world's proven oil reserves.

What's more, growing numbers of fossil-fuel companies are selling their most polluting assets to private companies, whose assets – including oil rigs and gas pipelines – remain strictly outside of shareholder control.

To date, it is understood that private-equity firms have purchased roughly $65 billion worth of fossil-fuel-linked assets since the start of 2020. Their appetite will likely grow as the ongoing conflict in Ukraine amplifies oil and gas prices. This retreat to private and SOE (state-owned enterprise) ownership is part of a broader global trend. More opaque institutions are taking over 'dirty' assets.

None of this suggests that investors shouldn't channel their savings into ethical assets. It does mean that market participants shouldn't think of ESG as a wealth-maximising and planet-saving strategy. In the meantime, improved ESG oversight would make it easier for investors to discern their portfolio's carbon footprint and socio-economic contribution. ◆

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How the US and UK worked together to recolonise the Chagos Islands and evict Chagossians

The UK is continuing to exert colonial control over a strategic Indian Ocean archipelago – an unlawful act in which the US has also played a major role.

Anamika Twyman-Ghoshal

International attention is on the UK to relinquish its unlawful colonial hold on the Chagos Islands.

ON 15 February 2022, the Mauritian flag was raised on two Indian Ocean atolls, Peros Banos and Salomon, both belonging to the Chagos archipelago. This was the first time that Mauritius' flag was raised in the Chagos Islands, even though there is clear evidence that these 60 islands form part of its sovereign territory.

Currently, the UK maintains control over the archipelago. The whole of Mauritius used to be a British colony; the Chagos Islands were detached in 1965 from the Crown Colony prior to granting Mauritius independence. A new colonial territory was created – effectively recolonising the archipelago – under the name 'British Indian Ocean Territory' (BIOT).

The largest and most heavily populated island in the archipelago is Diego Garcia. This island was home to the majority of the nearly 2,000 exiled Chagossians who are prohibited from returning. Today, this island is home to a US Naval Communication Station with a few thousand US troops and international support staff.

I've carried out research on the recolonisation of the Chagos archipelago, the forced eviction of the Chagossians, and the role of both the UK and US governments in this.

Despite the archipelago's name – which indicates it is a British colony – the forcible eviction of the Chagossians was set in motion in the US. As part of the US strategy to expand its military bases around the world, Diego Garcia was identified in 1958 as an ideal location for a future military base by a US naval officer.

The island was considered particularly desirable because of both its location in the Indian Ocean and its small population that could easily be removed. Bases are a critical element of the US hegemon, a hidden empire, which benefits US defence and intelligence interests. The base in Diego Garcia has been a vital location for manoeuvres across the Indian Ocean, including enabling the invasions of Afghanistan and Iraq.

The removal of the local population would ensure that there would be no political calls for sovereignty or social movements that could curtail military operations. In 1960, the process of acquiring the islands began with a secret conversation between the US Secretary of Defense Robert McNamara and the British Minister of Defence Peter Thorneycroft.

According to communication between British government officials: 'the primary objective in acquiring these islands … was to ensure that Her Majesty's Government had full title to, and control over, these islands so that they could be used for the construction of defence facilities without hindrance or political agitation and so that when a particular island would be needed for the construction of British or United States defence facilities Britain or the United States should be able to clear it of its current population.'

Americans in particular attached great importance to the freedom of manoeuvre that comes from operating on a depopulated island.


The US military base in Diego Garcia, the largest island in the Chagos archipelago.

Circumventing laws

The 1960 conversations resulted in the UK detaching the Chagos Islands from Mauritius for the purpose of recolonisation. This separation from Mauritius was unlawful and went against a UN resolution and the UN Charter.

In order to circumvent international law, the British Parliament and the US Congress, the British Indian Ocean Territory was created using an Order in Council. This uses Royal Prerogative, a discretionary power to implement actions without parliamentary authority.

In 1965, in what became known as the Lancaster House Agreement, Mauritius was granted independence on the condition that it relinquish the Chagos Islands to Britain.

The following year, the US drafted an agreement for the lease of the islands from the UK. The agreement took the form of an Exchange of Notes, where the Chagos Islands were leased to the US for an initial 50-year term with an option for a 20-year extension. This option was exercised in 2016, extending occupation to 2036.

Notably, the two countries avoided using a treaty for this purpose, bypassing the need for domestic legislative approval in both countries.

Having secured ownership, the relocation of the indigenous people that lived there commenced.

Forced evictions

Chagossians, who were forcibly evicted from Diego Garcia, are prohibited from seeking employment on the US naval base. Chagossians can't even visit the island of Diego Garcia.

The forced eviction of the Chagossians, who it is estimated had a population of nearly 2,000, occurred in four stages between 1967 and 1973.

The first stage was the prevention of re-entry of Chagossians who left Diego Garcia for medical or tourist purposes in 1967. This was done without any notice.

The second stage was the implementation of import restrictions that created scarcity and made remaining on the island difficult.

The third stage involved threats and coercion. This took two forms. First, in poisoning, shooting, gassing and burning all pet dogs on the island. Second, in demolishing the homes of Chagossians. These actions were ordered by the British Commissioner of the British Indian Ocean Territory, Sir Bruce Greatbatch. The orders were carried out with the assistance of the US Naval Construction Battalions.

The depopulation was finalised with the 1971 Immigration Ordinance No. 1. It prohibited Chagossians from entering or remaining on the islands.

The exiled Chagossians were mostly left homeless and destitute in Mauritius, some were sent to Seychelles. They were left to live in dilapidated shacks in slums, without support or employment opportunities. Although some meagre compensation was handed down, this came years after lengthy court battles and amounted to about £1,000 (about $1,300) per person, although not all received this sum. The resulting insecurity and trauma have had a profound impact on those directly affected and on subsequent generations of Chagossians.

What next?

On the request of the UN General Assembly, the International Court of Justice, on 25 February 2019, deemed the detachment of the Chagos Islands from Mauritius and their incorporation into a new colony unlawful. The UN General Assembly passed Resolution 73/295 on 22 May 2019 obligating the UK to withdraw its colonial administration within six months.

These decisions demonstrate that international attention is on the UK to relinquish its unlawful colonial hold on the archipelago. What is missing is an acknowledgement of the enduring role of the US in these international crimes. Beyond holding the US responsible for its role in depopulating the islands, it is clear that without the participation of the US, the harm caused, especially to the Chagossian people, will not be repaired.

Mauritius has already offered the US a 99-year lease of Diego Garcia in an effort to shore up US support for its efforts around the return of the Chagos Islands. It's still not clear whether the US will allow the Chagossian people, who it insisted be removed, to return. ◆

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Israel's apartheid against Palestinians: a cruel system of domination and a crime against humanity

Israel's policies of discrimination and oppression against the Palestinians amount to nothing less than apartheid, says human rights group Amnesty International.

ISRAELI authorities must be held accountable for committing the crime of apartheid against Palestinians, Amnesty International said in a damning new report released on 1 February. The investigation by the international human rights organisation details how Israel enforces a system of oppression and domination against the Palestinian people wherever it has control over their rights. This includes Palestinians living in Israel and the Occupied Palestinian Territories (OPT), as well as displaced refugees in other countries.

The comprehensive report, 'Israel's Apartheid against Palestinians: Cruel System of Domination and Crime against Humanity', sets out how massive seizures of Palestinian land and property, unlawful killings, forcible transfer, drastic movement restrictions, and the denial of nationality and citizenship to Palestinians are all components of a system which amounts to apartheid under international law. This system is maintained by violations which Amnesty International found to constitute apartheid as a crime against humanity, as defined in the Rome Statute and the Apartheid Convention.

Amnesty International is calling on the International Criminal Court (ICC) to consider the crime of apartheid in its current investigation in the OPT and calls on all states to exercise universal jurisdiction to bring perpetrators of apartheid crimes to justice.

Since 1948, Israel has demolished hundreds of thousands of Palestinian homes and other properties.

'Our report reveals the true extent of Israel's apartheid regime. Whether they live in Gaza, East Jerusalem and the rest of the West Bank, or Israel itself, Palestinians are treated as an inferior racial group and systematically deprived of their rights. We found that Israel's cruel policies of segregation, dispossession and exclusion across all territories under its control clearly amount to apartheid. The international community has an obligation to act,' said Agnès Callamard, Amnesty International's Secretary-General.

'There is no possible justification for a system built around the institutionalised and prolonged racist oppression of millions of people. Apartheid has no place in our world, and states which choose to make allowances for Israel will find themselves on the wrong side of history. Governments who continue to supply Israel with arms and shield it from accountability at the UN are supporting a system of apartheid, undermining the international legal order, and exacerbating the suffering of the Palestinian people. The international community must face up to the reality of Israel's apartheid, and pursue the many avenues to justice which remain shamefully unexplored.'

Amnesty International's findings build on a growing body of work by Palestinian, Israeli and international NGOs, who have increasingly applied the apartheid framework to the situation in Israel and/or the OPT.

Identifying apartheid

A system of apartheid is an institutionalised regime of oppression and domination by one racial group over another. It is a serious human rights violation which is prohibited in public international law. Amnesty International's extensive research and legal analysis, carried out in consultation with external experts, demonstrates that Israel enforces such a system against Palestinians through laws, policies and practices which ensure their prolonged and cruel discriminatory treatment.

In international criminal law, specific unlawful acts which are committed within a system of oppression and domination, with the intention of maintaining it, constitute the crime against humanity of apartheid. These acts are set out in the Apartheid Convention and the Rome Statute, and include unlawful killing, torture, forcible transfer, and the denial of basic rights and freedoms.

Amnesty International documented acts proscribed in the Apartheid Convention and Rome Statute in all the areas Israel controls, although they occur more frequently and violently in the OPT than in Israel. Israeli authorities enact multiple measures to deliberately deny Palestinians their basic rights and freedoms, including draconian movement restrictions in the OPT, chronic discriminatory under-investment in Palestinian communities in Israel, and the denial of refugees' right to return. The report also documents forcible transfer, administrative detention, torture and unlawful killings, in both Israel and the OPT.

Amnesty International found that these acts form part of a systematic and widespread attack directed against the Palestinian population, and are committed with the intent to maintain the system of oppression and domination. They therefore constitute the crime against humanity of apartheid.

The funeral of a family killed in an Israeli airstrike on Gaza in May 2021. Amnesty International has documented the systematic unlawful killings of Palestinians by Israel in its report.

The unlawful killing of Palestinian protesters is perhaps the clearest illustration of how Israeli authorities use proscribed acts to maintain the status quo. In 2018, Palestinians in Gaza began to hold weekly protests along the border with Israel, calling for the right of return for refugees and an end to the blockade. Before protests even began, senior Israeli officials warned that Palestinians approaching the wall would be shot. By the end of 2019, Israeli forces had killed 214 civilians, including 46 children.

In light of the systematic unlawful killings of Palestinians documented in its report, Amnesty International is also calling for the UN Security Council to impose a comprehensive arms embargo on Israel. This should cover all weapons and munitions as well as law enforcement equipment, given the thousands of Palestinian civilians who have been unlawfully killed by Israeli forces. The Security Council should also impose targeted sanctions, such as asset freezes, against Israeli officials most implicated in the crime of apartheid.

Palestinians treated as a demographic threat

Since its establishment in 1948, Israel has pursued a policy of establishing and then maintaining a Jewish demographic majority, and maximising control over land and resources to benefit Jewish Israelis. In 1967, Israel extended this policy to the West Bank and Gaza Strip. Today, all territories controlled by Israel continue to be administered with the purpose of benefiting Jewish Israelis to the detriment of Palestinians, while Palestinian refugees continue to be excluded.

Amnesty International recognises that Jews, like Palestinians, claim a right to self-determination, and does not challenge Israel's desire to be a home for Jews. Similarly, it does not consider that Israel labelling itself a 'Jewish state' in itself indicates an intention to oppress and dominate.

However, Amnesty International's report shows that successive Israeli governments have considered Palestinians a demographic threat, and imposed measures to control and decrease their presence and access to land in Israel and the OPT. These demographic aims are well illustrated by official plans to 'Judaize' areas of Israel and the West Bank, including East Jerusalem, which continue to put thousands of Palestinians at risk of forcible transfer.

Oppression without borders

The 1947-49 and 1967 wars, Israel's ongoing military rule of the OPT, and the creation of separate legal and administrative regimes within the territory, have separated Palestinian communities and segregated them from Jewish Israelis. Palestinians have been fragmented geographically and politically, and experience different levels of discrimination depending on their status and where they live.

Palestinian citizens in Israel currently enjoy greater rights and freedoms than their counterparts in the OPT, while the experience of Palestinians in Gaza is very different to that of those living in the West Bank. Nonetheless, Amnesty International's research shows that all Palestinians are subject to the same overarching system. Israel's treatment of Palestinians across all areas is pursuant to the same objective: to privilege Jewish Israelis in distribution of land and resources, and to minimise the Palestinian presence and access to land.

Amnesty International demonstrates that Israeli authorities treat Palestinians as an inferior racial group who are defined by their non-Jewish, Arab status. This racial discrimination is cemented in laws which affect Palestinians across Israel and the OPT.

For example, Palestinian citizens of Israel are denied a nationality, establishing a legal differentiation from Jewish Israelis. In the West Bank and Gaza, where Israel has controlled the population registry since 1967, Palestinians have no citizenship and most are considered stateless, requiring ID cards from the Israeli military to live and work in the territories.

A web of military checkpoints, roadblocks, fences and other structures controls the movement of Palestinians within the occupied territories, and restricts their travel into Israel or abroad.

Palestinian refugees and their descendants, who were displaced in the 1947-49 and 1967 conflicts, continue to be denied the right to return to their former places of residence. Israel's exclusion of refugees is a flagrant violation of international law which has left millions in a perpetual limbo of forced displacement.

Palestinians in annexed East Jerusalem are granted permanent residence instead of citizenship – though this status is permanent in name only. Since 1967, more than 14,000 Palestinians have had their residency revoked at the discretion of the Ministry of the Interior, resulting in their forcible transfer outside the city.

Lesser citizens

Palestinian citizens of Israel, who comprise about 19% of the population, face many forms of institutionalised discrimination. In 2018, discrimination against Palestinians was crystallised in a constitutional law which, for the first time, enshrined Israel exclusively as the 'nation state of the Jewish people'. The law also promotes the building of Jewish settlements and downgrades Arabic's status as an official language.

The report documents how Palestinians are effectively blocked from leasing on 80% of Israel's state land, as a result of racist land seizures and a web of discriminatory laws on land allocation, planning and zoning.

The situation in the Negev/Naqab region of southern Israel is a prime example of how Israel's planning and building policies intentionally exclude Palestinians. Since 1948, Israeli authorities have adopted various policies to 'Judaize' the Negev/Naqab, including designating large areas as nature reserves or military firing zones, and setting targets for increasing the Jewish population. This has had devastating consequences for the tens of thousands of Palestinian Bedouins who live in the region.

Thirty-five Bedouin villages, home to about 68,000 people, are currently 'unrecognised' by Israel, which means they are cut off from the national electricity and water supply and targeted for repeated demolitions. As the villages have no official status, their residents also face restrictions on political participation and are excluded from the healthcare and education systems. These conditions have coerced many into leaving their homes and villages, in what amounts to forcible transfer.

Decades of deliberately unequal treatment of Palestinian citizens of Israel have left them consistently economically disadvantaged in comparison to Jewish Israelis. This is exacerbated by blatantly discriminatory allocation of state resources: a recent example is the government's COVID-19 recovery package, of which just 1.7% was given to Palestinian local authorities.

Dispossession

The dispossession and displacement of Palestinians from their homes is a crucial pillar of Israel's apartheid system. Since its establishment, the Israeli state has enforced massive and cruel land seizures against Palestinians, and continues to implement myriad laws and policies to force Palestinians into small enclaves. Since 1948, Israel has demolished hundreds of thousands of Palestinian homes and other properties across all areas under its jurisdiction and effective control.

As in the Negev/Naqab, Palestinians in East Jerusalem and Area C of the OPT live under full Israeli control. The authorities deny building permits to Palestinians in these areas, forcing them to build illegal structures which are demolished again and again.

In the OPT, the continued expansion of illegal Israeli settlements exacerbates the situation. The construction of these settlements in the OPT has been a government policy since 1967. Settlements today cover 10% of the land in the West Bank, and some 38% of Palestinian land in East Jerusalem was expropriated between 1967 and 2017.

Palestinian neighbourhoods in East Jerusalem are frequently targeted by settler organisations which, with the full backing of the Israeli government, work to displace Palestinian families and hand their homes to settlers. One such neighbourhood, Sheikh Jarrah, has been the site of frequent protests since May 2021 as families battle to keep their homes under the threat of a settler lawsuit.

Draconian movement restrictions

Since the mid-1990s, Israeli authorities have imposed increasingly stringent movement restrictions on Palestinians in the OPT. A web of military checkpoints, roadblocks, fences and other structures controls the movement of Palestinians within the OPT, and restricts their travel into Israel or abroad.

A 700 km fence, which Israel is still extending, has isolated Palestinian communities inside 'military zones', and they must obtain multiple special permits any time they enter or leave their homes. In Gaza, more than two million Palestinians live under an Israeli blockade which has created a humanitarian crisis. It is near-impossible for Gazans to travel abroad or into the rest of the OPT, and they are effectively segregated from the rest of the world.

'For Palestinians, the difficulty of travelling within and in and out of the OPT is a constant reminder of their powerlessness. Their every move is subject to the Israeli military's approval, and the simplest daily task means navigating a web of violent control,' said Callamard. 'The permit system in the OPT is emblematic of Israel's brazen discrimination against Palestinians. While Palestinians are locked in a blockade, stuck for hours at checkpoints, or waiting for yet another permit to come through, Israeli citizens and settlers can move around as they please.'

Amnesty International examined each of the security justifications which Israel cites as the basis for its treatment of Palestinians. The report shows that, while some of Israel's policies may have been designed to fulfil legitimate security objectives, they have been implemented in a grossly disproportionate and discriminatory way which fails to comply with international law. Other policies have absolutely no reasonable basis in security, and are clearly shaped by the intent to oppress and dominate.

The way forward

Amnesty International provides numerous specific recommendations for how the Israeli authorities can dismantle the apartheid system and the discrimination, segregation and oppression which sustain it.

The organisation is calling for an end to the brutal practice of home demolitions and forced evictions as a first step. Israel must grant equal rights to all Palestinians in Israel and the OPT, in line with principles of international human rights and humanitarian law. It must recognise the right of Palestinian refugees and their descendants to return to homes where they or their families once lived, and provide victims of human rights violations and crimes against humanity with full reparations.

The scale and seriousness of the violations documented in Amnesty International's report call for a drastic change in the international community's approach to the human rights crisis in Israel and the OPT.

All states may exercise universal jurisdiction over persons reasonably suspected of committing the crime of apartheid under international law, and states that are party to the Apartheid Convention have an obligation to do so.

'The international response to apartheid must no longer be limited to bland condemnations and equivocating. Unless we tackle the root causes, Palestinians and Israelis will remain locked in the cycle of violence which has destroyed so many lives,' said Callamard.

'Israel must dismantle the apartheid system and start treating Palestinians as human beings with equal rights and dignity. Until it does, peace and security will remain a distant prospect for Israelis and Palestinians alike.' – *Amnesty International* ◆

South African PM's embrace by Israel in 1976 sheds light on faux outrage over Amnesty's apartheid report

Israelis hope that their alliance with the apartheid regime in South Africa is forgotten now that Amnesty International is levelling the apartheid accusation against Israel.

David Samel

ONE obvious assumption shared by both Amnesty International and those outraged by AI's accusation of Israeli apartheid is that apartheid is a repugnant system that morally stains anyone associated with it.

Today, of course, there is near-unanimity of opinion on that issue, but during the apartheid era, that wasn't the case. US President Ronald Reagan adopted a policy of 'constructive engagement' with the Pretoria regime, gently encouraging South African government 'moderates', a policy Desmond Tutu denounced as an 'unmitigated disaster'. When the US Congress overwhelmingly passed legislation imposing sanctions, Reagan vetoed it, forcing Congress to override him. And while the South African government and security apparatus cruelly oppressed the country's Black population, it was not government officials but the African National Congress and Nelson Mandela who were placed on the US State Department terrorist list. Somehow that designation continued well into the 21st century, long after apartheid was dismantled. British Prime Minister Margaret Thatcher shared a very similar view of the conflict, labelling the ANC a terrorist organisation and opposing any effort to impose sanctions that sought to pressure South Africa to abandon apartheid.

And what about Israel, whose leaders and supporters are now so anxious to distance the country from the stench of apartheid? Israel's long-time close relationship with apartheid South Africa is very well-documented but there is one episode that is especially telling. In April 1976, at the height of the apartheid regime's strength and apparent invulnerability, Israeli Prime Minister Yitzhak Rabin invited South African Prime Minister John Vorster to visit Israel to cement their countries' friendship. This was barely five months after passage of the UN General Assembly resolution listing Zionism as a form of racism amidst much dramatic hand-wringing.

Israel saw in Vorster an image of its own likeness, and his past support of the Nazis was relegated to a historical footnote.

The Rabin-Vorster meeting was a resounding success, if success is measured by significant economic and military agreements rather than principles of morality and decency. At a state banquet, Rabin toasted his honoured guests, boasting of 'the ideals shared by Israel and South Africa: the hopes for justice and peaceful coexistence' in the face of 'foreign-inspired instability and recklessness'.

A couple of months after Vorster's visit, the South African government, less worried about appearing too openly racist, echoed Rabin's expression of kinship while saying the naughty part out loud: 'Israel and South Africa have one thing above all else in common: they are both situated in a predominantly hostile world inhabited by dark peoples.' Israelis usually prefer the more genteel euphemism of 'tough neighbourhood'. There was something quite natural about an alliance between two countries that shared the open assignment of rights, privileges and status based upon skin colour and ethnoreligious heritage at the expense of the indigenous population.

As bad as this sounds, the Rabin-Vorster summit was even worse. A few decades earlier, during World War II, Vorster had joined the Ossewa-Brandwag, which sided with Nazi Germany and even supported creation of a government 'modelled loosely on Nazi Germany'. Vorster rose to the position of 'Chief General' in the organisation. His wartime efforts on behalf of the Third Reich earned him nearly two years of internment. Nevertheless, in 1976, Rabin and the Israeli leadership not only ignored and/or excused this heinous past but also had Vorster tour Yad Vashem, Israel's Holocaust memorial and museum. A reporter declared that Vorster appeared 'moved' by the commemoration of the millions of victims of the regime he had so ardently supported.

The forgive-and-forget 'graciousness' extended to Vorster is in stark contrast to the decades-long Israeli campaign collectively vilifying all Palestinians for the pro-Nazi stance of Haj Amin al-Husseini, the Mufti of Jerusalem. While the Mufti, like Vorster, was pro-Nazi, there has been a concerted effort to grossly exaggerate both al-Husseini's popularity among Palestinians and the extent of the blood on his hands. Then-Prime Minister Benjamin Netanyahu earned a humiliating rebuke by Holocaust historians when he claimed that Hitler was intending only to expel Jews until al-Husseini whispered into his ear to kill the Jews instead.

So according to Israeli lore, al-Husseini's association with the Nazi cause during the War justified the ethnic cleansing of Palestinians by Israel in 1948, but Vorster himself earned complete forgiveness for his similar WWII activities once he proved his value by rising to lead the most explicitly racist government on Earth. Israel saw in Vorster an image of its own likeness, and his past support of the Nazis was relegated to an irrelevant and excusable historical footnote.

Ironically, the Israelis hope that their comprehensive military and economic alliance with the apartheid regime in Pretoria is just as forgotten and ignored today as was Vorster's past villainy by the Rabin government. Their current shock and outrage at being associated with apartheid should be measured against the country's own willingness to openly associate itself with apartheid, even at the cost of embracing an avowed racist with a history of pro-Nazi activism. ◆

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Girls' education is a women's rights issue

The ban on girls' access to secondary education in Afghanistan, which has been described as 'a profound disappointment', could portend further curbs on women's rights by the ruling Taliban.

Naureen Hossain

THE late-night reversal of a decision by Taliban authorities in Afghanistan to allow girls from grades 7 to 12 to return to school has been met with distress from within the country and internationally – and fear that it could herald further restrictions.

A Taliban spokesperson from the Ministry of Education on 23 March made the announcement reversing an earlier decision that all students would be expected to return to school, including girls.

Local media in Afghanistan reported protests, including one held outside the Ministry of Education building.

At least 87% of the population favour girls' education across all levels, even among those who may say they would not expect the girls in their family to attend school but would not oppose government schooling otherwise.

The abrupt decision has also taken humanitarian organisations by surprise.

Sam Mort, Chief of Communications for UNICEF Afghanistan, spoke at a press briefing at the United Nations headquarters, revealing that this announcement came late. 'Among our staff, there was collective disbelief … and anxiety,' Mort said, speaking of the reaction of field officers and national staff to the news. 'We are just as confused as everyone else.'

The Taliban's decision has been met with swift condemnation from the international community.

UNICEF Executive Director Catherine Russell, in a statement, said the Taliban's decision was 'a major setback for girls and their future' and urged them to 'honour their commitment to girls' education without any further delays'.

Yasmine Sherif, Director of Education Cannot Wait, the United Nations' global fund for children's education, said: 'With this announcement, an entire generation of Afghan children and adolescents could be left behind.'

Sherif said that 'ensuring that both girls and boys can return to school – including the resumption of adolescent girls' access to secondary education – is key for the development of the country.'

UN Secretary-General Antonio Guterres said the Taliban's decision was 'a profound disappointment and deeply damaging for Afghanistan'.

UN agencies, their partners and other humanitarian organisations have been involved in discussions with the Taliban since their rise to power last August. Afghanistan's humanitarian crisis leaves 24.4 million people – or more than half the population – in dire need of aid and protection. Both sides have been expected to negotiate the involvement of humanitarian organisations and donors in their capacity to provide the necessary services and protections.

The Taliban have expressed their readiness to comply with international organisations in their bid for formal legitimacy. But they have also asserted their code for governance, which they claim would be according to Islamic law and Afghan culture, something humanitarian organisations with education programmes are working to adapt.

This is the same reasoning that senior members of the Taliban have used to justify the ban on secondary education for girls.

Where was this concern for a standardised curriculum aligning with Islamic law and Afghan culture when boys returned to secondary school in September?

The right to education has been an oft-discussed, critical human rights issue for Afghanistan, especially when it comes to how, or even if, this right is extended to girls. This concern had already been compounded by the forced closure of schools due to the COVID-19 pandemic, which impacted all school-going children and adolescents. While alternative learning pathways, including community-based education centres based in rural and remote provinces for children to attend, have been available, girls' education in government schools remained a lingering question.

The Taliban's rise to power raised the fear that the right to education would be denied to girls indefinitely, if not permanently. It would only signal increasing measures to control women's rights and mobility beyond the domestic sphere.

The last-minute decision may likely indicate infighting between factions that are divided on the issue of girls' education.

As Heather Barr, Associate Director of the Women's Rights Division at Human Rights Watch, notes, there are factions that recognise the steps the Taliban must take to receive the funding and legitimacy they want from the international community, and there are hardliner members who believe that girls beyond puberty should not be allowed out for their studies.

Given their handling of the issue, it is only indicative of how unprepared the Taliban are to govern and provide the necessary services to a population where over half relies on international humanitarian aid.

Barr also notes that their decision speaks to the ingrained beliefs that view women through a misogynistic and reductive lens. She expresses concern that the Taliban's decision does not bode well for the state of human rights in the country and may 'herald a further crackdown, of girls and women, and human rights generally'.

The decision to revoke girls' access to secondary school education is only one among several examples of recent actions taken by the Taliban to police women's movements across the country, with stricter, more frequent enforcement occurring in provinces outside the capital.

'We've been seeing more and more different restrictions put in place, including new rules on women's freedom of movement and them being blocked from travelling without a mahram overseas, being blocked from travelling ... over certain distances,' says Barr. 'Taxi drivers being told that women need to wear a hijab before they are allowed to drive them.'

When it comes to girls' education, if the ban on girls' secondary education continues, this could escalate to the restriction of access to tertiary education for girls and women in the country.

What is harrowing is that even as public pressure and condemnation come from both sides, the Taliban continue to act upon principles which even they cannot agree on.

International leaders and experts have reiterated that education for all can only guarantee that developing or impoverished countries can walk down a path of peace and prosperity.

For the girls and women of Afghanistan, they may not get to walk down that path without a chaperone.

– IPS ◆

Many Latin American countries have acquired a notoriety for their failure to properly maintain their prisons. As a result, prison riots have become all too common. Some 100 years ago, the great Peruvian poet *Cesar Vallejo* (1892-1938) highlighted this problem in *Trilce*; the following is one of the poems (poem XVIII) from this collection.

XVIII

Cesar Vallejo

Oh the four walls of the cell.
Ah the four bleaching walls
that inevitably face the same number.

Breeding place for nerves, foul breach,
through its four corners how it snatches at
the daily shackled extremities.

Loving keeper of innumerable keys,
if only you were here, if you could only see unto
what hour these walls remain four.
Against them we would be with you, the two of us,
more two than ever. And you wouldn't even cry,
speak, liberator!

Ah the walls of the cell.
Meanwhile of those that hurt me, most
the two long ones that tonight are
somehow like mothers now dead
leading a child through
bromowalled inclines by the hand.

And only I hang on,
with my right, serving for both hands,
raised, in search of a tertiary arm
to pupilise, between my where and my when,
this invalid majority of a man.

Translated from the Spanish by Clayton Eshleman