UNCTAD 2021 Thematic Inputs for the High Level Political Forum

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1. Multilateral solutions to a better recovery

Long Covid, lost decade

A year after the WHO declared a world-wide pandemic, the global economy is in recovery mode. However, both the economic damage caused by the pandemic and the pace of recovery have varied considerably with developing economies once again bearing the brunt of the shock. Moreover, just as health experts are worrying about lasting adverse effects from Covid-19, there are grounds to worry that the adverse economic effects will also persist unless there is a change of policy direction and political ambition.

Two fundamental lessons can be taken from the current crisis. First, effective state capacity and intervention matter for a healthy economy and stable society. Countries, at all levels of development require sufficient fiscal and policy space to manage the vagaries of the business cycle, mitigating unexpected shocks of various kinds, and building resilient economies particularly, as in the case of most developing countries, where cycles and shocks derive from the actions taken elsewhere in the global economy. Second, given the asymmetric power relations that continue to structure economic opportunities in the global economy, to the disadvantage of developing countries, effective international cooperation is essential to achieving greater resilience and fairer outcomes from a more interdependent world.

Multilateralism in the three decades after World War Two built on these same lessons. It was only a partial success. Managed capitalism coexisted with a persistent and widening technological divide between North and South, wasteful military spending under a tense East-West divide with proxy wars crippled economic prospects in many developing regions, colonialism and lingering racial prejudice, unequal trade relations that inhibited productive diversification in many countries, and carbon-heavy growth that was heedless of the environmental cost.

Despite its faults, the core principles of Bretton Woods did, however, provide a rough template for a more balanced form of economic development in an interdependent world and provided a platform for a new generation of leaders from the South to break the bondages of colonialism and strive for a more inclusive international economic order.

Those efforts ended with the economic dislocations and debt crises of the late 1970s and early 1980s. Over the subsequent four decades interdependence has given way to hyper globalisation as the guiding narrative of international economic relations, in which the territorial power of strong states has become intertwined with the extra-territorial power of footloose capital. From the perspective of the less powerful, this state of affairs is more a mercantilist jungle than the open plains on which friendship, respect, justice and cooperation can flourish. Despite a growing number of economic crises – in Asia, Latin America and Russia in the late 1990s, around internet companies in 2000 and with international banks in 2008-09 – and a looming environmental breakdown, multilateralism has struggled to respond and reforms, while regularly promised, have been resisted by the strongest players. A good deal of the financial firefighting has instead been left to an alliance of Central Bank led by the United States Federal Reserve and an increasing swathe of global management has remained under the governance of large, and largely unaccountable, international corporations.

Covid-19 may prove a turning point in both crisis management and global governance. Adopting lockdowns to manage the pandemic certainly signalled a willingness to put people`s health before corporate profitability and advanced economies have been quick to marshal a larger raft of monetary and fiscal measures to ease the burden those lockdowns have imposed on their own populations, abandoning in the process some of their long-held neo-liberal dogmas. The latest stimulus package of the new administration in the United States would certainly seem to suggest that the era of big government is back. However, there are grounds for caution. Austerity, inflation targeting, trade and investment liberalization, innovative finance and labour market flexibility, amongst a litany of hackneyed economic ideas, retain a loyal following in policy circles and provide a default narrative for charting a well-trodden path for the global economy. This path led to a world of growing economic inequalities, arrested development, financial fragility, and unsustainable use of natural resources before the pandemic hit.

Moreover, despite the hopes of many developing countries now hanging in the balance, the inability of the international community to put forward comprehensive proposals to alleviate debt distress, inject emergency liquidity into the global economy or agree on an equitable distribution of any future vaccine are signs not only that policy-as-usual still prevails but that things could get worse.

If advanced country governments again opt for premature fiscal tightening in an attempt to bring down public debt and businesses adopt an aggressive cost-cutting strategy in an attempt to boost exports, recovery will fizzle out, with a double-dip recession likely in many countries in 2022, followed by a lost decade of slow growth, high unemployment and stagnant wages.

UNCTAD has estimated that, if adopted, a return to policies-as-usual will translate into average global growth rates of 2 per cent annually to 2030, significantly below the average rate of growth of 3.1 per cent experienced after the GFC, and even further below the average rate of 3.8 per cent between the 'dot-com' crisis and the GFC. In this scenario, by end of 2021 global unemployment will climb from a pre-pandemic rate of 5 per cent to above 8 per cent (an increase of about 150 million workers seeking for jobs), and will remain above 6 per cent until at least 2030. What is more, despite fiscal austerity, public debt ratios will continue to rise because of the slow growth of GDP and government revenues. UNCTAD estimates that in this scenario, despite an average annual growth of government spending as low as 1.2 per cent (compared with 2.9 per cent in the post-GFC period), the ratio of gross public debt to GDP for the world as whole will actually increase from 89 per cent in 2021 to 92 per cent in 2030.

In sum, without a change of direction in policy, the next ten years will be a lost decade for growth, development, employment, the environment and economic and social justice.

Another growth strategy is possible, but requires a change of policy direction

A 'lost decade' can still be avoided. A 'growth revival' strategy proposed by UNCTAD in its TDR 2020 indicates a possible way out, based on the following policy mix: (i) a durable fiscal expansion (ii) direct employment creation together with proactive measures to promote employment-intensive private investment, combined with stronger social protection, including for people outside the labour force, and a strong expansion of the care economy with better treatment for its workers; (iii) public investment in infrastructure to support structural transformation, with incentives for private fixed capital formation and curbs on speculative investment; (iv) a serious commitment to climate stabilization both in the form of regulation (e.g. emission limits for private vehicles) and of investment to develop supply of renewables and increase energy efficiency (the combination of which has net positive employment effects).

UNCTAD projects that this strategy will have significantly positive effects on economic activity (due to fiscal multipliers currently in the range of 1.4 to 2.0) and government revenues. Yet, realistically, to bring down deficit and debt ratios, progressive tax reforms will also have to be implemented. This will mean partially shifting the burden from indirect taxes (which are regressive and discourage spending) to direct taxes, from low-income to high-income earners (who are less likely to reduce their spending following a tax increase) and on corporate earnings and rents (with relative exemptions depending on employment creation).

Policy also needs to contain and dial back rising global macro-financial imbalances, which have been left unchecked because of the dominance of 'inflation targeting' rules while neglecting asset-price rises. Thus, UNCTAD proposes re-regulation of financial and capital markets with the aim of curbing purely speculative investment and financial sector leverage. This is consistent with the call for more domestic demand stimulus in countries with an external surplus (instead of injections to global demand by advanced deficit economies based on borrowing and asset appreciations). If domestic demand in surplus economies grows faster, deficit economies can concentrate on the structural transformations necessary to increase productivity and become more competitive in the high end of the value-added spectrum. There are, as UNCTAD indicates, many combinations of domestic demand support, trade measures and industrialization strategies that ensure faster growth in both deficit and surplus countries, but reducing global imbalances requires that domestic demand grows faster in the latter. This is reflected in the "growth revival" scenario described in the TDR 2020.

In this scenario gross world product grows at an average annual rate of 3.8 per cent, with government spending (current and investment) growing at an average annual rate of 3.1 per cent and private investment growing at 6.1 per cent. Unemployment rates are significantly reduced, reaching pre-pandemic levels by 2024-25 and approaching full employment levels by 2030. The demand stimulus is engineered in order not to place undue pressure on productive capacity (thus containing inflation surges), and for public debt ratios to gradually decline. The level of new investment occurring in this scenario is sufficient to deliver a strong boost to the energy transition, such that carbon emissions will approach the Kyoto target of a maximum of 1.5 degrees Celsius above pre-industrial average. In this scenario the gap in per capita income between developing and developed countries is reduced by 10 percent by 2030 (excluding China, whose per capita income is growing faster than in advanced economies already). These outcomes, while positive, fall short of the SDGs but they point to the kind of plausible growth path that is needed for tangible progress, and in the opposite direction to the one the global economy would take if guided by the policy approach of the last decade.

A “better recovery” requires changes in the multilateral architecture

The post-war multilateral order has struggled to adapt to changes, particularly since the early 1980s with the emergence of a hyper globalized international economic order dominated by large flows of footloose capital. Reforms, while regularly promised – most recently after the 2008 global financial crisis -- have been resisted by the strongest players. The Covid-19 pandemic and its economic consequences provide an opportunity to break from the cycle of recurrent crises and aborted reforms.

An ambitious agenda, such as the Agenda 2030 can only be effectively implemented through equally bold reforms to the multilateral system. Still, it is important to recognise that the legacy of Bretton Woods has left in place mechanisms that can still be employed to help resolve the current crisis. But there remain significant gaps in the system that will hold back a better recovery if not urgently addressed. Much like in 1945 doing so will require a marriage of creative thinking and bold leadership that address immediate challenges of relief and recovery while setting a course for longer-term resilience and stability.

UNCTAD’s proposals for collective actions at the multilateral level include the following:

1. In the short-run and to alleviate immediate balance of payment pressures, expansive use should be made of Special Drawing Rights (SDRs), through a relocation of unused SDRs in developed economies to developing countries, as well as through a sizeable fresh allocation that ensures that at least US$ 1 trillion in SDR reach the developing world soon. This represents a meagre 7.5% of the relief packages adopted by the major economies earlier in the year.

2. Extended debt moratoria that last well beyond 2020, include all vulnerable developing countries independently of their income status and extend their scope to bring on board private as well as multilateral creditors. Given the wide reach of private credit rating agencies and their decisive role in either facilitating or hampering progress on debt moratoria and relief, we suggest that the time has come to proactively engage with the establishment of a publicly controlled credit rating agency. Beyond debt moratoria, debt cancellations will have to be considered systematically over the next year.

3. A Marshall Plan for global health recovery could provide a more dedicated framework for building future resilience. If the donor community met the 0.7 per cent of GNI Official Development Assistance (ODA) target for the next two years that would generate something in the order of $380bn above current commitments. An additional $220bn mobilized by the network of multilateral and regional financing institutions could complete a $600bn support package over the next 18 to 20 months. The money should be dispersed largely as grants but with some room for zero interest loans, the precise mixture determined as the emergency response evolves.

4. The lending capacity of multilateral development banks should be boosted. This new lending could, for example, come from existing shareholders redirecting environmentally damaging subsidies, for example for fossil fuels and industrial agriculture, to the capital base of these institutions, or from more innovative sources, such as a financial transaction tax, and augmented by borrowing on international capital markets, with a measured relaxing of their fidelity to financial sobriety. In return, these institutions should reassess their policy conditionalities in line with a more sustainable and inclusive development agenda.

5. Properly regulated international financial markets. Volatile international capital flows generate cycles that increase the financial fragility of receiving countries, especially in the developing world. Insulating measures, including capital controls, will need to be country specific, determined by the nature and degree of a country's financial openness and by the institutional set-up of its financial system.

6. Comprehensive international tax reforms to avoid a race to the bottom in tax matters are urgently needed to increase cross-border tax transparency and developing countries' voice in this regard. This extends, in particular, to the improved international governance of extractive industries and of international rules for the taxation of digital services and sectors.

7. Finally, a global sovereign debt authority, independent of either (institutional or private) creditor or debtor interests, should be established to address debt cancellations and reprofiling in a systematic fashion and to correct the manifold flaws in the current handling of sovereign debt restructuring. These have come under a glaring spotlight during the current crisis, including the crippling fragmentation and complexity of existing procedures, the potentially extraordinary powers of hold-out creditors to sabotage restructurings, and the resultant inefficacy of crisis resolutions. UNCTAD is currently working on the details of such an authority.

For all its destruction of human and economic life, the novel coronavirus has created an opportunity for lasting change, in part because it has laid bare the shortcomings of the world that existed well before this pathogen made its way around the world. The financial crisis a decade ago did the same, but the world did not rise to the challenge, and we were still living with the vestiges of that failure when the virus leapt from animal to human in late 2019. Now the problems are, if anything, larger. But the intellectual environment around them is much more vibrant, and the political will to attack them shows some promising signs of life. There is reason for hope but not for complacency.

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2. Science, Technology & Innovation (STI) in the times of Covid-19

The COVID-19 pandemic has made it even more urgent to ensure better and global support to achieve a sustainable and digital future for the many. Better ways of collaboration that generate more cost-effective use of scarce resources need to be leveraged in fulfillment of the Agenda 2030. Three thematic areas of STI could address include: i) decarbonization of shipping, ii) inequality and STI and iii) ecommerce and the digital economy.

The decarbonization of shipping – a cornerstone of the energy transition

Shipping depends on carbon-based fuels, both for its own use as a fuel, as well as for its cargo. Forty per cent of the volume of international seaborne trade is energy (coal, oil, gas).

The International Maritime Organization, the IMO, has set clear goals in the endeavour to reduce Green-House-Gas emissions from maritime transport. UNCTAD collaborates very closely with the IMO in the assessment of the potential impact of measures that aim at reducing carbon emissions from shipping.

In UNCTAD's collaboration with the IMO, we have highlighted the importance to undertake comprehensive impact assessments of the proposed measures, while also stressing our view that additional impact assessments should not delay the efforts to achieve the goals of reducing emissions.

In addition, proposals towards market-based measures are gaining momentum. We believe that it will be important to ensure that the most vulnerable economies, including small island developing states and least developed countries, can benefit from funding that may be generated through such novel measures.

The same countries that are most affected by climate change are also potentially the countries that are most negatively affected by higher transport costs or lower maritime connectivity.

UNCTAD data shows that Small Island Developing States pay on average twice as much for the transport of their foreign trade than the world average. They are also confronted with remoteness and lower maritime transport connectivity, which affects the resilience and reliability of their trade. It will be crucial to provide the necessary technical and financial support to these countries to ensure that they can adapt to climate change, and at the same time mitigate any potential impact of new regulations that affect maritime transport costs and connectivity.

Inequality and Science, Technology, and Innovation

UNCTAD's Technology and Innovation Report 2021 highlighted that during recent decades of digitization, the world has seen growing prosperity. People on average are living longer and healthier lives. Rapid economic growth in emerging economies has fuelled the rise of a global middle class. Nevertheless, there is persistent poverty, and rising inequality. These imbalances constrain economic growth and human development while heightening vulnerability, whether to pandemics, or economic crises or climate change – and can destabilize societies. These disparities have come into sharp relief as a result of the COVID-19 pandemic.

UNCTAD's Technology and Innovation Report 2021 argues that the world is at the beginning of a new technological revolution, that could entrench or aggravate the great divides between countries that started after the first industrial revolution. Very few countries create the technologies that drive this new revolution, but all will be affected by it. However, almost none are well prepared for the consequences.

Developing countries, particularly low-income countries, cannot afford to miss this new wave of technological change. Each country will need STI policies appropriate to its stage of development, to prepare people and firms for a period of rapid change. Success in the twenty-first century will require a balanced approach – building a robust industrial base and promoting frontier technologies that can help deliver the 2030 Agenda and its global vision of people-centred, inclusive, and sustainable societies.

eCommerce and Digital Economy

The rapid pace at which the world economy is transforming digitally has major implications for Agenda 2030 on Sustainable Development. Greater levels of digitalization of both economies and societies are creating new means for tackling global development challenges. Digital disruptions have already led to the creation of enormous wealth in record time, but this is highly concentrated in a small number of countries, companies and individuals. The COVID-19 pandemic, has accelerated these trends, plunging the world into the worst recession since World War II (UNCTAD predicts a shrink of the global economy by 4,3% in 2020) but boosting the uptake of e-commerce in unprecedented ways.

A soon-to-be released paper by a group of eTrade for all partners highlights however that greater efforts are needed to help reduce inequalities in e-trade readiness that currently prevail amongst countries. All stakeholders – governments, businesses, consumers and international development partners – have a responsibility to ensure that e-commerce plays a positive and powerful role in national and international recovery efforts and contributes effectively to the achievement of the SDGs.

In addition to connectivity, there is a need to build the capacity of countries to strengthen legal and regulatory frameworks, skills development and business models to enable more countries to create and capture value in the digital economy.

The pandemic has also demonstrated the importance of ensuring consistency and avoiding duplication in international efforts. Over the past four years, the UNCTAD-led eTrade for all initiative, which gathers 32 global partners, has shown the potential for collaboration emerging as a trusted source of information, contacts and resources for developing countries and providing a relevant platform for an inclusive dialogue on e-commerce and digital trade.

3 Inclusive and resilient recovery for Least Developed Countries

Impact of Covid on LDCs, SDGs and "ensuring no one is left behind"

LDCs were able to weather the health aspects of the pandemic better than initially predicted due to country-specific factors, including: previous experience with epidemics; the policy and technological innovations adopted in reaction to COVID-19; and favourable demographics, e.g. young populations and, in most cases, low population density.

From a health policy perpective, the LDCs that have better weathered the COVID-19 pandemic better are those with a broader and more sophisticated base of productive capacities in their economy. More generally, the same reasoning also applies to their capacity to respond to other shocks (e.g. medical, economic or natural disasters). Countries that have been able to develop a denser and more diversified fabric of productive capacities have shown greater resilience and have been better prepared to weather different types of shocks. While the pandemic had (at least initially) a less than catastrophic health impact, its economic repercussions have been ruinous. In 2020, the COVID-19 pandemic led to LDC economies experiencing their strongest economic shock in several decades; this, in turn, resulted in a sharp economic downturn, brought about by the combined effects of a deep world economic recession, and the consequences of the domestic containment measures adopted by LDC governments. Worse still, these consequences are likely to linger in the medium term.

International migration and remittances flows have also suffered a major blow from the lockdowns that were introduced, and the ensuing worldwide recession. Total remittances to low- and middle-income countries (LMICs) are forecast to fall by one fifth in 2020, with an even sharper contraction expected in South Asian and sub-Saharan African countries. The LDCs most vulnerable to falling remittances are those that rely the most on them as a source of external financing, and include: Haiti, South Sudan, Nepal, Lesotho, Gambia, Yemen, Comoros, Kiribati and Senegal.

The global downturn is also expected to have a dramatic negative impact on global poverty and food insecurity. This may give rise to path-dependency and turn transient forms of poverty into chronic poverty. The COVID-19 outbreak led to a very bleak economic growth outlook for countries across the world; however, the impact on the LDCs will be even worse, as the pandemic is expected to lead to an increase of 3 percentage points – from 32.2 to 35.2 per cent – in their average poverty headcount ratio according to the $1.90 per day poverty line. This is equivalent to a rise of over 32 million people living in extreme poverty in the LDCs, and is expected to have the deepest impact on African and island LDCs.

While this situation represents a setback for attaining Goal 1 of the Sustainable Development Goals, it also could mean that a number of other Goals, notably those related to health and education, will not be reached, as populations adopt adverse coping strategies, such as reducing their intake of healthy and nutritious food, or taking children out of school.

The process of structural transformation in LDCs indicates that over the long run most of them have experienced a falling share of agriculture in both output and employment. The transfer of resources has been mostly in favour of the tertiary sector (i.e. services), especially in the case of African LDCs. Most of these countries have experienced the reallocation of labour from low-productivity agriculture to low-productivity urban activities, mostly occurring in the informal service sector.

LDCs achieved a healthy pace of labour productivity gains in the 2001–2011 period, following annual growth of 3.9 per cent, a slightly lower level than in ODCs which recorded an annual expansion of 4.6 per cent. During the following period, however, these two groups of countries diverged. Labour productivity growth decelerated in both sets of countries, but much more in LDCs, where it declined to 1.9 per cent annually, whereas in ODCs it decelerated more moderately to 3.7 per cent per annum. The highest pace of productivity growth took place in the Asian LDCs, largely as a result of relatively faster productivity growth in manufacturing and services in countries, e.g. Bangladesh, Cambodia, Lao People's Democratic Republic and Myanmar. The deceleration in labour productivity in African LDCs during the 2011–2017 period was largely driven by the actual decline in productivity in services and other industries (especially in the mining sector). The adverse performance of productivity in services is due to two factors: (i) the continuous influx of labour not being matched by commensurate output growth in the tertiary sector; and (ii) the concentration of tertiary employment in less knowledge-intensive services, and their typically lower productivity growth potential. The share of employment in these services in LDCs is the highest among major country groups. The overall labour productivity level of LDCs as a group has been diverging from that of ODCs as a group over the long term, as has the strength and direction of their structural transformation. In 1991 the LDC/ODC ratio was at 25 per cent, 9 while at the beginning of the new millennium it was down to 21 per cent, finally reaching 18 per cent in 2017. The process of divergence was somewhat interrupted in the 2000s, largely as a result of the long commodities cycle, but has resumed since the global financial crisis of 2008–2009. If this divergent trend is not reversed, LDCs as a group will not be able to escape from their long-term marginalization in the world economy.

Measures and proposals for a resilient recovery

UNCTAD has developed an aggregate measure representing the endowments of productive factors, their management and transformation, and the effectiveness of market interlinkages. The Productive Capacities Index (PCI) is the most extensive analytical work done to date in terms of scope and technical effort. It encompasses eight broad categories defined over many indicators representing the main channels through which productive capacities of a country develop, namely: energy; human capital; ICTs; natural resources; transport infrastructure; institutions; the private sector; and structural change. Each category has a dedicated sub-index. The PCI can be used to benchmark differences among LDCs and between LDCs and other country groups. In 2011–2018, the PCI scores in LDCs ranged from 9 to 36, with the average at 17. The median productive capacity climbed from 14.9 to 17.2 during that period, while for ODCs it rose from 27.3 to 28. Countries with a relatively high PCI have also been successful at fostering structural transformation, and have used their productive capacities to diversify their economies and exports. LDCs posted major improvements with respect to ICTs, transport infrastructure and the structural change categories of productive capacities although, in absolute terms, their scores in 2000 and in 2018 on the bounded PCI scale (0–100) are too low compared to the scores of other country groups. LDCs lag behind ODCs in all PCI categories – with the exception of natural resources – and more particularly in ICTs, human capital and institutions. There are also significant differences among countries in energy, the private sector and structural change factors.

This calls for policies at all levels aimed at setting in motion the process of structural transformation through the gradual broadening, deepening and full utilization of LDC productive capacities. Two key priorities emerge from an LDC perspective. First, with LDC labour supply expected to increase by 13.2 million workers per year in the 2020s, the challenge of employment creation cannot be overemphasized. This will require a multipronged approach which simultaneously supports labour demand in 19 higher-productivity labour-intensive sectors, and enhances the employability of new entrants into the labour market. Second, the role of technologies for sustainable development has become all the more pivotal in the post-COVID-19 scenario, as the fallout from the pandemic is likely to accelerate some facets of the ongoing process of industrial digitalization and servicification. The position of LDCs in the global division of labour could be further marginalized if their distance from the technological frontier lengthens and the digital divide persists or widens further. Hence, the long-standing challenges in upgrading their technological base and setting in motion meaningful technology transfer will likely become even more vital. Emerging evidence points to the serious risk of a widening divide as a result of the sharp concentration in the production and deployment of advanced technologies, the marginal engagement of LDCs in their adoption, as well as the prevailing shortages of complementary skills.

One of the key lessons of the COVID-19 pandemic is that resilience requires adaptability and the capacity to innovate, e.g. repurposing the production of textiles to that of personal protective equipment, or that of alcoholic beverages into disinfectants. These features are inevitably contingent on pre-existing capabilities. From a policymaking perspective, rather than framing the discussion as a dichotomy between manufacturing-led versus a services-led model, the advent of new technologies puts a premium on systemic coherence. This entails designing policies to strategically target synergies and complementarities across sectors, with a view to gradually enhance the sophistication of the economy. It also involves an awareness of the political economy dimensions underlying technological change and its potential distributional effects.

The fallout from the COVID-19 pandemic has once again exposed the long-standing flaws and asymmetries inherent to the prevailing multilateral trade and financial architecture. In this context, LDCs cannot but be among the most fervent supporters of a revamped, more effective and inclusive multilateralism, capable of addressing today's challenges and creating a more conducive international environment. They also have a large stake in the solution of long-standing systemic issues, notably in securing an adequate provision of international liquidity and of sufficient long-term development finance (including climate finance) which is compatible with their development goals. Equally, the worsening debt sustainability situation and outlook of LDCs, as well as that of many ODCs, calls for the adoption of measures that go well beyond the debt service standstill agreed by the G-20 in April 2020.

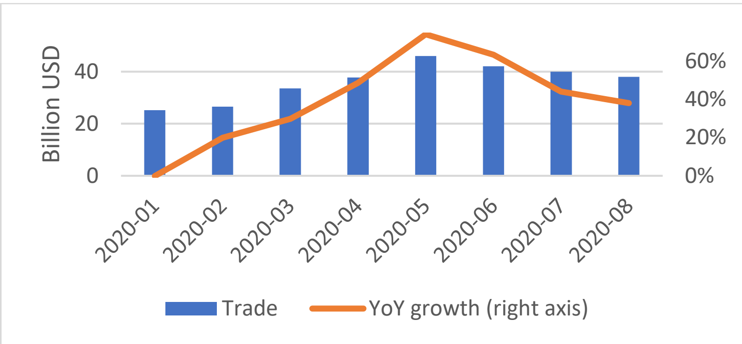
Policy proposals

Broader and more effective initiatives include: (i) renewed debt cancellation and relief programmes; (ii) the creation of an effective, comprehensive and transparent framework for sovereign debt workout; and (iii) the strengthening of the use of state-contingent debt instruments.

4 COVID-19 and relevance of international trade

International trade played a key role in responding to the COVID-19 pandemic and ensuring access to medical goods needed to prevent the spread of the virus and treating those infected. UNCTAD's Global Trade Update[1] (October 2020) indicated that between January and May 2020, the year-over-year growth in exports of COVID-19 medical supplies was 74%. Efforts to maintain global supply chains ensured that medical goods as well as intermediate inputs needed to produce them could flow across borders, easily. International trade will also be central to vaccine distribution, given the geographically concentrated production.

Figure 1: Trade trends of medical supplies related to COVID-19



Source: UNCTAD, Global Trade Update, October 2020

Going forward, trade will be integral to supporting and sustaining economic recovery. The pandemic resulted in a dramatic reduction in global trade, across developed and developing countries; many sectors; and most regions of the world. The Global Trade Update, October 2020 shows that the value of international trade in goods declined by about 19% in the second quarter of 2020. Recovery will require efforts to keep supply chains flowing and trade will be key spurring economic growth and supporting livelihoods, in keeping with SDG 1 no poverty, SDG 2, zero hunger and SDG 8 decent work and economic growth.

[1] UNCTAD, Global Trade Update (2020) - ditcinf2020d4_en.pdf (unctad.org)

The recovery is likely to be uneven as COVID-19 has hit different countries differently in terms of extent and timing. There is a risk that LICs will lag in the recovery process and therefore would find their economies even less able to compete in international markets, more so, in high value-added sectors. Further, there is a risk of reliance on commodities and other low value export earnings. This will require continuous monitoring of trade, nowcasting in UNCTAD's Global Trade Update; and then designing policies that ensure that "no one is left behind" and progress made towards SDG 10: reduced inequalities, is not lost.

Trade Policy/Non-tariff measures

The pandemic saw nearly 150 countries resort to the use of non-tariff trade measures (NTMs) to restrict and facilitate trade in essential goods. Such NTMs can have far-reaching implications for SDGs: health and well-being, food security, economic growth as well as inequalities between countries, – both positive and negative; direct or indirect through their impact on trade. For example, export restrictions during the pandemic deprived the poorest of essential medical supplies. Trade facilitating measures such as removal of licensing/certification requirements on the other hand helped ensure easy imports of essential goods[2]. The experience offers an opportunity to draw lessons and to use trade policy wisely improving access to vaccines, promoting a resilient recovery, as well as for building a more resilient trading system that can help brave future pandemics - all while adequately contributing to several SDGs, directly or indirectly.

Governments may be tempted to use trade policy to recover faster from the pandemic or to gain competitive advantage in the recovery process. Such national policies should be temporary in nature and be assessed on whether they are trade restrictive to imports from low-income countries. If so, they should allow for compensatory measures. Elimination of non-tariff barriers will be critical to support global value chains and those who depend on it, and drive poverty reduction.

In the area of trade policy, facilitating preferential access (e.g. easier preference utilization), relaxation of rules of origins, and increase in trade facilitations assistance will favor trade originating from low income countries and could compensate for some competitiveness losses. Review of trade policy stances of countries vs LICs, both in relation to tariffs (e.g. tariff escalation, preference utilization) and non-tariff measures (e.g. international standards, rules of origin).

In the longer-term, countries will have to consider multilateral or regional initiatives to remove unnecessary NTMs on essential medical supplies, particularly in emergency situations; or incorporate

[2] UNCTAD (2020a) - COVID-19 Non-Tariff Measures: The Good and the Bad, through a Sustainable Development Lens (unctad.org)

exemptions to address the needs of the poorest. Coordinated NTMs and those based on international standards will help facilitate international trade. Regulatory convergence, through harmonization, equivalence, or mutual recognition will help create economies of scale.

Strong international cooperation will be key. The International NTMs Classification coordinated by UNCTAD with the MAST group can aid in building a finer-meshed web of cooperation, in keeping with the spirit of SDG 17: Partnership for goals. Transparency and additional monitoring of policy actions by regional and multilateral institutions would contribute to deter countries from beggar-thy-neighbour policies.

The role of Voluntary Sustainability Standards (VSS)[3]

Shifts in consumer demand, labor shortages, disruptions to transport and logistics services, and limited accessibility to key intermediate inputs for farmers – have all put a lot of stress on the global food systems. This in turn has serious implications for food security and nutrition, livelihoods of people working along the food chain as well as the environmental sustainability: all associated with SDGs. This is most concerning for low-income, developing countries that are economically reliant on agriculture and where agricultural production systems are more labor-intensive[4]. This has highlighted the relevance of building a resilient, sustainable, and productive global food system in the long run that can withstand the pressure of pandemics. Increased resilience is particularly essential in the context of changing climate and environmental emergencies.

Certification schemes and voluntary sustainability standards (VSS) can be useful tools in making the agri-food global supply chains more sustainable. While VSS cover several sectors, agriculture and food products are more prominent in the use of VSS. Mainstreaming VSS can help contribute to creating resilient supply chains by emphasizing continuous improvements through its monitoring mechanism, transparency, and accountability; thus also helping to achieve many fronts aligned to the SDGs.

COVID-19 has prompted retailers and consumers to obtain a better understanding of where their food comes from. Certifications and quality standards can be helpful in achieving transparency and traceability of the product origins in international trade. Since nearly one-third of the world´s agri-food product exports originate in developing countries, the implications for them are most important.

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[4] UNCTAD (2020c) - Maximizing sustainable agri-food supply chain opportunities to redress COVID-19 in developing countries (unctad.org)
OECD (2020)- COVID-19 and global food systems (oecd.org)

In relation to trade, VSS certification may help expand demand, improve market access, and improve productivity[5]: all of which will be key to global food systems and in turn, SDGs.

Promoting VSS uptake will require capacity building and awareness program to better understand sustainable operations in agricultural and agri-food manufacturing sectors. An institutionalized system that provides access to capacity building, information, systematic certification infrastructure, and adequate financial resources, will central to this.

Commodities

UNCTAD's secretariat[6] estimates indicate that, compared to business-as-usual projections based on pre-COVID trends, commodities exports to major destination markets (i.e., China, the European Union (27) and the United States) were expected to fall by up to US$193 billion in 2020 due to COVID-19. About 60 per cent of this drop is projected to be borne by Commodity Dependent Developing Countries. For CDDCs as a group, this represents a loss in commodities exports of up to 13.5 per cent (about plus 1 per cent for China, minus 16 per cent for the European Union (27) and minus 13 per cent for the United States) with respect to benchmark estimates based on a business-as-usual scenario.7 Most recent data releases by the Chinese customs confirm such projections.

Most countries are expected to lose export revenues in 2020 both as compared to business-as-usual projections and to 2019 performance. African oil exporters are among the hardest hit both in absolute and relative terms. Nigeria losses in 2020 with respect to a business-as-usual progression amount to US$ 14 to 17.5 billion and those of Ghana to US$ 2.5 to 2.7 billion. The impact on the commodity sector is also found to be disproportionately higher among smaller economies, which face a relatively deeper reduction in their exports and resulting revenues. Countries such as Eswatini, Vanuatu, Saint Kitts and Nevis, Brunei Darussalam, the Gambia, Kiribati, Rwanda, Samoa, Grenada, Maldives and Fiji may see their revenues to be retrieved in 2020 for their exports of commodities fall by at least 40 per cent.

Overall, exports to the three major markets of all main commodities categories (i.e., food products, raw agricultural products, energy products, minerals and ores products) are expected to fall short of baseline projections. Exports of energy commodities (i.e., crude and refined oils, coal and lignite, and

[5] UNFSS (2018) https://unctad.org/system/files/official-document/unfss_3rd_2018_en.pdf

[6] See Fugazza (2020) https://unctad.org/system/files/official-document/ser-rp-2020d3_en.pdf and Ali, Fugazza and Vickers (2020) https://unctad.org/webflyer/covid-19-and-commodities-assessing-impact-exports-commonwealth-countries

[7] Business-as-usual projections would produce an increase by 2 per cent overall (plus 8 per cent for China, plus 1 percent for the European Union (27) and minus 1 percent for the United States).

natural gases) are the most severely affected despite the rebound of international demand observed in the second half of 2020. They are expected to fall short of baseline projections by up to US$149 billion corresponding to a relative loss of 15 per cent with respect to a COVID-19-free situation. The only exception relates to exports of commodity dependent developing countries (CDDCs) of raw agricultural products (i.e., cotton, rubber, wood, wool and, paper pulp). Again, the most recent release of information by the Chinese Customs confirms these projections. For instance, total Chinese imports of wood in the rough have increased by 16.7 per cent in value and 12 per cent in quantity in 2020.

The decline in export earnings represents a source of balance of payments disequilibrium for most primary commodity exporters. It would add to the decrease in FDI flows observed in 2020[8] (e.g. -18 % in Africa), the decrease in remittances flows observed in 2019[9] (e.g. -0.5 % in Sub Saharan Africa) and projected to deepen in 2020 (e.g. -23 % in Sub Saharan Africa). These losses and the consequent macroeconomic tensions may have severe negative repercussions not only on debt reimbursements but also on governments' capacity to extend the public services needed to respond effectively to the crisis and eventually on the progress of post-COVID-19 recovery and resilience building efforts.

Countries affected by strong balance of payments disequilibrium may have to reconsider their SDG strategies. This may impose a clear deviation from the originally defined action plans. Even the Africa's Agenda 2063 may be at risk. Progression towards several targets within goals 1, 8 and 10 has at best slowed. There is a need to strengthen commitments to goal 17 to avoid the appearance of additional development trap country clusters. Current discussions about new debt relief plans for HIPCs are encouraging but the current situation also call for an extension of ODA programs and a deepening of preferential treatment beyond trade matters.

Competition and Consumer Protection

Impacts of the COVID-19 pandemic on consumer policies and the implementation of the SDGs impacts SDGs 8, 9, 10, 12 and 17. The coronavirus pandemic has opened the floodgates of unfair, misleading and abusive business practices, hitting consumers hard and leaving the most vulnerable ones more disadvantaged. Already in April 2020 UNCTAD called for firmer action to better protect consumers, providing 9 key recommendations.

The pandemic is fuelling the surge of digitalization, which is a boon for consumer welfare, but it also poses added risks. Consumers have had to face shortage of essential goods and services, hoarding, as well as some abusive business practices such as price gouging (excessive pricing), and new forms of

[8] See UNCTAD (2020), "World Investment Report 2020", UNCTAD, Geneva.
[9] See World Bank, 2020, "Migration and Development Brief 32: COVID-19 Crisis through a Migration Lens", The World Bank, Washington D.C.

misleading advertisements and other deceptive commercial practices seeking undue advantages in these challenging times and all of it in a ubiquitous digital environment. Consumers' health and safety and economic interests are increasingly at risk. These developments may have particularly affected the implementation of SDGs 1 on no poverty and 3 on good health and wellbeing.

With regard to SDG 8, firms of all sizes have been affected by COVID-19 measures, but smaller firms with fewer financial reserves, especially Micro, small and medium-sized enterprises (MSMEs), seem to be the most vulnerable. The most affected sectors include accommodation and food services, arts, entertainment and recreation, and education. Therefore, firm exits are expected to increase in the medium to long-term. This has implications for rising unemployment (SDG 1) and economic growth (SDG 8). The lockdown measures and the economic shock that followed the pandemic affected especially sectors such as retail, air travel, aircraft manufacturing, travel services, hotels, restaurants, sports and cultural events, etc. Tourism and services sector, which is hit hard by the pandemic, are the main economic sectors in many developing countries. This will affect the implementation of SDG 1 and 8 in these countries.

Many firms will not be able to withstand the liquidity crisis and will need to restructure to adapt to reduced demand or will leave the market. Therefore, one can expect an increase in M&As and a subsequent rise in market concentration. Secondly, efforts of countries to recover from the economic crisis might lead them to adopt trade restrictive measures to make imports more expensive and less competitive with the domestic production. Therefore, one can expect a weaker import competition in the post-COVID 19 period. Likewise, competition may also decrease in strategic industries, such as the pharmaceutical industry and health equipment. Prices of goods and services affected most by the pandemic and where market concentration will eventually increase and competition decrease, price increases may be expected. All of these might have implications with respect to SDG 1.

The financial stimulus packages provided during the pandemic, mostly by the developed world, will change the competition landscape at all levels: national, regional and global. Many undercapitalized companies from fiscally stressed countries will face competition from stronger foreign rivals strengthened by massive state aid, so that markets will be very far from the level-playing field. This will affect the competitiveness of enterprises in developing countries and hence their economic growth (SDG 8).

Actions, policy guidance, progress, challenges and areas requiring urgent attention in relation to the SDGs and to the theme within the area under the purview of UNCTAD include:

1. On SDG3, the Eighth United Nations Conference on Competition and Consumer Protection (19-23 October 2020) adopted a Recommendation on Preventing cross-border distribution of known unsafe consumer products, which guides member States in strengthening cross-border cooperation to avoid businesses/distributors from exporting consumer products that are known to be unsafe for consumption.

2. On SDG17, the Eighth United Nations Conference on Competition and Consumer Protection (19-23 October 2020) adopted the Guiding policies and procedures under section F of the UN Set on competition (GPP), whose aim is to facilitate international cooperation of competition authorities in the fight against cross-border anticompetitive practices.

The areas that require most attention in relation to SDGs 3, 8, 10 and 12 are:

Support to MSMEs: In addition to the policy guidance outlined in the recommendations of the Global Report (see part (e) below), what the SME Surge project points to is the fact that M/SMEs require urgent support from governments and/or competition authorities/relevant bodies in terms of financial support, training and advisory services to stay afloat and continue their economic activities post crisis. The rationale being that M/SMEs are the main economic backbone of developing countries' economies ranging from 60 up to 99.9% of total employment they provide. A lack of support to M/SMEs will have tremendous and negative effects on the economies and people of developing countries.

Another area which requires attention in relation to SDG 8 and 12 is promotion of sustainable production and consumption (SDG 12) amongst MSMEs in developing countries. There is need to carry out advocacy work on sustainability across MSMEs in developing countries to not only enhance their competitiveness but also promote the SDGs (SDG 8 and 9 and 17). This will have a positive feedback loop effect because MSMEs will be able to resume their economic activities with the right tools to address resource shortages and also to promote products which are more sustainable (SDG 12) while at the same time increase their competitiveness on the market with sustainable products. UNCTAD is currently carrying out a project in the ASEAN region on sustainable consumption.

UNCTAD Competition and Consumer Policies Branch has been fully involved in the UN COVID-19 response in two areas: SMEs and Competition law and policy on one side, and Consumer protection and Social Protection on the other side.

The SME Surge Project falls within the UN-DA led umbrella project of the global UN COVID-19 Response. It aims at examining how COVID-19 has impacted MSME in developing countries and how competition policy can provide support in the economic recovery, notably stressing MSMEs' access to markets. This project is related to the following SDGs: SDG 8 (Sustainable Economic growth), SDG 9 (Promote inclusive and sustainable industrialization and foster innovation).

In the economic recovery, SME and competition policy measures are pertinent as a means to respond to COVID19 crisis as authorities/enforcers face the reality of frequently re-interpreting and relaxing legal provisions. A number of potentially anti-competitive provisions have been tolerated and more than ever, competition authorities are focusing on the impact these decisions might have on MSMEs. The high prevalence of MSMEs as the economic backbone in developing countries makes this issue even more relevant to address. This project aims to advocate and promote competition policies which foster sustainable economic growth for SMEs (SDG 9) and to promote innovation without negatively impacting SME' market access or competitiveness notably in the digital sector (SDG 8).

The SME Project plugs in well within the COVID-19 Response of Regional Economic Commissions and complements their respective agendas in a timely manner: ECE: studies on MSMEs taking a market access perspective in ex-CIS countries, ESCAP: launching regional SME network, national study on the impact of COVID-19 on MSMEs, ASEC: ASEAN Relief package, ECLAC: regional study on the impact of COVID-19 on MSMEs, ESCWA: report on innovation in SMEs in the Arab Region, ECA: surveys on businesses outlooks to COVID-19.

The Social Protection Surge Project falls within the UN-DA led umbrella project of the global UN COVID-19 Response. UNCTAD's contribution analyzed how the consumer protection policy can provide support in the economic recovery of developing countries, notably in the provision of health services. This project falls within the following SDGs: SDG 8 (Sustainable Economic growth), SDG 9 (Promote inclusive and sustainable industrialization and foster innovation) and SDG 12 (Ensure sustainable consumption and production patterns)

"Ensuring that no one is left behind" at the global, regional and national levels

The SME Surge project will contribute to ensuring that no one is left behind since it aims at maintaining a level playing field in developing economies between M/SMEs and other economic actors by promoting policies and raising awareness of the hurdles faced by SMEs resulting from pre-crisis hurdles (i.e., lack of access to finance) but also challenges which have emerged out of the crisis (i.e., lack of access to state aid). This project takes a particular take on promoting sustainable economic growth (SDG 8) through the enhancement and promotion of competition policies especially in digital markets.

Through the promotion of SDGs 8 and 9, the project aims to (1) address why SMEs are facing hurdles in market access compared to larger firms or state owned enterprises, (2) promote MSME specific policies through dialogues between policy makers and SME representatives on SMEs' market access, (3) analyze how government measures are affecting SMEs' access to markets (pre, during and post crisis), by notably looking at state aid, (4) promote MSME specific and inclusive COVID-19 policies to ensure that MSMEs' resilience ad continuity in the post crisis period and (5) raise awareness of hurdles faced by MSMEs to gain competitiveness through regional dialogues (i.e. access to finance, digitalization).

Cooperation, measures and commitments at all levels in promoting sustainable and resilient recovery from the COVID-19 pandemic.

UNCTAD promotes regional and international cooperation in its work with the Intergovernmental groups of experts (IGE) on competition and consumer protection laws and policies. The UNCTAD intergovernmental bodies, namely, the Intergovernmental group of experts' competition law and policy (IGE Competition) and the Intergovernmental group of experts' consumer protection law and policy (IGE Consumer Protection), promote competition and consumer protection policies in developing countries and in countries with economies in transition in a way that these policies contribute to their economic growth and development (SDG 8). IGE Competition promotes international cooperation in competition law enforcement within the framework of the UN Set on Competition and the recently adopted Guiding policies and procedures under section F of the UN Set on competition.

UNCTAD also has been supporting regional economic organizations, contributing to regional cooperation in competition law and policy, recently to the African Continental Free Trade Area framework and the competition protocol.

IGE Consumer Protection promotes cooperation among consumer protection authorities in online consumers' protection in e-commerce, through its working group on consumer protection in e-commerce established in 2017. IGE Consumer Protection also promotes the protection of consumers from hazardous products through its work within the working group on consumer product safety, which aims to facilitate information exchange and consultations and highlight best practices.

Both Development Account COVID-19 projects, within the UN-DA led umbrella project of the global UN COVID-19 Response, promote discussions and dialogues between government officials, policymakers, business and other regional and international organizations representatives in the fields of competition, consumer protection, health and SMEs. This is being pursued in partnership with the UN Regional Economic Commissions by organizing regional virtual dialogues with the relevant abovementioned actors during the months of March, April and May 2021. Such dialogues provide a valuable opportunity to take stock of the situation in each region and evaluate how best UNCTAD can support the SME agencies and health public bodies in the following phase of these projects (i.e., trainings, workshops, awareness campaigns, surveys).

Measures and policy recommendations on building an inclusive and effective path for the achievement of the 2030 Agenda in the context of the decade of action

As part of the SME Surge Project, UNCTAD commissioned a comprehensive report taking a global approach on the challenges SMEs are currently facing in developing countries and what should be done to address this.

The aim of the report is to provide a snapshot of the current competition and market access challenges being faced by MSMEs around the world as they seek to deal with the impact of COVID-19 on their operations. It focuses on competition-related challenges caused by the pandemic, ability to access existing and new markets, regulator responses to the situation that especially affect MSMEs, and related observable trends in the small firm sector.

In addition to the report, UNCTAD has also commissioned three national studies to take stock of the situation and provide a snapshot of the situation in three relevant countries: South Africa, Brazil and Thailand. These national studies address the challenges faced by SMEs looking at specific sectors (i.e., manufacturing, retail) and also provide recommendations on the way forward. This complement works already been carried out by ECLAC on the impact of COVID19 in Mexico and an UNCTAD study of Thailand’s tourism sector. Currently, UNCTAD is reviewing these three national studies.

Key messages for inclusion into the Ministerial Declaration of the 2021 HLPF.

Governments need to include sound competition and consumer protection policies in the policy mix adopted for an inclusive and sustainable economic recovery, to make markets work better for consumers and businesses.