

Conflict, macroeconomic tightening dampen growth prospects

The world economy will record slower growth this year as the Ukraine war takes its toll and developed countries engage in policy tightening, according to projections by the United Nations Conference on Trade and Development (UNCTAD). And given their financial frailties and limited room for manoeuvre, developing countries are expected to bear the brunt of the downturn.

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War or peace, barbarism or hope

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THIRD WORLD ECONOMICS

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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 set back global growth, further clouding developing countries’ already fragile economic prospects, according to a UN outlook report.

by Kanaga Raja

GENEVA: 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 Grynszpan.

“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 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 centre stage, said UNCTAD, the budding discussions on decarbonization 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.”

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 characterized 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 jeopardized 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. (*SUNS9543*)

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Leaked IP text presented as “take it or leave it” by WTO secretariat

The WTO Director-General is reportedly pushing for the adoption by member states of a “compromise” decision seen as falling far short of the intellectual property waiver proposed for COVID-19 medical products.

GENEVA: The World Trade Organization's Director-General Ngozi Okonjo-Iweala is understood to be advocating for the rapid adoption of the leaked intellectual property text on the basis that “no one likes it”, cautioning WTO members that unless this is agreed to, there will be nothing else.

The text has been presented as a “take it or leave it” proposal by the WTO secretariat headed by the DG, according to some WTO delegates who asked not to be quoted.

The text presents an outcome “below the minimum” and is more intended to save the WTO than to save lives, asserted a developing-country trade official.

Adoption of an outcome on the TRIPS waiver proposal, even if ineffectual, would essentially clear the path for the WTO to deliver a package on its response to the pandemic.

The TRIPS waiver proponents have however long argued that a credible WTO response has to include a meaningful outcome on the waiver proposal.

Since the current text was leaked by STATnews.com on 15 March (see *TWE* No. 742), the WTO DG has been in a series of meetings with many delegations in an attempt to ‘socialize’ the text.

At a meeting with the African Group on 22 March, the DG sought the Group's support for the text, praising it as an important breakthrough for addressing the COVID-19 pandemic, said people who asked not to be quoted.

She clarified that she was waiting to hear from the US, the EU, South Africa and India about their approval of the text, before transmitting the same to the wider WTO membership.

On 16 March, the DG had made clear that the text had not been agreed among the four and internal consultations were underway.

In the meantime, international experts, civil society and academics have pointed out that the text is not a TRIPS

waiver but instead adds obligations that could hinder local manufacturing and access as well as set a negative precedent for the future.

If South Africa and India were to endorse the text, it would be projected as a big win for the EU and the US as well as the WTO secretariat that has been struggling to show its relevance.

Several African Group members apparently raised concerns over the text during their meeting with the DG, an African trade official who took part in the meeting told *SUNS* on condition of anonymity.

The EU has been a fierce opponent of the TRIPS waiver proposal, deploying every possible tactic to delay or coopt the proposal. In June 2021, it proposed a draft declaration that would effectively just restate the existing flexibilities pertaining to the use of non-voluntary licensing. This EU proposal made little headway in the WTO as developing-country delegations argued that it did not add any new flexibilities to facilitate equitable access.

A confidential communication of the European Commission motivates support from its members for the leaked text, arguing that “the basis is the same as in the draft declaration put forward by the Commission in June 2021”.

EU Trade Commissioner Valdis Dombrovskis apparently held a meeting with the 27 EU member states on 17 March to clear the decks for Brussels' approval.

The US is also apparently pushing India and South Africa to agree to the leaked text, said people familiar with the developments.

The US has all along maintained that it would agree to a TRIPS waiver only for COVID-19 vaccines, though the 65 co-sponsors of the waiver proposal led by India and South Africa have proposed the following: “The obligations of Members to implement or apply Sections 1 (copyrights), 4 (industrial designs), 5

(patents) and 7 (undisclosed information) of Part II of the TRIPS Agreement or to enforce these Sections under Part III of the TRIPS Agreement, shall be waived in relation to health products and technologies including diagnostics, therapeutics, vaccines, medical devices, personal protective equipment, their materials or components, and their methods and means of manufacture for the prevention, treatment or containment of COVID-19.”

Yet, despite strenuous discussions for the past 18 months, the leaked text proposes a meagre solution limited only to vaccines, with a decision on “extension” of the outcome to “production and distribution of COVID-19 diagnostics and therapeutics” to be made six months later.

Other aspects of the leaked text have also raised concerns (see *TWE* No. 742).

Wide-ranging opposition to leaked text

As the DG rushes to convince members to live with the text for the sake of the WTO, leading international personalities, academics as well as civil society organizations have spoken out against the text.

In a letter dated 21 March, noted economists Joseph Stiglitz and Jayati Ghosh and Peter Kamaligin, Pan-Africa Director at Oxfam, called on South Africa to not agree to the proposal, stressing that a “bad deal is worse than no deal”.

The letter, addressed to South African President Cyril Ramaphosa, stated: “Developing countries have experienced the worst effects of COVID-19. The crisis is far from over as infections and deaths continue all over the world. New variants are also expected to emerge, with the potential to further devastate countries socially and economically. A meaningful outcome on the TRIPS Waiver proposal holds the key to promoting equitable access to the COVID-19 medical tools that can facilitate and sustain socio-economic recovery and protect the lives and livelihoods in South Africa, India and many other developing countries. It is for this reason your waiver proposal is co-sponsored by 65 WTO Members and has received widespread support from the international community. In contrast to your inspiring leadership for a meaningful waiver of IP barriers, this text reflects the interests of multinational

pharmaceutical companies in preserving the deadly status quo.”

Former UN Secretary-General Ban Ki-Moon has also called on India and South Africa not to agree to the text without major changes. He wrote in an op-ed: “It is too narrow in scope, excluding certain countries and covering only vaccines, ignoring the urgent need for other coronavirus treatments. Crucially, the compromise addresses only patents, not other intellectual property barriers like trade secrets which are essential for the manufacture of vaccines.

“Worse still, rather than smooth the path for low and middle-income countries to begin manufacturing, it adds even greater restrictions. It would fundamentally change Indian patent law, requiring the near-impossible task of identifying and listing every patent in a vaccine, many of which are not even in the public domain. And it would even add further restrictions to the use of existing flexibilities in the WTO TRIPS agreement to produce vital generic medicines.

“In short, it bears little resemblance to the practical and comprehensive waiver of intellectual property rules India and South Africa have proposed – and that leaders and experts across the world supported....

“In fact, it is barely a waiver at all, with elements of the intellectual property agreement actively reinforced. The result is a compromise that will do little to improve access to vaccines and treatments.”

Ban also said: “The global north is used to getting its way. But by demanding more than this inadequate compromise, [Indian] Prime Minister Modi and [South African] President Ramaphosa will send a powerful message that the global south will not accept half-measures when our lives are on the line. And they can build on the remarkable progress that has been made so far to work towards a genuine solution to this crisis; a full waiver of intellectual property rules on Covid-related technologies....

“India and South Africa have challenged the status quo that has left billions of people at risk from Covid-19. Their leadership will be remembered well by the history books. Now, they must reject this deal and insist on a better one. The EU and US must return to negotiations with a new resolve, to secure the right of the global south to produce Covid-related technologies. Only then

will we restore faith in multilateralism and make meaningful progress towards ending the pandemic.”

Writing in online news outlet The Wire on 22 March, Max Lawson, the co-convenor of the People’s Vaccine Alliance, said: “For two years, the EU has actively protected the hyper-profitable pharmaceutical monopolies held over COVID-19 vaccines technologies – even while over a hundred capable manufacturers could have been making them. The global public health leader and executive director of UNAIDS Winnie Byanyima has argued that had such steps been taken, we may have ended the pandemic by now.

“But finally, after huge pressure from countries and people around the world, the EU is at the table. It says it is ready to compromise. It has put this to South Africa and India and other countries. Sadly, it is far from an adequate compromise. This is not a TRIPS waiver. After millions of avoidable deaths from COVID-19 and with infection rates soaring once again across our continent, agreeing to it would indeed not be a genuine compromise, but instead a gift for the EU and their pharmaceutical corporations.”

Lawson charged the EU with adding more barriers to the compromise instead of lifting them, adding that “these include an onerous and nigh on impossible requirement to identify and list all patents related to a vaccine.”

Lawson also said that India and South Africa “must not accept the weakness of this proposal. They must demand that it is dramatically improved before it is endorsed. They must continue to lead the Global South in the demand for equal rights in production and lead the world

towards ending this pandemic.”

An 18 March letter by several concerned academics and researchers in Southern Africa also urged South Africa’s President Ramaphosa “not to agree to the draft text in its current form and to continue to show the resolve that might deliver a meaningful waiver that will give freedom to operate for companies in South Africa and elsewhere to manufacture, sell, and equitably distribute COVID-19 countermeasures to the populations that have suffered devastating shortages and inequality during the entire pandemic”.

The letter pointed out that the leaked text contains “many elements that are actually TRIPS-plus (not otherwise required by the TRIPS Agreement), such as the obligation to list all patents on vaccine components and final products and the obligation to report multiple details to the WTO. The requirement to list patents is particularly onerous and impractical. There are 280 components to mRNA vaccines sourced from 19 countries. Patents would have to be listed for each patented component and for the final vaccine itself. The patent landscape would have to be examined and re-examined not only in South Africa, but in the countries of production and export of components not manufactured here. Many patents would be unpublished and new patents could be filed even on existing vaccines, meaning that compulsory licensing applications would need to be continuously amended to add new patents in order to comply with mandatory conditions in the text. This requirement is TRIPS-plus and, as a pragmatic, procedural matter, totally eviscerates the ‘solution.’” (TWN/SUNS9544)

WTO’s MC12 tentatively set for 12-15 June, despite Ukraine war

The WTO provisionally scheduled its 12th Ministerial Conference for June, during a General Council meeting which also discussed its response to the pandemic and an emerging food crisis.

by D. Ravi Kanth

GENEVA: Even as Russia’s war against Ukraine continues to show no signs of abating at this juncture, members of the

World Trade Organization (WTO) have tentatively endorsed the dates for their 12th Ministerial Conference (MC12) for

12-15 June, said people familiar with the development.

At an informal WTO General Council (GC) meeting on 28 March, the new GC chair, Ambassador Didier Chambovey from Switzerland, suggested the dates for MC12, indicating that he had held bilateral meetings with 42 member countries, including 12 group coordinators and Russia.

He said MC12, which is going to be a streamlined, business-like conference, will take place entirely at the WTO headquarters in Geneva.

While members broadly endorsed the chair's suggestion, a final decision on the dates needs to be approved at a formal GC meeting, which is now scheduled to take place on 9-10 May.

Significantly, at a time when the developed countries and some developing countries maintained that the current situation is not "business as usual", it is unclear whether Russia's trade minister and his team from Moscow will be able to attend MC12 due to the apparent non-neutral status adopted by the host country Switzerland, said people who asked not to be quoted.

When asked about this, one trade official said "we don't know", adding that the question should be posed to Switzerland.

At the 28 March informal GC meeting, more than a dozen countries chastised Russia for its violation of the sovereignty and territorial integrity of Ukraine, raising sharp concerns over Russia's escalating military actions against the country.

The new US ambassador to the WTO, Maria Luisa Pagan, made her first intervention at the meeting, saying the circumstances that prevailed when her nomination was considered by the US Senate appear to have changed with the onset of Russia's war against Ukraine, said people who were present at the meeting.

The United Kingdom, Canada, Norway, the European Union and Australia among others admonished Russia for its continued violation of international treaties and rules in its war against Ukraine.

The developed countries claimed that it cannot be "business as usual" with Russia being present in these meetings, said people familiar with the development.

Russia, however, criticized these countries protesting against Moscow by likening them to the ancient Roman Senate, which was historically famously

known for giving political statements rather than addressing the problems encountered by people in its territory. Russia said that it wants a successful outcome at MC12.

WTO response to pandemic

At the GC meeting, Chambovey delivered his first statement as the new GC chair about his recent consultations on a range of issues, including the WTO's response to the pandemic, said people familiar with the discussions.

He suggested that the response would have two components: (i) intellectual property and (ii) trade measures that include a range of trade-liberalizing aspects such as the removal of export restrictions, regulatory coherence and cooperation, lowering of tariffs, services, transparency, as well as collaboration and dialogue with international institutions among others.

The former GC chair, Ambassador Dacio Castillo from Honduras, who has been appointed as the new facilitator to oversee the discussion on the trade-related aspects of the WTO's response to the pandemic, is expected to hold consultations on these topics.

Aside from the WTO's response to the pandemic, there are a host of other unresolved issues including fisheries subsidies, a permanent solution for public stockholding programmes for food security, the moratorium on imposing customs duties on electronic transmissions, and the legal status of the informal Joint Statement Initiatives (JSIs).

Even before there is an agreement on the intellectual property outcome, some members including the EU and members of the Ottawa Group of countries led by Canada, and Brazil, are already seeking to link approval of the draft IP text with other areas such as trade and health, agriculture and even fisheries subsidies, said people who asked not to be quoted.

At the GC meeting, Cameroon, the coordinator of the African Group of countries, welcomed the appointment of Castillo as the new facilitator on the WTO's response to the pandemic. It expressed the African Group's "strong support to the urgent need for the waiver geared to ramp up and diversify production and distribution of all COVID-19 related medical products to address the existing inequitable access

our continent continues to face."

With regard to concerns about food security in the wake of the Ukraine conflict, Cameroon said that 35 African countries are dependent on food imports from the Black Sea region. According to Cameroon, "the rapid increase in food prices, and the disruptions in global supply chains, may lead to a severe food crisis and pose a serious risk to our continent."

Although the issue of the food crisis "has been partially addressed by some relevant WTO bodies during their session last week such as the Committee on Agriculture," it remains a grave concern, Cameroon said.

The African Group reiterated its "longstanding position in support of a level playing field that will enable Africa to fully take advantage of its resources in the domain of agriculture."

Jamaica, on behalf of the African, Caribbean and Pacific (ACP) Group, and Chad, on behalf of the least developed countries (LDCs), also expressed their concerns over the emerging food crisis in their member countries.

Food security concerns were also raised at the GC meeting by WTO Director-General Ngozi Okonjo-Iweala, who highlighted the growing food crisis, particularly in the two areas of cereals (wheat) and fertilizers, as well as other items such as sunflowers and barley that are grown in the Black Sea region.

She cautioned that "concentrating sourcing and production at home, while understandable, could also create new vulnerabilities and may not be the best risk management strategy."

According to the DG, the war in Ukraine dealt a major blow to the global economy still recovering from the impacts of the pandemic and "has raised the spectre of food shortages in countries dependent on Ukraine and Russia for imports of key staples like wheat."

She said prices of key commodities have risen by 20-50% between January and March.

She underscored the need for surplus countries like the US and Canada to release their stocks of wheat and other items like cereals, oils and grains into the international market.

She suggested that the knock-on effects of these unforeseen developments should not be allowed to become a full-blown crisis.

The DG said that 12 WTO members

have imposed export restrictions on food products to date, though she did not mention the names of these countries. She called for the lifting of such restrictions as they could worsen the food crisis.

She said that this is “not the time to retreat inward ... This is the time to stress the importance of multilateralism, global solidarity and cooperation.”

She added that countries such as the US, Canada, Australia, Argentina and France could increase wheat cultivation while others such as China, Germany, Morocco, Saudi Arabia, Egypt and Nigeria could increase the global supply of fertilizers.

She also touted the benefits of trade facilitation measures, saying that efforts should be made to allow the UN World Food Programme (WFP) full access to humanitarian purchases.

Reflecting on her comments, one

delegate said the WFP’s procurement of cereals is largely from agri-multinationals like Cargill. The DG seems to have failed to recognize that countries can do little in releasing their stocks, as they are done by private operators, added the delegate.

Continued AB impasse

Meanwhile, in a separate development, for the 52nd time, the US, at a meeting of the WTO Dispute Settlement Body (DSB) on 28 March, blocked a joint proposal from 123 members that called for the start of the selection process to fill seven vacancies at the WTO’s Appellate Body (AB), which is currently non-functional.

The US seems to be pursuing a strategy to bury the AB once and for all, said people familiar with the development, justifying its blocking of new appointments on the grounds that it continues to have

“systemic concerns” and that WTO members must undertake fundamental reform if the dispute settlement system is to remain viable and credible.

The US said that it wants the dispute settlement system to better support the WTO’s negotiating and monitoring functions. However, it has so far not tabled any proposals towards this end.

Despite the US opposition to the AB, around 20 members reiterated the importance of the WTO’s two-tiered dispute settlement regime – with the AB being the highest adjudicating body – to the stability and predictability of the multilateral trading system.

Several members said this issue is a top priority for reform, suggesting that the continued impasse over the AB is causing both commercial harm to members and systemic harm to multilateral trade. (SUNS9545)

Putting the Third World First

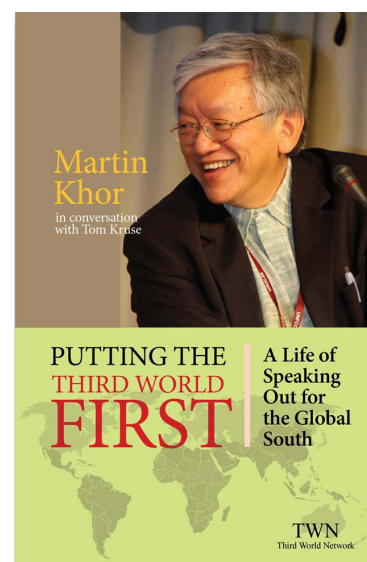
A Life of Speaking Out for the Global South

Martin Khor in conversation with Tom Kruse

Martin Khor was one of the foremost advocates of a more equitable international order, ardently championing the cause of the developing world through activism and analysis. In this expansive, wide-ranging conversation with Tom Kruse – his final interview before his passing in 2020 – he looks back on a lifetime of commitment to advancing the interests of the world’s poorer nations and peoples.

Khor recalls his early days working with the Consumers Association of Penang – a consumer rights organization with a difference – and reflects on how he then helped build up the Third World Network to become a leading international NGO and voice of the Global South. Along the way, he shares his thoughts on a gamut of subjects from colonialism to the world trade system, and recounts his involvement in some of the major international civil society campaigns over the years.

From fighting industrial pollution in a remote Malaysian fishing village to addressing government leaders at United Nations conferences, this is Khor’s account – told in his inimitably witty and down-to-earth style – of a life well lived.



To buy the book, visit <https://twn.my/title2/books/Putting%20the%20TW%20first.htm> or email twn@twnetwork.org

Martin Khor (1951-2020) was the Chairman (2019-20) and Director (1990-2009) of the Third World Network.

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”.

by *Perna Bomzan*

KATHMANDU: 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 recognized 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 “prioritize 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); recapitalizing 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 (OHRLS).

“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 realize 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’s (Organisation for Economic Co-operation and Development) 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 rechanneling 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, recognizing 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 prioritizing “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 prioritize 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, emphasized 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 realization 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 conceptualization 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 emphasized 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 emphasized.

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. (SUNS9542)

War or peace, barbarism or hope

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

by Anis Chowdhury and Jomo Kwame Sundaram

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

ability to honour its BW commitment to maintain full convertibility to gold at US\$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 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.

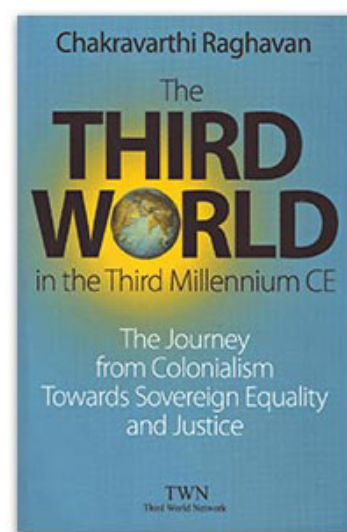
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