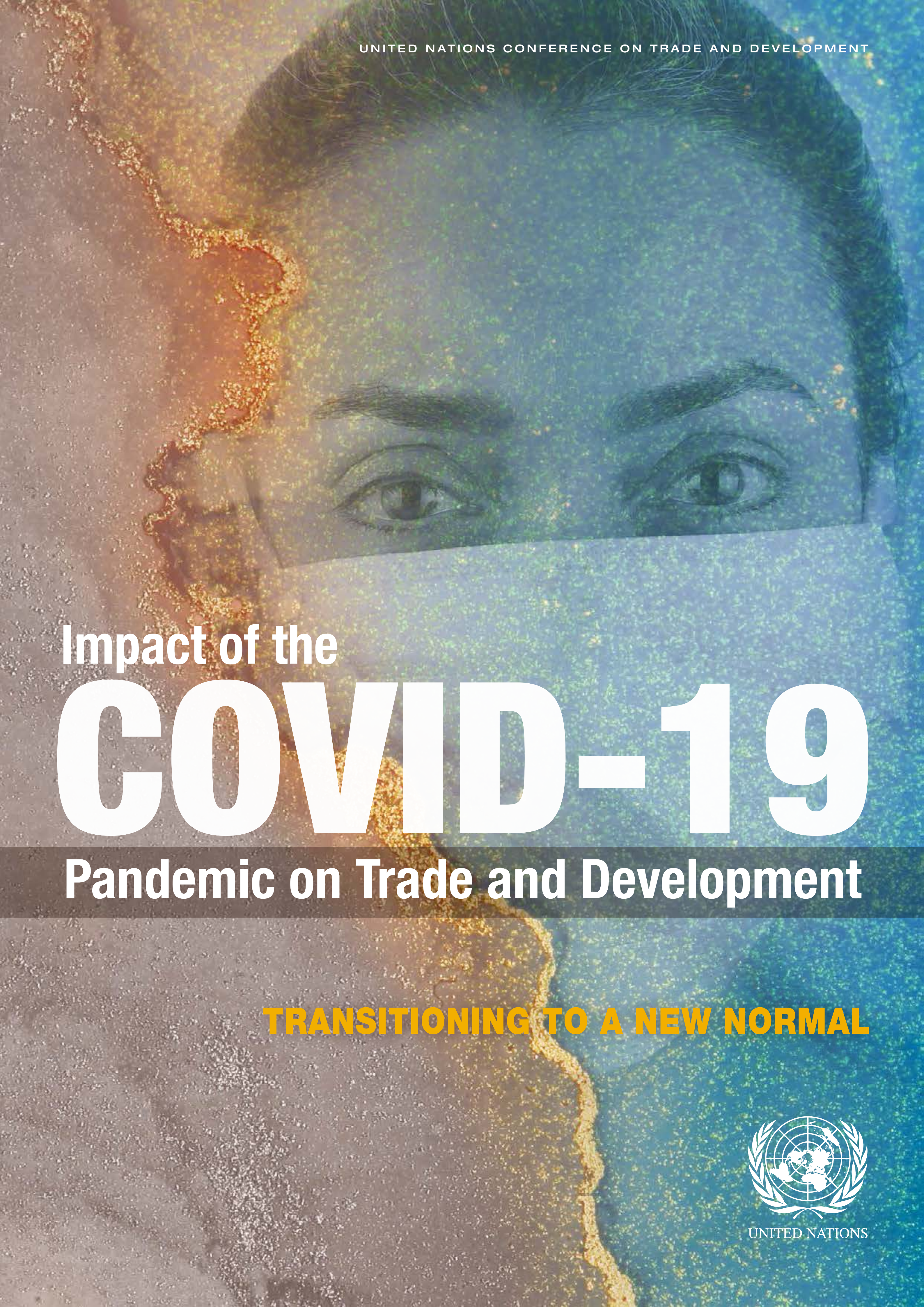

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Impact of the COVID-19 Pandemic on Trade and Development

TRANSITIONING TO A NEW NORMAL

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CONTENTS

FOREWORD

The COVID-19 pandemic has gravely wounded the world economy with serious consequences impacting all communities and individuals. Moving rapidly across borders, along the principal arteries of the global economy, the spread of the virus has benefited from the underlying interconnectedness – and frailties – of globalization, catapulting a global health crisis into a global economic shock that has hit the most vulnerable the hardest. Emerging from the natural environment and paralyzing our societies and our economies, the coronavirus disease demonstrates the interdependence implicit in the Sustainable Development Goals, but it is derailing global efforts to achieve them.

Since the virus first began to spread and the potential repercussions for development became apparent, we at the UNCTAD secretariat have been closely monitoring the effects of the global pandemic on trade and development. This report is a product of this engagement. It synthesizes the substantive analysis and dialogue that UNCTAD has undertaken around these issues across our divisions and competencies. It seeks to discern how COVID-19 is spurring on a number of trends already visible prior to the pandemic, magnifying some obstacles, but also opening up new opportunities for trade and development.

While the pandemic may be far from over, it has become clear that transforming global approaches to trade and development cannot be avoided when charting a sustainable course to recovery from the pandemic. This report benchmarks the expectations of UNCTAD for what a "better recovery" must constitute. It identifies several areas where the pandemic is accelerating trends already building up since the global financial crisis in trade, investment and technological change. It is our belief that recovery from the pandemic can help reshape global production networks and reset multilateral cooperation for the better, accelerating achievement of the Sustainable Development Goals. That – in a nutshell— is the UNCTAD definition of the "better recovery" from the pandemic called for by the United Nations as a whole.

It is our hope that this "better recovery" can sow the seeds of a healthier, fairer and greener globalization that can be nourished by a more resilient approach to multilateralism. As this report goes to press, there are growing hopes that an effective vaccine will soon be available. This is extremely welcome news. Still, if any precautions can be drawn from UNCTAD analysis of the uneven and asymmetric impacts of the pandemic so far, the affordability of any vaccine for all of humanity should be of paramount importance. Addressing trends that were already weakening our journey towards achieving the 2030 Agenda for Sustainable Development should not be lost to the community of nations.

Mukhisa Kituyi
Secretary-General of UNCTAD

ABBREVIATIONS

CARICOM	Caribbean Community
COVID-19	coronavirus disease of 2019
ESCAP	Economic and Social Commission for Asia and the Pacific
FDI	foreign direct investment
GDP	gross domestic product
ICT	information and communications technology
ILO	International Labour Organization
LDC	least developed country
ODA	official development assistance
OECD	Organization of Economic Cooperation and Development
SIDS	small island developing State(s)
SME	small and medium-sized enterprise
TRAINS	Trade Analysis and Information System
UNWTO	World Tourism Organization
WTO	World Trade Organization

INTRODUCTION

1 million+
deaths
due to
the pandemic

4.3%
contraction
of global gross domestic product
estimated for 2020

130 million
more people living in
extreme poverty
due to the crisis

Since the outbreak of the coronavirus disease of 2019 (COVID-19), more than 1 million people have lost their lives due to the pandemic, and the global economy is expected to contract by a staggering 4.3 per cent in 2020. Millions of jobs have already been lost, millions of livelihoods are at risk, and an estimated additional 130 million people will be living in extreme poverty if the crisis persists. These are grim figures that reflect the immense challenges and human suffering caused by this pandemic. Nor is an end to COVID-19 yet in sight. In many countries, the number of new COVID-19 cases is rising at an alarming rate and, for many, a second wave is already an unwelcome reality. Much uncertainty remains about how and when the pandemic will run its course, but the unprecedented economic shock generated by the global health emergency has already sharply exposed the global economy's pre-existing weaknesses, severely setting back development progress around the world.

While nearly all spheres of life have been affected by the pandemic and the resulting socioeconomic impacts, the focus of this report is on the pandemic's massive consequences for trade and development. Moving rapidly along the travel connections and transport corridors that make up the principal arteries of the global economy, the spread of the virus has benefited from the underlying interconnectedness – and frailties – of globalization. Coming against a backdrop of already fragile economic conditions, the pandemic has created disruptions on an unprecedented scale and uncovered the vulnerability of many already disadvantaged households and sectors. COVID-19 has spurred on a number of already visible trends, magnifying some obstacles to development, but has also opened up new opportunities for trade and development. In this report, selected aspects of a "new normal" are discussed, as well as how COVID-19 may be a gamechanger for several persistent and emerging trade and development challenges in areas that UNCTAD has been examining in depth. To be better equipped to deal with the crisis and build a more resilient, inclusive and sustainable future, policy actions are also described that UNCTAD member States can take to support ongoing responses to COVID-19 and an eventual recovery from the pandemic.

In chapter 1, how the COVID-19 pandemic has shaken the global trade and development landscape to its core is outlined. A bird's eye view is given of how the global health emergency developed into a global economic shock. There is a close look at the immediate impacts on global growth, international trade and foreign direct investment and how the crisis has affected global production, employment and ultimately individual livelihoods. Touching on a wide range of indicators that depict the pandemic's impact, the fact that the impact is asymmetric and tilted towards the most vulnerable, both within and across countries, is highlighted.

The analysis in chapter 2 centres around how the disruption caused by COVID-19 has had real and disproportionate consequences on vulnerable and disadvantaged low-income households, migrants, workers in the informal sector and, often, women. Especially in the developing world, many of these populations are not protected by social safety nets and yet are particularly affected by soaring unemployment. The impact of the pandemic on these groups is examined with an eye to strengthening their resilience, through productive capacities, broader social protection and gender-sensitive policy responses. The impact of COVID-19 on two sectors that have been particularly affected and employ many vulnerable groups – tourism and microenterprises and small and medium-sized enterprises – is also analysed.

In chapter 3, there is a shift to financing the immediate response to the crisis and recovery from the pandemic in the most vulnerable countries. The impact of the crisis on external finance is examined, with a discussion on how official development assistance and remittances play a key role for many of the poorest and most vulnerable countries and how debt sustainability has become a challenge for a growing number of countries. As shown in the chapter, the pandemic is giving rise to unsustainable debt burdens in many developing countries, further endangering their efforts at mobilizing sufficient resources to achieve the Sustainable Development Goals. Policy implications are also discussed regarding improved fiscal space and liquidity support and the need for broader and bolder action, particularly in the area of sovereign debt.

The perspective is broadened, beyond the most vulnerable, in chapter 4 by exploring the impact of the crisis on global value chains and how the pandemic presents a major challenge for international production, especially in combination with ongoing technological change, fragmentation of international economic policymaking and sustainable development imperatives. It is argued that COVID-19 can be a catalyst for more resilient global and regional production networks that support the building of productive capacities for structural transformation, diversification and sustainability. In analysing the impact of the pandemic on international production, related investment policy and sustainability issues are examined. Also examined is how science, technology and innovation policies employed in the pandemic response can be harnessed by developing countries to augment their innovation and productive capacities. The recent acceleration in digitalization and the impact of the COVID-19 crisis on electronic commerce are considered. International transport and trade facilitation are also discussed as important transmission channels that can exacerbate disruptions but also enable a more sustainable and resilient recovery.

In chapter 5, how international trade helped transmit shocks originating in major economies quickly to developing regions is looked at, leading to disproportionately negative economic shocks in developing countries. How the market disruptions caused by the pandemic affected those with limited market power the most, such as small and medium-sized enterprises and entrepreneurs, and seriously impacted all consumers are examined. The consideration is that, in view of fostering economic recovery, international trade must also play a key role. It is argued that countries can achieve a stronger, more inclusive and greener economic recovery by adopting an appropriate mix of trade policy, competition and consumer protection policies and environmental policy.

The pandemic requires the United Nations to take appropriate actions to address these new challenges and opportunities. UNCTAD took action early in the pandemic, uniting with entities across the United Nations development system, to prepare a socioeconomic response framework to “recover better”. The report contributes to this objective, focusing on analysis and policy actions in the area of trade and development. Many of the policy actions described in this report ensure that trade and related aspects, such as foreign direct investment, technology and finance, are part of inclusive and sustainable solutions.

With the United Nations celebrating its seventy-fifth anniversary this year, international cooperation and solidarity are and will remain critical to deal with this crisis, in order to avoid a lost decade and maintain hopes for the 2030 Agenda for Sustainable Development. The Sustainable Development Goals are now more important than ever. The 2030 Agenda remains the only choice for a more prosperous future for people and planet.

COVID-19 poses an enormous challenge to development aspirations. It is a stark reminder of shared vulnerability and demonstrates the need for real change. Nonetheless, it can also be an inflection point to alter course and build a more resilient new normal. Much will depend on the policies adopted and ability to coordinate, both at the international and national levels. Thus, despite the grim outlook, it is still possible to turn COVID-19 into the finest hour of the United Nations and build a more inclusive, resilient and sustainable future.

Chapter 1

COVID-19 has shaken the trade and development landscape

1.1 The health crisis has unleashed a global economic shock

1.2 International trade plunged as the virus spread

1.3 Foreign direct investment flows have fallen dramatically

1.4 Global production and employment have been slashed

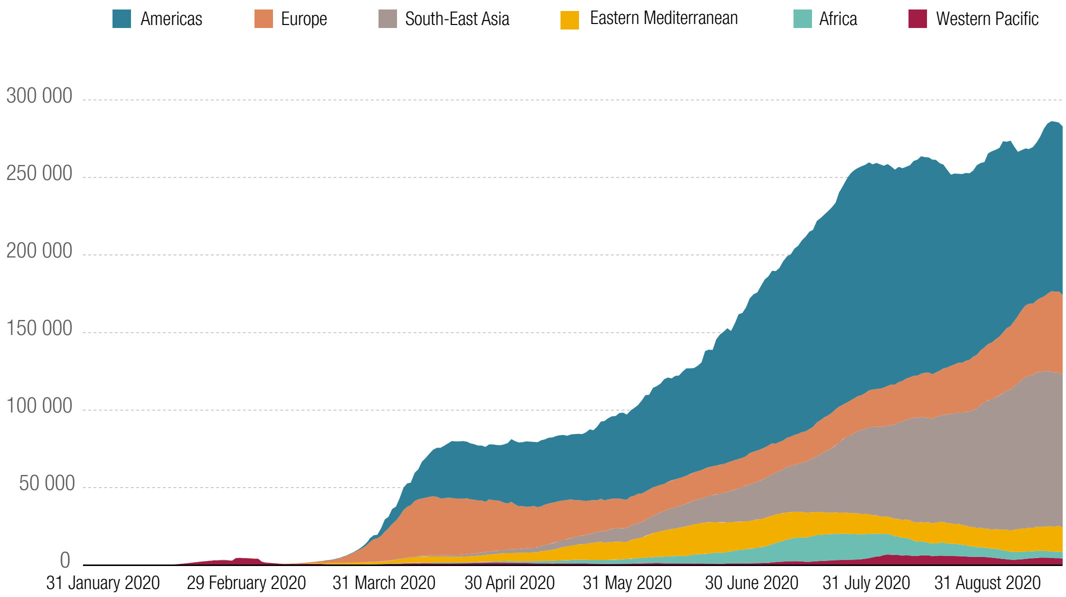
The unprecedented global shock triggered by COVID-19 would have been unimaginable less than a year ago. This chapter offers a snapshot of the pandemic's evolution to date as a worldwide economic shock. It shows that the coronavirus disease, which originated in Asia, but first spread widely in Europe and parts of the Americas, has now resulted in a global economic downturn that will be deeper and more widely felt than the great recession that followed the global financial crisis in 2008/09. The chapter documents the immediate impacts on international trade, foreign direct investment and global production and employment, as the pandemic has spread around the world threatening lives and livelihoods.

1.1 The health crisis has unleashed a global economic shock

Figure 1.1

Number of reported cases of COVID-19

(Seven-day trailing moving average)



Source: World Health Organization, COVID-19 Dashboard (as at 23 September 2020).
Note: Regions according to World Health Organization designations.

On 23 September 2020, the World Health Organization reported that more than 31 million people had been confirmed infected with COVID-19 (figure 1.1). That same day, almost 963,000 deaths globally were attributed to the virus.

At current rates, the number of confirmed cases is doubling roughly every nine weeks. If this pattern continues, cases are likely to exceed 60 million by early December 2020.

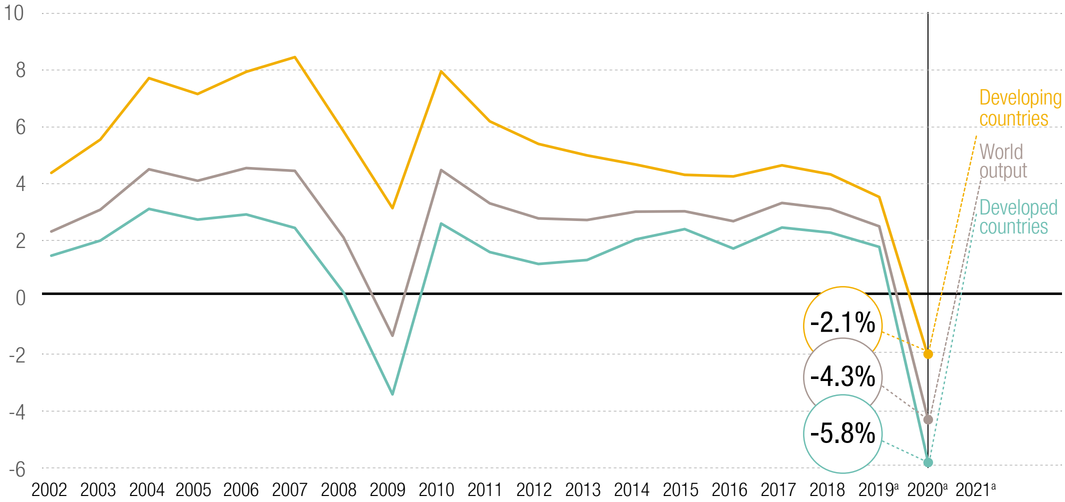
In the first wave, weekly deaths attributed to COVID-19 peaked in the week around 13 April 2020 at just over 51,000. This dropped down to fewer than 29,000 per week in late May 2020, but by mid-September 2020, deaths per week had increased again to around 37,000.

The Americas account for 50 per cent of all confirmed cases in the world and 53 per cent of all recorded deaths attributable to COVID-19. Europe is the second largest contributor overall, accounting for 20 per cent of cases and 24 per cent of deaths. However, in recent months, the Americas and South-East Asia are the regions that have been contributing the most to the number of cases and deaths.

Figure 1.2

Trends in global economic growth

(Annual percentage change)



Source: UNCTAD (2020).

Note: Calculations for country aggregates are based on GDP at constant 2015 dollars

[a] Forecasts.

UNCTAD expects gross domestic product (GDP) to fall by around 4.3 per cent in 2020, with an expected global recovery of 4.1 per cent in 2021. Developed economies are expected to be more affected in 2020 than developing countries, at -5.8 per cent and -2.1 per cent, respectively, and expect a weaker recovery in 2021, at +3.1 per cent compared with +5.7 per cent.

Unlike the global financial crisis of 2008/09, developing countries are expected to experience negative growth in 2020, and developed economies are expected to experience a much deeper fall in output, at -3.4 per cent in 2009 compared with -5.8 per cent in 2020.

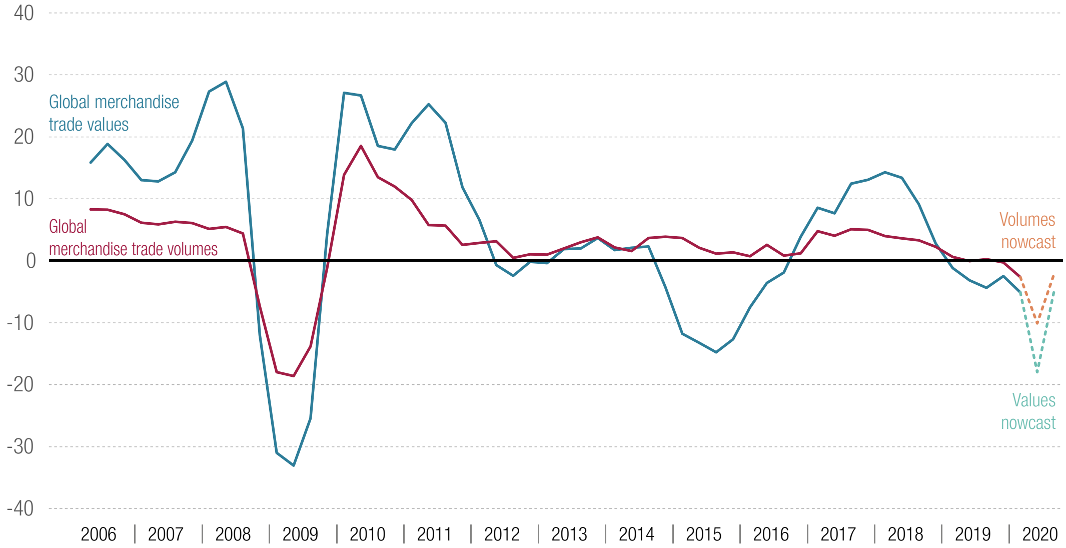
Unsurprisingly, these data mask a range of divergent regional and country level trends. China and the Republic of Korea are both forecast to enjoy positive, albeit weak, positive growth in 2020, at +1.3 per cent and +0.1 per cent, respectively. The Americas, both developed and developing, are expected to experience negative output growth in 2020: Argentina at -10.4 per cent, Brazil at -5.7 per cent, Mexico at -10 per cent and the United States of America at -5.4 per cent. European countries are also expected to suffer significant negative growth this year, with France at -8.1 per cent, Germany at -4.9 per cent, Italy at -8.6 per cent and the United Kingdom of Great Britain and Northern Ireland at -9.9 per cent. Output in South Africa is forecast to fall by 6 per cent.

1.2 International trade plunged as the virus spread

Figure 1.3

Global merchandise trade

(Percentage)

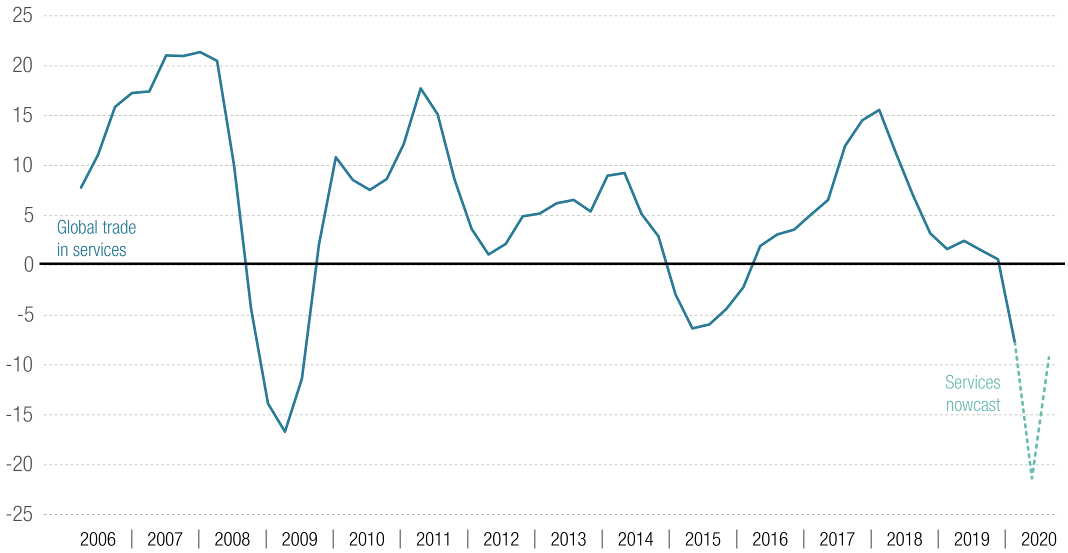


Source: UNCTAD (forthcoming).
Note: Year-on-year percentage changes.

Figure 1.4

Global trade in services

(Percentage)

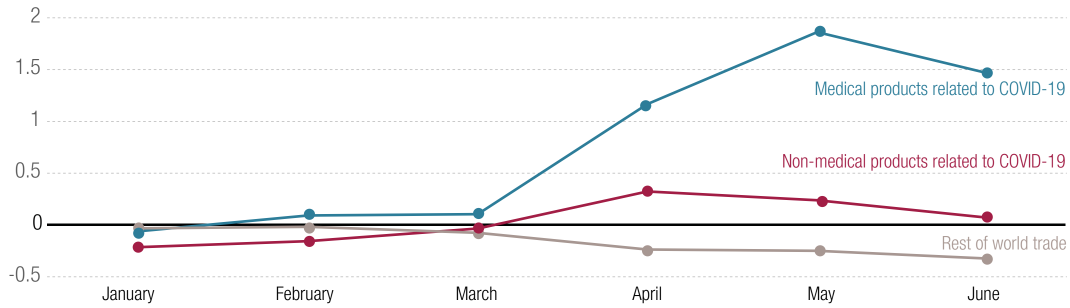


Source: UNCTAD (forthcoming).
Note: Year-on-year percentage changes.

Figure 1.5

Global merchandise trade of medical products, 2020

(Percentage)

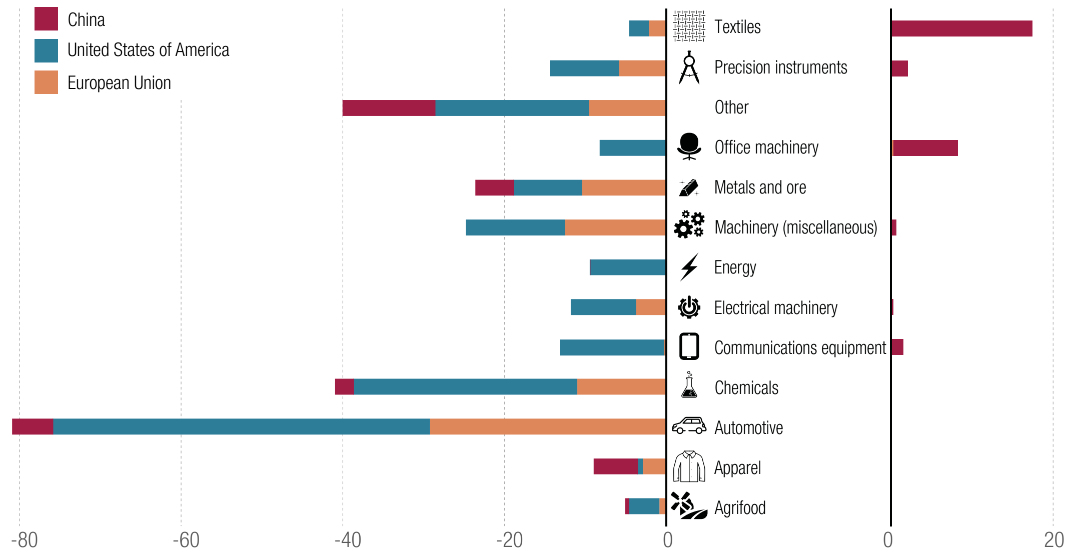


Source: UNCTAD secretariat calculations, based on the national statistics of China (GACC, 2020), United States (United States Census Bureau, 2020) and European Union (Eurostat, 2020).
Note: Year-on-year percentage changes.

Figure 1.6

Export declines in three major economies, by industry

(Billions of United States dollars)



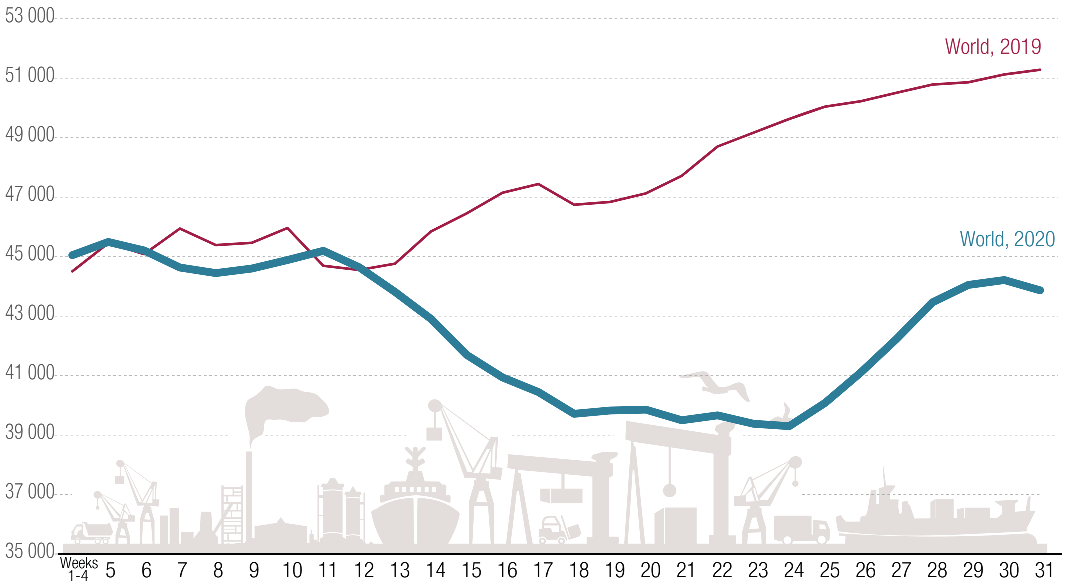
Source: UNCTAD secretariat calculations, based on the national statistics of China (GACC, 2020), United States (United States Census Bureau, 2020) and European Union (Eurostat, 2020).
Note: Covers first semester of 2020.

As shown in figures 1.3 and 1.4, growth in trade in goods and services declined in the first quarter of 2020, as the early effects of the pandemic began to be felt. An UNCTAD nowcast for trade in both goods and services detected a much more dramatic decline in second quarter compared with the first quarter. The value of year-on-year merchandise trade is estimated to have declined by 18 per cent in the second quarter, and trade in services by 21 per cent in the same period. Based on preliminary data available at the time of writing, the outlook for the third quarter was improving, with a nowcasted year-on-year growth of -5 per cent for goods and -9 per cent for services, signalling a potential recovery of much of second quarter losses. While the value of total trade in services fell by 7.6 per cent in the first quarter of 2020, travel services were particularly hard hit, falling by more than 24 per cent.

Medical products related to COVID-19, such as personal protective equipment, ventilators, thermometers, sanitizers and the like, experienced very high growth in the second quarter of 2020; for example, in May 2020, such products experienced an increase of 186 per cent higher than the same period in 2019. Other non-medical products related to COVID-19, such as home office equipment, including Wi-Fi routers, laptops, portable storage and so on, also enjoyed strong growth in the second quarter (figure 1.5).

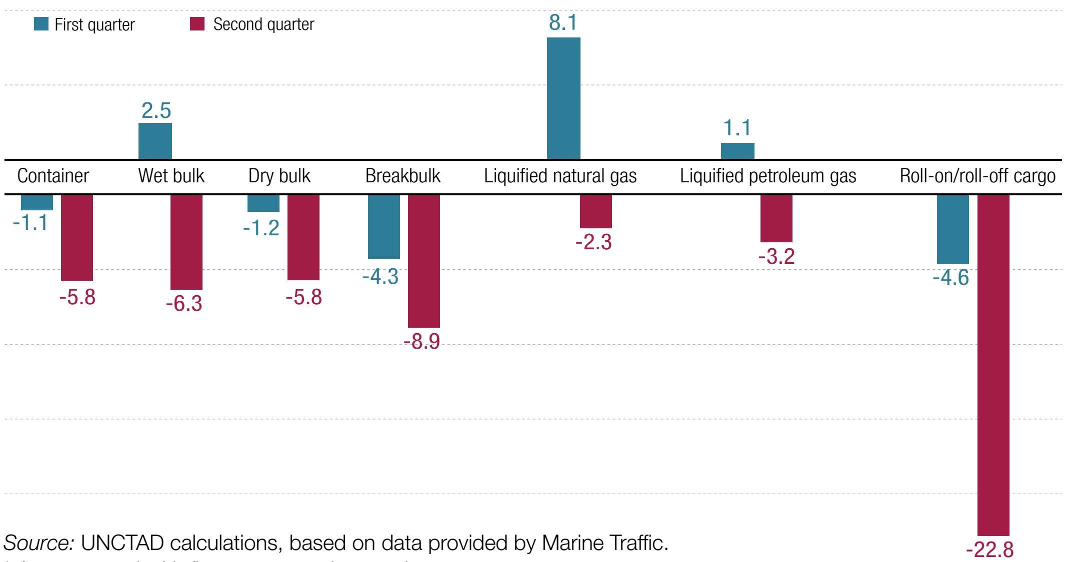
Looking at the economies of China, the United States and the European Union, figure 1.6 shows that significant declines are evident in the automotive and chemicals industries. For textiles and office machinery in particular, and to a lesser extent precision instrumentation and communications equipment, China enjoyed growth.

Figure 1.7
World total: Weekly ship port calls, all ships*



Source: UNCTAD calculations based on data provided by Marine Traffic.
* Four-week moving weekly average.

Figure 1.8
Changes in port calls, by shipping market segment, 2020*



Source: UNCTAD calculations, based on data provided by Marine Traffic.
* As compared with first quarter and second quarter, 2019.

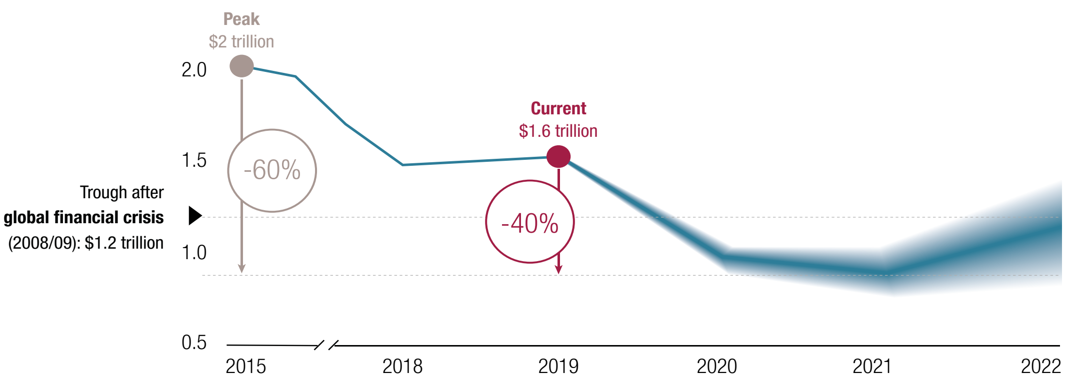
With 80 per cent of global trade in goods carried by sea, maritime port traffic has followed the pandemic's progress as well. In the first 31 weeks of 2020, as described in figure 1.7, port calls by all ship types were down by more than 10 per cent on the same period in 2019. For the first 10 weeks of 2020 – until about mid-March – port calls for 2019 and 2020 were almost identical. Afterwards, volumes for 2020 began to decline noticeably. By weeks 21 and 22, i.e. the second half of May 2020, global port calls had fallen to less than 80 per cent of calls for the same period during the previous year. A subsequent slight improvement showed signs of weakening again in the last week of July (week 31). These trends vary by ship type as well as by region.

The impact of COVID-19 has not been uniform across different shipping market segments. Some segments have been hit very hard, but the decline in ports calls is masked in the total figures by container traffic, which has not been hit as hard as some other segments, as shown in figure 1.8, and accounts for about 60 per cent of seaborne trade by value. In the second quarter, breakbulk and roll-on/roll-off cargo ships, which include ferries and other vessels that carry passengers, suffered significant declines in port calls, at around -9 and -23 per cent, respectively.

1.3 Foreign direct investment flows have fallen dramatically

The COVID-19 pandemic has had an immediate and negative impact on foreign direct investment (FDI) in 2020. The outlook remains dire, with further deterioration projected in 2021. The exceptional global circumstances as a result of the pandemic led to delayed implementation of ongoing investment projects and the shelving of new projects, as well as the drying up of foreign affiliate earnings of which normally a significant share is reinvested in host countries. As a result, global FDI flows are forecast to decrease by up to 40 per cent in 2020, from their 2019 value of close to $1.6 trillion (figure 1.9). This would bring FDI to below $1 trillion for the first time since 2005. FDI is projected to decrease further in 2021 and only begin to recover in 2022 at the earliest. Following the outbreak of COVID-19, FDI was instantly struck by the lockdown. However, some investment expenditures continued (e.g. the fixed running costs of projects), but other outlays were blocked. Announcements of greenfield projects were shelved. Similarly, many mergers and acquisitions were either temporarily suspended or cancelled. Regulators in the United States and Europe reported delays in approval processes for some planned mega-mergers (UNCTAD, 2020d).

Figure 1.9
Global foreign direct investment inflows



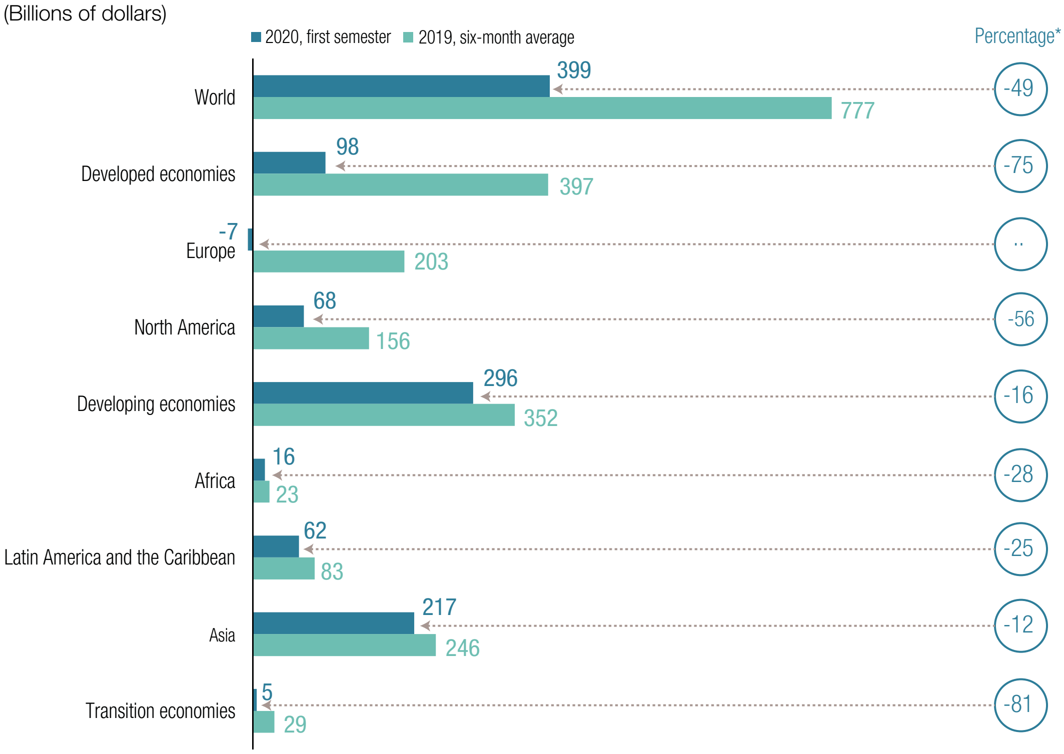
Source: UNCTAD (2020a).

Data for 2020 confirmed the immediacy of the impact. In the first half of the year, global FDI flows were down 49 per cent compared with 2019 (figure 1.10). Developed economies experienced the biggest fall, a decline of 75 per cent. FDI flows to developing economies in turn decreased by only 16 per cent – less than expected. Flows were 28 per cent lower in Africa, 25 per cent in Latin America and the Caribbean and only 12 per cent in Asia, mainly due to resilient investment in China. They also fell sharply (by 81 per cent) among economies in transition due to the plummeting of flows to the Russian Federation, the largest of these economies.

Figure 1.10

Foreign direct investment inflows

(Billions of dollars)



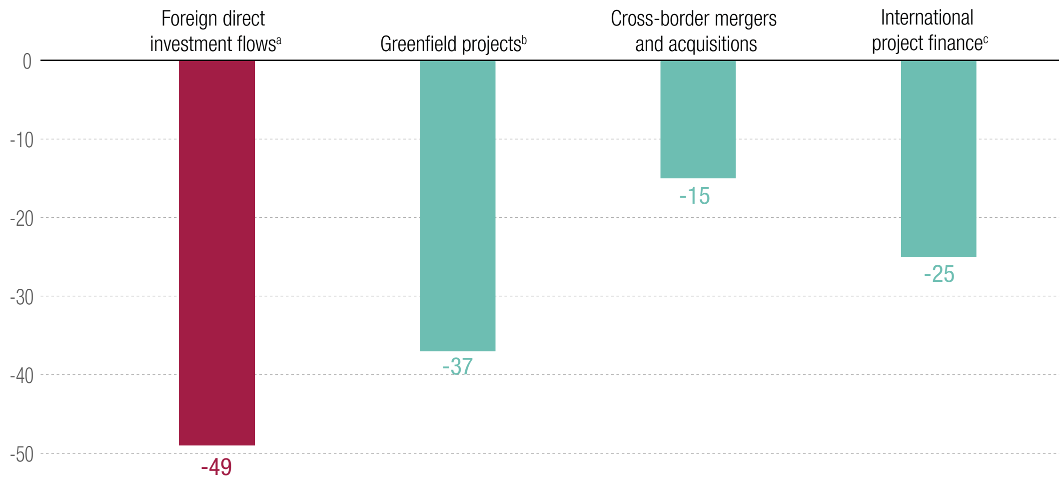
Source: UNCTAD Global Investment Trends Monitor, No. 36, October 2020.
* Data not available.

The decline cut across all major forms of FDI (figure 1.11). The number and the value of new greenfield investment project announcements – an indicator of future FDI trends – both dropped by 37 per cent in the first eight months of 2020 (figure 1.12). In value terms, developing economies saw a bigger fall (-49 per cent) than developed economies (-17 per cent), reflecting the fact that they rely more on global value chain-intensive and extractive industries, and they have fewer means to put in place economic support measures compared with developed economies. The value of greenfield investment announcements also dropped sharply (-58 per cent) in transition economies. The outlook for structurally weak and vulnerable economies is sombre. Many least developed countries (LDCs) are dependent on FDI in extractive industries, while many small island developing States (SIDS) are dependent on investment in tourism, and landlocked developing countries are disproportionally affected by supply chain blockages.

Figure 1.11

International investment trends, first to third quarter of 2020

(Percentage change, compared with 2019)

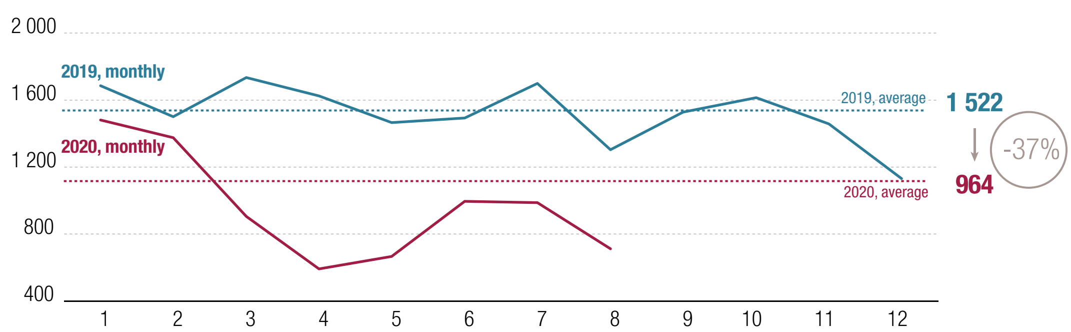


Source: UNCTAD Global Investment Trends Monitor, No. 36, October 2020.
[a] First half of 2020.
[b] January–August 2020.
[c] Number of deals.

Figure 1.12

Announced greenfield foreign direct investment projects

(Number)



Source: UNCTAD, drawing from FDI Markets (www.fDimarkets.com). of the *Financial Times*, for announced greenfield projects.

The number of cross-border mergers and acquisitions dropped by 15 per cent in the first three quarters of 2020, compared with the previous year. In developed economies, where they are a significant part of total FDI, they fell by 21 per cent. In developing economies, their value rose by 12 per cent as the sharp decrease in Africa (-44 per cent) and Latin America and the Caribbean (-73 per cent) was more than offset by a 60 per cent increase in Asia. The number of cross-border mergers and acquisitions also rose (by 84 per cent) in transition economies, but from a very low base, and reflecting mostly corporate restructurings.

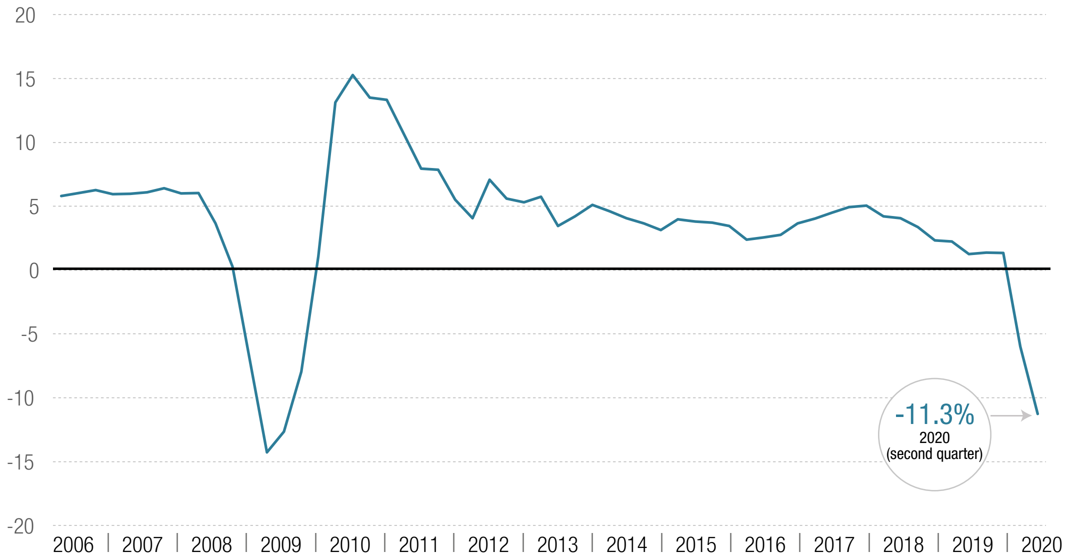
The number of announced cross-border project finance deals declined by 25 per cent in the first three quarters of 2020, with the biggest drops occuring in the third quarter, suggesting that the slide in these projects was still accelerating. The number of announced projects in transportation infrastructure and fossil fuel energy fell the most.

For all forms of cross-border investment, projections for 2020 and beyond remain laden with uncertainty. In terms of FDI flows, with a second wave of the pandemic undermining efforts towards a general economic recovery, the near 50 per cent decline of the first half of 2020 could persist longer, making the forecast additional decline of 2021 sharper than the originally projected 10 per cent. The outlook for investment flows will depend on the duration of the health crisis and the effectiveness of policy interventions to mitigate the economic effects of the pandemic.

1.4 Global production and employment have been slashed

Figure 1.13

Growth in world manufacturing output



Source: United Nations Industrial Development Organization (2020).
Note: Year-on-year percentage change.

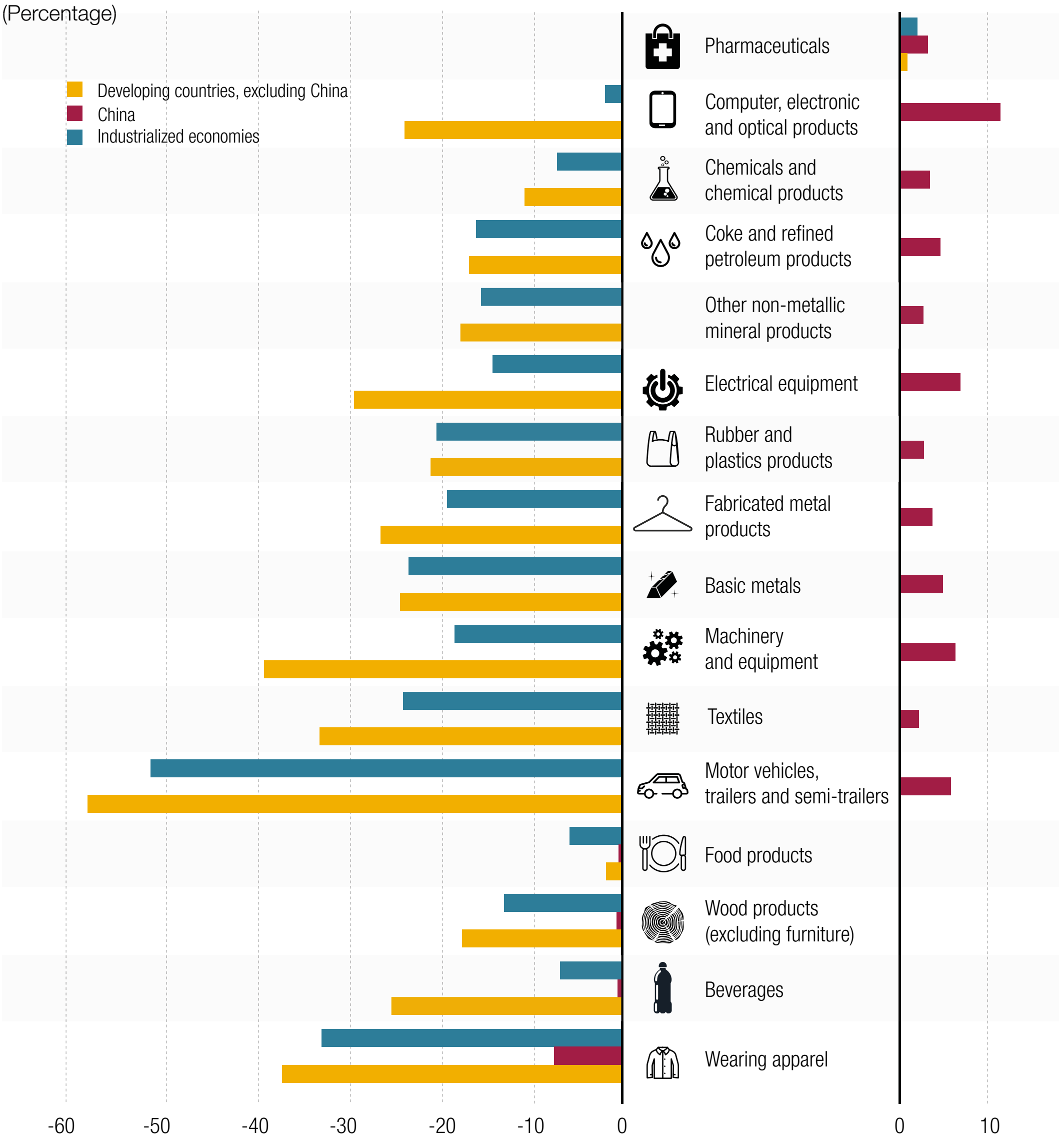
In the first quarter of 2020, global manufacturing output fell by almost 6 per cent compared to the same quarter of the previous year, as illustrated in figure 1.13. This was followed by a deeper decline in the second quarter of 2020 of more than 11 per cent. This was the biggest fall in world manufacturing output since the decline experienced in the global financial crisis of 2008/09, when output in the first quarter of 2009 fell by 14 per cent.

The impact of COVID-19 on different industrial sectors has been uneven. Figure 1.14 shows how the production of essential goods and supplies, such as, food or pharmaceutical products, was less affected than that of other industries. In the second quarter of 2020, the production of basic pharmaceuticals registered moderate growth across all country groups. All other industrial sectors have experienced significant declines in output, most notably motor vehicles, machinery and equipment and apparel. But by the second quarter of 2020, China, where declines in output were first registered, was already starting to enjoy positive growth across several industrial sectors.

Figure 1.14

Growth rates by industry: 2020, second quarter

(Percentage)



Source: UNIDO (2020).

Note: Year-on-year percentage changes.

Table 1.1

Estimated drop in aggregate working hours, 2020

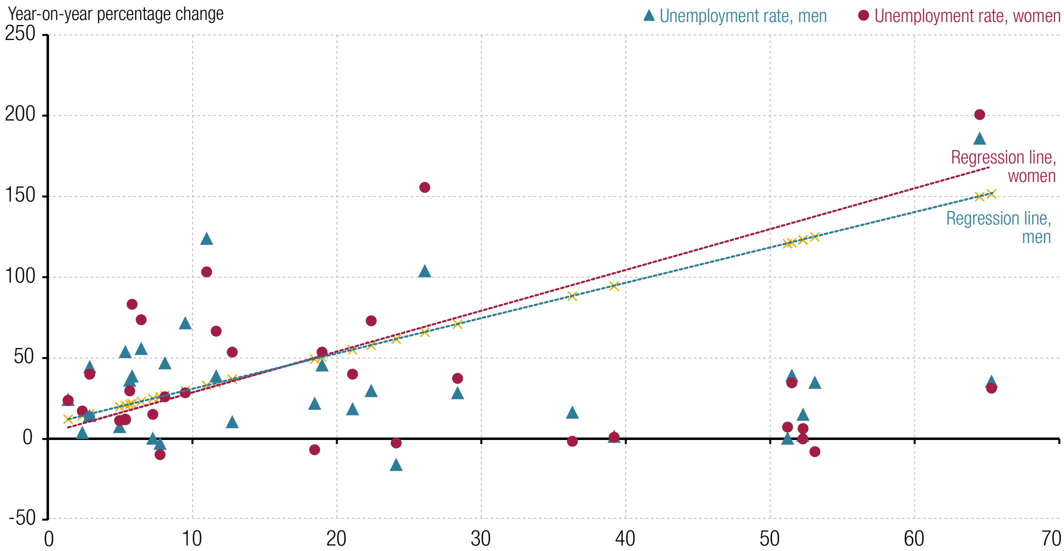
(Percentage)

	First quarter	Second quarter
World	-5.4	-14
Low-income countries	-2.4	-11.1
Lower middle-income countries	-3	-16.1
Upper middle-income countries	-9.3	-12.6
High-income countries	-2.5	-13.9
Africa	-2.4	-12.1
Americas	-3	-18.3
Arab States	-3.1	-13.2
Asia and the Pacific	-7.1	-13.5
Europe and Central Asia	-3.4	-13.9

Source: ILO (2020).

Figure 1.15

Change in male and female unemployment compared with prevalence of COVID-19 per million people, June 2020



Source: UNCTAD calculations, based on University of Oxford, Blavatnik School of Government (2020), ILO (2020b) and United Nations, Department of Economic and Social Affairs, Population Division (United Nations, 2019).

Note: The population-weighted regression lines show that changes in male and female unemployment have been positively associated with levels of COVID-19 prevalence among the 32 mostly developed countries for which data are available. While this relationship appears to hold between these countries, it does not necessarily apply within them.

Rising unemployment, working time reductions, temporary layoffs and job-search discouragement have led to a fall in aggregate working hours, with an estimated 14 per cent decrease in the second quarter of 2020 compared with fourth quarter of 2019. This decline in global working hours is equivalent to a staggering 400 million full-time jobs.

The International Labour Organization (ILO) note that women workers are especially bearing the brunt of the crisis, with female employment at greater risk of disruption. The organization warns of the increased burden of unpaid work on women. ILO estimates also suggest that workers in developing countries, especially those in informal employment, are being affected more than in previous crises.

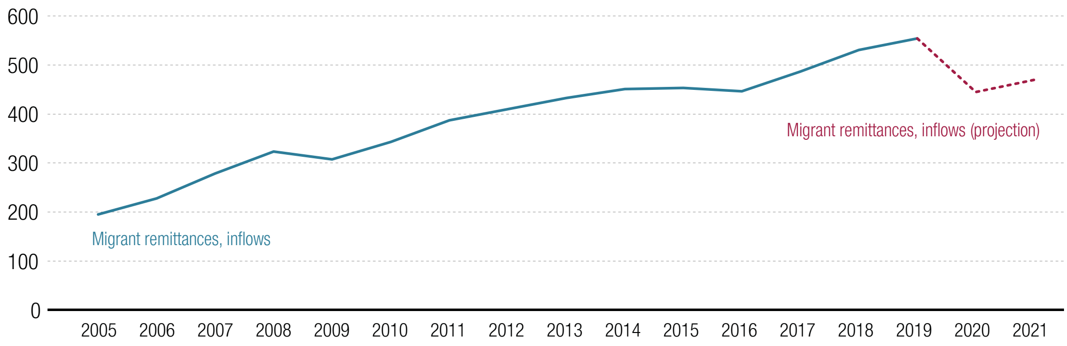
It is worth noting that in May 2020, the ILO estimated the drop in aggregate working hours for the second quarter of 2020 at -10.5 per cent, or the equivalent of 305 million full-time jobs. The upward revision corresponds to a fear that current "virtual" unemployment may crystallize into real unemployment over the coming months.

As suggested by figure 1.15, women have experienced higher growth in unemployment than men in the countries hit hardest by COVID-19. This is especially pronounced in some countries; for example, in Lithuania, where female unemployment has increased by 73 per cent (versus 55 per cent for men), in Latvia where women experienced an 83 per cent increase in unemployment (versus 38 per cent for men) and in the United States, where the unemployment rate for women has doubled. However, in countries such as Australia, Croatia and Czechia, the latest figures show a higher increase in men's unemployment. The pandemic and related measures have diverse and often gendered impacts on employment, depending on the measures taken and the country's labour market structures, as evidenced by these comparisons.

Figure 1.16

Migrant remittances, as inflows, to low- and middle-income countries

(Billions of United States dollars)



Source: UNCTAD, based on World Bank (2020) and World Bank (2020a).

The World Bank projects that remittances to low- and middle-income countries will decline by almost 20 per cent, to $445 billion in 2020 (figure 1.16), due to the economic crisis induced by the COVID-19 pandemic and shutdown measures. The projected fall, which would be the sharpest decline in recent history, is largely due to a fall in the wages and employment of migrant workers, who tend to be more vulnerable to loss of employment and wages during an economic crisis in a host country. The decline will represent the loss of a crucial financing lifeline for many vulnerable households.

The World Bank expects that remittances to low- and middle-income countries will recover somewhat in 2021, rising by 5.6 per cent to $470 billion. But the organization notes the outlook for remittances remains as uncertain as the impact of COVID-19 on the outlook for global growth and on the measures to restrain the spread of the disease. In the past, remittances have been countercyclical, where workers send more money home at times of crisis and hardship back home. This time, however, the pandemic has affected all countries, creating additional uncertainties.

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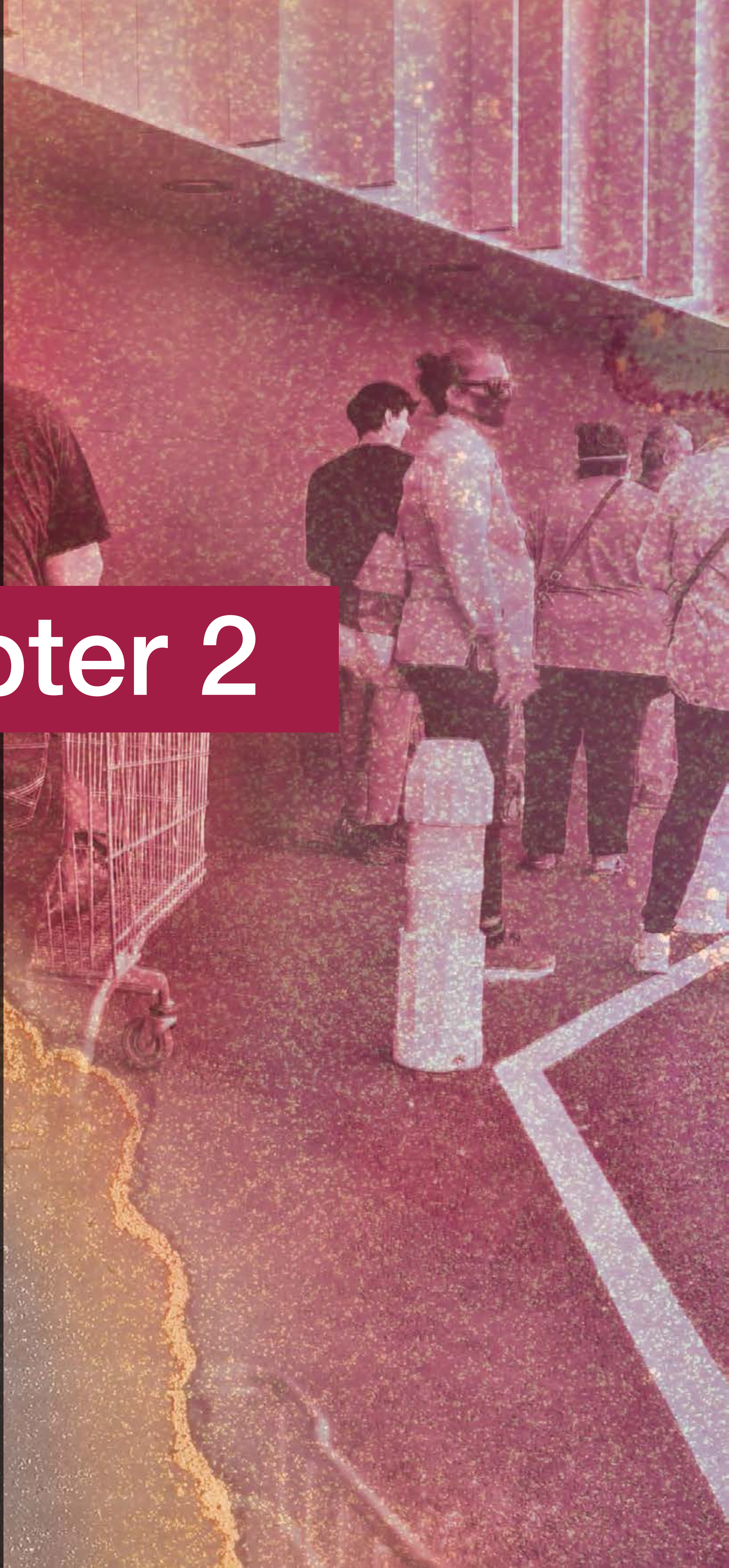
Chapter 2

The pandemic has hit the most vulnerable the hardest



Chapter 1 highlighted that the COVID-19 pandemic has drastically changed the global environment in which United Nations Member States are implementing development policies to achieve the Sustainable Development Goals. The chapter also showed that both developed and developing countries have been negatively affected by the economic crisis triggered by the pandemic, but with considerable differences, both between and within countries. However, the economic and social impact is particularly severe in structurally weak developing countries, such as those in Africa, LDCs and SIDS, because of both their higher susceptibility to shocks and their lower level of capacity to respond and adjust.

Against this background, this chapter focuses on the impact of the crisis on the most vulnerable groups and economic sectors in these three groups of countries. The chapter begins with a discussion of the poverty impact of the crisis and also addresses concerns about food insecurity, which is often closely linked with poverty. This is followed by an examination of the uneven impact of the crisis on women and men and on migrant workers. The chapter then focuses on two sectors that have been especially hard hit: microenterprises and small businesses; and tourism. The last section discusses policies that can support disadvantaged groups and sectors in developing countries, to ensure that they recover better.

2.1 Cushioning the poverty impact of the crisis

A crucial concern for policymakers is the impact of the crisis on poverty and ensuing implications for the achievement of Goal 1 on ending poverty in all its forms everywhere. Several studies have estimated the poverty impact of the crisis. The United Nations baseline projections in May 2020 suggested that, as a result of the pandemic, global output would decline by 3.2 per cent and the number of people in extreme poverty at the global level would increase by 34.3 million in 2020, with Africa accounting for about 56 per cent of the increase (United Nations, 2020d). Given the relatively low anticipated decline in global output, this estimate should be considered as a lower bound. The baseline projections by the International Food Policy Research Institute suggest that global output will decline by 5 per cent and that global extreme poverty will increase by about 140 million people, with Africa accounting for about 80 million and South Asia for 42 million (Laborde, Martin and Vos, 2020). An estimate by the World Bank indicates that the number of people in extreme poverty in the baseline scenario will increase by 71 million in 2020, with the poverty rate increasing from 8.2 per cent in 2019 to 8.8 per cent in 2020. Furthermore, the study suggests that, in the downside scenario, global poverty will increase by 100 million in 2020 (World Bank, n/d). Another recent study suggests, moreover, that the new poor associated with the pandemic have different profiles or characteristics from the chronic poor. For example, they are more likely to be urban dwellers and are also likely to own more basic assets and have better access to household infrastructure (Nguyen et al. 2020).

These poverty estimates are of concern because they suggest that the pandemic will make it even more challenging to achieve Goal 1. Before the onset of the pandemic, significant progress had been made in reducing global extreme poverty, with the global poverty rate falling from 35.9 per cent in 1990 to 10 per cent in 2015 and 8.6 per cent in 2018. As a result of the pandemic, the global poverty rate is expected to be 8.8 per cent in 2020.

Among developing countries, the impact of the pandemic on poverty rates is expected to be severe, particularly in Africa and LDCs because of their high vulnerability and limited capacity to adjust and respond to shocks (table 2.1). Africa accounts for about 13 per cent of the global population but is expected to account for over 50 per cent of global extreme poverty in 2020. LDCs, of which many are in Africa, account for about 14 per cent of the global population and are expected to account for 53 per cent of global extreme poverty in 2020. One factor that has contributed to the projected high poverty-related impact of the crisis, particularly in Africa and LDCs, is the lack of social protection and labour programmes in these economies, which makes it challenging to cushion the impact on vulnerable groups. It is estimated that about 79.4 per cent of workers in sub-Saharan Africa and 84.5 per cent of workers in LDCs do not have access to any social protection or labour programmes (Kovacevic and Jahic, 2020).

Table 2.1

Estimated changes in extreme poverty rates in 2020 due to the pandemic

	Change in headcount ratio (percentage)	Change in number of poor (millions)
East Asia and the Pacific	0.21	4.41
Europe and Central Asia	0.23	1.16
Latin America and the Caribbean	0.55	3.58
Middle East and North Africa	1.22	4.91
Other high income	0.01	0.07
South Asia	1.25	23.28
Sub-Saharan Africa	2.74	31.17
Least developed countries	3.16	33.4
World total	**0.88**	**68.57**

Source: UNCTAD, based on Valensisi, 2020.

Notes: Based on poverty headcount ratio calculated at the $1.90 per day (2011 purchasing power parity) extreme poverty line. The “other high income” category aggregates the high-income countries included in the Povcal Net database not included in the World Bank regional aggregations.

Cushioning the poverty impact of the crisis requires adopting and enhancing access to social protection and labour programmes to assist vulnerable groups to mitigate the negative effects of these shocks and ensure better recovery in the medium to long term. ILO indicates that, globally, about 50 per cent of countries have had no social protection responses to the crisis (ILO, 2020c). It is against this backdrop that ILO has renewed calls for the adoption of universal social protection schemes, particularly in developing countries, to reduce the negative socioeconomic impact of the crisis on vulnerable groups and ensure that economies recover faster and better. ILO has also underscored the need for better social dialogue among workers, the private sector and Governments in order to maximize the development impact of responses to the crisis.

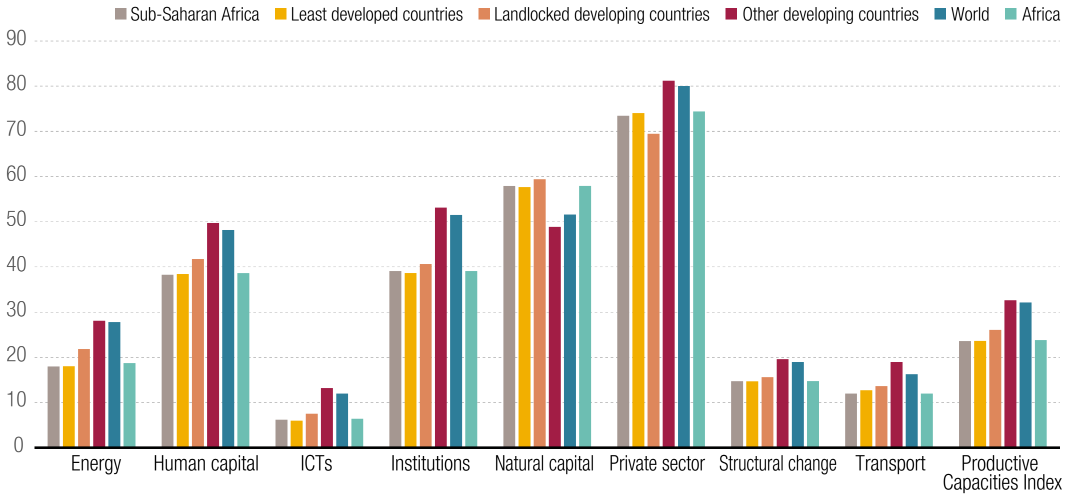
Limited progress in achieving some of the Sustainable Development Goals, particularly those related to water and sanitation, has also increased the vulnerability of poor countries and disadvantaged groups to the crisis and enhanced the impact of the pandemic on poverty. Lack of access to water, which is essential to reduce the spread of the coronavirus, has made containing the disease in developing countries much more challenging. While some progress has been made in enhancing access to water, it is still the case that, globally, two out of five people do not have access to basic handwashing facilities at home. In this context, discussions on the impact of the pandemic should not focus solely on the impact on achieving the Goals, but also on how slow progress in achieving the Goals exacerbates the severity of the crisis. Against this backdrop, policies to address the poverty impact of the crisis must recognize the two-way relationship between the crisis and the achievement of the Goals.

Another factor that has contributed to the high poverty-related impact of the crisis in vulnerable developing countries is the lack of productive capacities and structural transformation in these economies. UNCTAD has recently developed a Productive Capacities Index to enable countries to benchmark and monitor progress in developing productive capacities and to enhance the effectiveness of policies implemented. The Index comprises eight core drivers of productive capacity development: energy, human capital, information and communications technologies (ICTs), institutions, natural capital, the private sector, structural change and transport. The Index ranges from 0 to 100, with higher values reflecting higher levels of productive capacities. An analysis of Index results supports the widely held view that countries in Africa and LDCs have relatively weak productive capacities (figure 2.1). This means that building productive capacities should be high on the agenda of policymakers as they respond to the pandemic.

Figure 2.1

UNCTAD Productive Capacities Index: Scores of the least developed countries and other developing countries, 2018

(By index category)



Source: UNCTAD calculations.

Most countries in Africa and LDCs depend heavily on the extractive industries as sources of growth. While commodities can trigger growth, the sustainability of such growth cannot be guaranteed because of the volatility of commodity prices. Furthermore, the extractive industries have a low potential for employment creation as they are capital intensive and have limited linkages with the rest of the economy. In this context, there is a need to broaden the sources of growth in Africa and LDCs through the building of productive capacities, particularly in manufacturing. This will require fostering capital accumulation and ensuring that investment is directed to strategic sectors, such as manufacturing, with high-income elasticities of demand and in which the opportunities for export market expansion and employment generation are numerous. It also requires fostering technology and innovation, which is critical to enhancing productivity and inducing structural change in an economy. Increasing investment in human capital is also needed to enhance productive capacities and mitigate the impact of shocks. Yet it is not only the quantity of human capital that is important. The quality of human capital also matters. In this context, there is a need for policies in developing countries to improve the quality of education and also ensure that the educational curriculum reflects the needs stated in relevant national development plans, to maximize the development impact of human capital investments.

2.2 Reducing vulnerability to a food crisis

The COVID-19 pandemic could cause a food crisis in developing countries through both supply-side and demand-side channels. Restrictions on movement due to the pandemic have slowed down economic activity, potentially affecting food production and reducing food supply. Food export controls by major exporters, such as outright export bans and other measures including export taxes, could exacerbate the supply shock already engendered by restrictions and lockdown measures. Some countries have used these measures to varying degrees yet, globally, they have not been serious enough to substantially affect food supply in international markets. Another potential supply shock relates to logistical bottlenecks. Even where food is available, the distribution network may be affected by measures imposed to control the spread of the coronavirus, such as the closing of borders or of transport links to urban centres. A reduction in the number of workers needed to ensure a smooth distribution of food could also be a problem. In Kenya, for example, administrative measures such as curfews and the closure of markets have affected food availability. Low-income urban consumers and small retailers have been particularly affected, given that 90 per cent of them rely on these markets. Middle-income and higher-income households that buy fresh food from supermarkets and grocery stores have been less affected, as these remained open. In addition, many small transporters that link producers and consumers have been highly affected by the restrictions (Ayieko and Njeru, 2020).

However, international food markets have experienced fewer supply pressures than feared at the outset of the pandemic. Food price data do not show a generalized increase during the pandemic. Rather, compared with the period immediately preceding the pandemic, aggregate food price indices have fallen. According to the UNCTAD basic food price index, food prices in July 2020 (the latest month for which data are available) were 7 per cent lower than in January 2020, dropping from 105.4 in January to 98.5 in July. Data from the Agricultural Market Information System for July 2020 also shows that it is unlikely that COVID-19 will have a significant negative impact on international food markets in the immediate future. According to the market monitor, which tracks production, stocks and market trends for the four most-traded food commodities (wheat, maize, rice and soybeans), the world food market is well supplied and a major supply-based price increase is not expected in the coming months (Agricultural Market Information System, 2020). In comparison, at the height of the 2007–2008 food crisis, in July 2008, the basic food price index had increased by 54 per cent compared with the level 18 months earlier, rising from 76.8 in January 2007 to 118.2 in July 2008.

There are two major reasons for the weak effect of the pandemic on international food markets. First, production in the major producers of wheat, maize and soybeans, three of the four crops supplying more than 75 per cent of international food markets, are highly mechanized and an eventual negative effect of the pandemic on labour productivity is not an issue. Second, in developing countries in which agriculture is highly labour-intensive, the pandemic has been mostly prevalent in urban centres, leaving the farming sector less affected. This could change depending on the extent to which the virus spreads to rural areas.

Demand-side problems seem to be the more important potential source of food insecurity in many developing countries. In particular, the loss of income resulting from restrictions on movement is likely to be a critical demand-side factor.

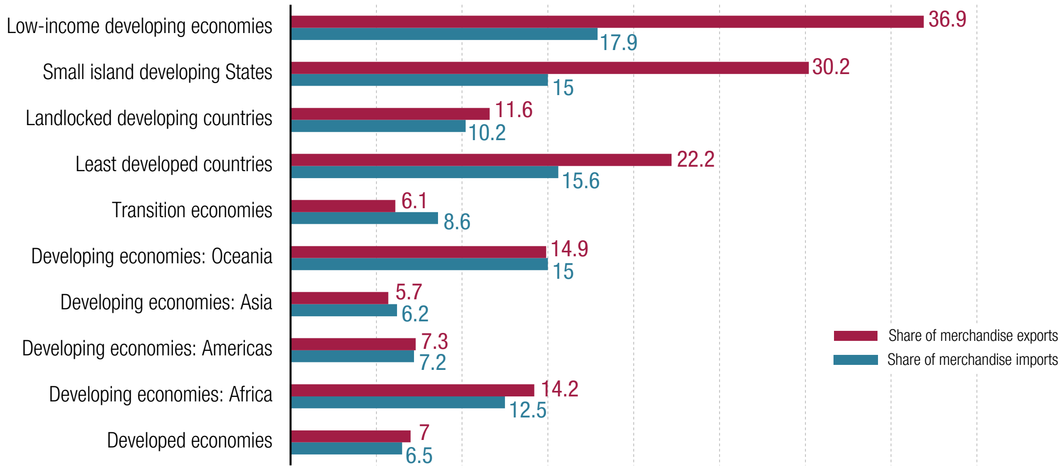
At the microeconomic level, even in areas in which food prices declined, some sections of the population were unable to afford food, as such restrictions led to a loss of income as people could not work.

At the macroeconomic level, many countries that experienced a sharp decline in their export revenues because of the pandemic may have been affected if their food consumption was dependent on imports. This could have been an issue in low-income developing countries, which spend 37 per cent of the value of their merchandise exports on food imports, as well as in SIDS, which spend 30 per cent of their merchandise export earnings on food imports (figure 2.2). In the Caribbean Community (CARICOM), for example, 11 countries import more than 50 per cent of their food needs and food security could become even more challenging if the stock of hard currency is depleted, depending on the duration of the pandemic. Countries that are both dependent on food imports and reliant on tourism revenues are expected to be among the most severely affected with regard to food security. As the second-most dependent country group on food imports, SIDS may lose their capacity to import food due to the decline of foreign currency derived from the tourism sector.

Figure 2.2

Food imports: Share of total merchandise imports and exports, 2018

(Percentage)



Source: UNCTADstat database.

The potential effect of the pandemic on food security in SIDS has added to the other major challenges they face. For example, they are more vulnerable to natural disasters, particularly those associated with climate change, as they are located in low-latitude areas in which rising seawater levels are negatively affecting the availability of fishery resources. The fisheries sector is an important source of food and employment in many countries. For example, in 2013–2017, 10 SIDS derived most of their merchandise export earnings from this sector; Kiribati, Maldives and the Federated States of Micronesia derived more than three quarters of their total merchandise export earnings from this sector. SIDS that are dependent on exports of fuels, minerals, ores and metals, such as Guyana, Jamaica, Saint Lucia, Suriname and Trinidad and Tobago, are also exposed to the risks of climate change. SIDS have experienced the destruction of infrastructure, including seaports, airports, roads and bridges, because of extreme weather events such as cyclones and hurricanes (UNCTAD, 2019).

The challenges posed by the pandemic have thus once again highlighted the relevance of the long-term debate about food security in developing countries. The high level of dependence of low-income developing countries and SIDS on imported food has for decades exposed many of these countries to the vagaries of external markets, as well as other shocks such as the pandemic. What could be done to reduce the vulnerability of these countries to a food crisis?

There are many actions that may be taken to lessen the impact of external shocks on food security, yet discussions during the current pandemic converge on one important message: countries should boost local food production, wherever this is viable. Africa, for example, spent about $70 billion on food imports in 2018, although the continent has more underutilized arable land than any other continent, estimated at between 198 and 446 million hectares.

Countries such as the Democratic Republic of the Congo, the United Republic of Tanzania and Zambia are among the best endowed countries in terms of availability of unexploited arable land (Deininger and Byerlee, 2011). To boost its agriculture production, Africa has put in place a regional initiative, the Comprehensive Africa Agriculture Development Programme. The continent therefore has the land and the institutional framework to grow more food. Taking advantage of its potential would not only allow Africa to reduce its large food import bill but also ensure greater food security at the regional level. Moreover, the African Continental Free Trade Area has the potential to provide the necessary mechanism for food processing and ensuring a smooth distribution of food within the region.

Other food insecure developing regions have their own unexploited agricultural growth potential. Countries in CARICOM meet most of their food needs through imports, yet CARICOM has countries with large land masses, fertile soils, rivers and oceans and fish resources (Ford, 2020). CARICOM also has an Agricultural Policy and a Regional Food and Nutrition Security Action Plan, which could be used to scale up food production. Trade within CARICOM countries would ensure that member countries with a food deficit could access food from countries with a surplus.

While increasing domestic food production is an important step towards achieving food security, it does not guarantee that all segments of the population will have sufficient access to food. To ensure universal access to food, complementary measures are needed in several other areas, including investment in distribution and storage infrastructure and processing facilities, the constitution of strategic food stocks and the streamlining of policies and administrative procedures related to food trade. The pandemic seems to have led to consensus on the need for some level of economic self-reliance, and developing countries have an opportunity to address the food insecurity problem, one of their most pressing developmental challenges. Ford (2020) notes that even European Union leaders are currently speaking about strategic autonomy and intending to reduce their product supply risk by creating greater self-reliance. The pandemic appears to have created a policy environment in which discussing how to achieve food security in developing countries through self-reliance should not be considered an unexpected debate. Countries in Africa, SIDS and other developing countries should take advantage of this opportunity.

2.3 Recognizing that the pandemic is not gender neutral

The economic and social effects of the pandemic are proving to disproportionately affect women and risk reversing decades of progress on gender equality and women's empowerment. While men reportedly have a higher fatality rate, women and girls are affected in particular by the related economic and social crises. There are several reasons for this phenomenon.

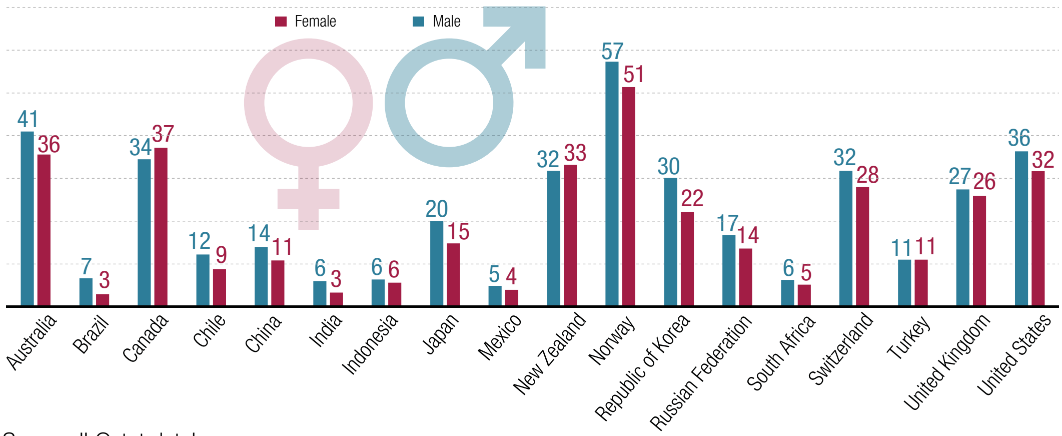
First, women are more likely to lose their jobs than men because their participation in the labour market is often in the form of temporary and part-time employment (Durant and Coke-Hamilton, 2020).

Second, women are often less entitled than men to social protection, as eligibility frequently depends upon formal employment. More than 740 million women worldwide work in the informal sector although, on average, the sector provides employment to more men than women. However, the global picture masks disparities across countries. In Africa, for example, around 90 per cent of women are in informal employment, compared with around 83 per cent of men (ILO, 2018b). As a result, women are often not entitled to social safety nets, such as health insurance, paid sick leave and maternity leave, pensions and unemployment benefits. According to recent data, the income of women working in the informal economy fell by around 60 per cent during the first months of the pandemic (UN-Women, 2020b).

Third, women-dominated sectors are proving to be the most affected by the pandemic. Physical distancing and travel restriction measures have led to the closure of many businesses, resulting in severe economic effects, particularly in the services sector. Given that women make up some 55 per cent of employment in this sector, in comparison with men, at 44 per cent, women have been more adversely affected. Moreover, women-dominated services sectors, such as tourism and hospitality, are among those most severely affected.

Fourth, access to credit is of paramount importance for the survival of firms. However, women entrepreneurs are often discriminated against when attempting to access credit (figure 2.3). Without open and favourable lines of credit, many women entrepreneurs are forced to close their businesses.

Figure 2.3
Access to credit
(Percentage of entrepreneurs by sex)



Source: ILOstat database.
Note: Percentage of respondents aged 15 and above who report borrowing any money in the previous 12 months (by themselves or together with someone else) to start, operate or expand a farm or business.

Fifth, measures to contain the pandemic such as quarantines and closures of schools and day-care facilities, as well as the provision of basic health care at home, have resulted in an increase in the already heavy burden of unpaid work borne by women. As a result, some women have been forced to leave the labour market or opt for less stable forms of employment when balancing paid and unpaid work has proven unfeasible.

Finally, policies with regard to restrictions on movement and isolation, coupled with the financial stress that families and individuals are experiencing, can exacerbate domestic violence. While global data are lacking, figures from countries with reporting systems in place indicate a 25 per cent rise in cases of domestic violence against women, and these figures likely underrepresent the reality (UN-Women, 2020a). Myanmar, for example, has reported a threefold increase in the number of calls to a gender-based violence hotline. Data from the Victim Support Group of Samoa show that, in March–May 2020, reported domestic violence cases increased by 48 per cent in comparison with the same months in 2019 (United Nations Sustainable Development Group, 2020). Moreover, other forms of violence, in particular against women and girls, can proliferate during emergencies, for example violence against health-care workers and migrants, as well as xenophobia-related violence. To address the increase of domestic violence during the pandemic, several countries, including Australia, Brazil and Uganda, have increased funding for gender-based violence services, and others have adapted some of their police and judicial procedures. For example, in Argentina, police receive complaints and statements at home or remotely, and in Canada and Colombia, hearings can take place remotely. Some countries include messages against domestic violence in communications campaigns, such as Chile and Guyana. Finally, some countries, such as Australia, France and the United Kingdom, provide direct financial support to victims of domestic violence (United Nations Development Programme, 2020).

Only a few countries have explicitly addressed the many specific hurdles that women face. However, many countries provide support to sectors that are more women-intensive, such as informal workers; microenterprises and small and medium-sized enterprises (SMEs), operating either in specific sectors or across the board; and tourism (International Monetary Fund, 2020).

The tourism sector has suffered substantially from travel restrictions, physical distancing measures and the shrinking of consumer revenue available for leisure. Across the world, women form the majority of workers in this sector but tend to occupy low-skilled, casual and temporary positions yet, at the same time, women are also more likely to be entrepreneurs in tourism than in other sectors, although their enterprises are mainly small in size (UNWTO, 2019). Measures to support the tourism sector include loan facilities, loan guarantees, loan restructuring and liquidity support and have been put in place in countries such as Barbados, Cabo Verde, Colombia, Egypt, the Republic of Korea, Senegal and Uganda. Other measures such as tax exemptions, moratoriums and special credit lines have been implemented in countries such as Cambodia, Colombia, Costa Rica, India, Italy, Jordan, Spain and Turkey. Although these measures do not specifically target women, women will likely benefit from them.

Globally, there are around 8 million to 10 million formal SMEs that are fully or partially owned by women, which correspond to approximately one third of all formal SMEs (International Finance Corporation, 2014). While the pandemic has impacted all SMEs, women-led SMEs have reported higher rates of layoffs. For example, according to findings from a survey administered in July–August 2020 to 2,245 microenterprises and SMEs in LDCs, women-led businesses in the catering and tourism sector reported a 7.9 per cent rate of layoffs, compared with a rate of 4 per cent at men-led businesses (United Nations Capital Development Fund, 2020). Support measures targeting microenterprises and SMEs are likely to assist women, and include direct subsidies and financial relief, available in several countries in the European Union and sub-Saharan Africa; bank guarantee schemes, available in countries such as Mali, Paraguay and the Russian Federation; credit lines, available in countries such as Brazil, Chile and Mexico; and concessional loans, available in countries such as Fiji, Indonesia, Jordan and the Philippines. Some countries have implemented complementary measures that support both the tourism sector and microenterprises and SMEs (International Monetary Fund, 2020). For example, Colombia has set up new credit lines for all tourism-related companies and new credit lines for SMEs and Rwanda has launched a fund to support affected businesses through subsidized loans for SMEs and severely affected sectors such as hospitality. Finally, considering women's high level of participation in the informal sector, policies that extend social protection to this sector are likely to benefit women. For example, Brazil is expanding the Bolsa Familia programme and providing cash transfers to informal and unemployed workers. Cabo Verde, Honduras, Morocco, Sao Tome and Principe and Togo provide cash transfers to informal workers. Indonesia has expanded unemployment benefits to informal workers and Lesotho has expanded public assistance to them (International Monetary Fund, 2020).

Many of these measures are time-bound and will cease to exist once the health emergency is over. To avoid going back to business as usual and, conversely, to "build back better", there is a need for systemic change. Measures aimed at rebuilding better should be guided by the Sustainable Development Goals and tackle three domains key in achieving gender equality: human capital; access to resources and opportunities; and security.

Improved educational opportunities for women could facilitate the shift from precarious and low-skill jobs to more stable and regular employment. An assessment of labour market demand in specific sectors could identify training to upgrade women's skills and better match their capacities with labour market requirements and expectations. Gender stereotypes that mark some curricula and occupations as appropriate mainly for men or mainly for women, with those associated with men attracting better pay and social recognition, should be overcome, including by removing laws and regulations that reserve some occupations for men.

An accurate understanding of the different impact of trade reforms on women and men could open new opportunities for women as employees and entrepreneurs and buffer possible negative gender-specific effects. Ex ante gender impact assessments represent a promising path to reaching this result. UNCTAD has developed a methodology for this purpose (UNCTAD, 2017). Putting in place complementary policies in fields other than trade, such as education, labour and social policies, most often prove necessary and coherence among policies in different areas is a necessary precondition to enhancing women's participation in the economy and achieving gender equality. Extending safety nets to informal workers beyond the pandemic should be considered, not only due to human rights considerations, but also as they could be essential for both social cohesion and to speed up economic recovery.

Removing discrimination in access to credit could boost women's entrepreneurship, as it would make available a wider range of financial products, ease the conditions of access and repayment, raise the ceilings of loans and simplify request procedures. Innovative technologies such as mobile telephone-enabled solutions can help expand access to basic financial services, as mobile money allows individuals to store and transact money in a digital form without the need for a bank account. For women traders, mobile money can provide a solution to two challenges: limited alternatives for converting currency and insufficient access to formal credit (Zarrilli and Lopez, 2020).

Favourable access to public procurement, an instrument that some countries have already put in place, has proven to have a positive impact on women entrepreneurs by providing them with new business opportunities. Enabling more women entrepreneurs to get started in electronic commerce (e-commerce), a growing trade modality, needs to be accompanied by the strengthening of their information technology skills and by infrastructure support. A broader provision of social services could lift women's care burden and give them more time for paid jobs, skills upgrading and leisure. If flexible work arrangements continue once the health emergency is over, they may help provide for new models of shared responsibilities within households.

Women's participation in decision-making needs to be enhanced; women should be included in shaping the new social and economic order as they can offer solutions to the specific challenges women face. For this to happen, ministries of gender equality should be given adequate human and financial resources and an influential role in policymaking. Women's groups should receive financial support and take part in discussions on policies that impact women.

Laws against gender-based violence need to be enacted in countries in which they are still lacking and fully implemented in countries in which they are in place. Zero tolerance for gender-based violence should become the rule. Gender-based violence is greater where there is impunity for such conduct, and is exacerbated by underlying gender-based inequality. Countries should enhance their capacities to monitor and report on gender-based violence and provide support to women's groups and local communities that offer shelters and a safe space for discussion following incidents of gender-based violence.

Finally, there is the need to mainstream gender equality and women's empowerment into all policies to ensure that the burden of any future crisis does not continue to be borne disproportionately by women. The United Nations Gender Equality Marker provides a monitoring and accountability framework to facilitate the integration of gender into development activities and programmes.

2.4 Supporting migrant workers

The COVID-19 crisis has highlighted the experiences of migrant workers worldwide. Migrants make critical contributions to countries of origin and destination, in both economic terms and in the context of dealing with the pandemic. However, they are disproportionally affected by the effects of pandemic-related crises, namely, the health-related, human rights-related and economic crises, as are the communities in their countries of origin, which are facing a steep decline in remittances.

Globally, after 1990, while the population grew by 45 per cent, the number of international migrants grew by 78 per cent, reaching 272 million by mid-2019 (United Nations, Department of Economic and Social Affairs, 2019). In 2017, there were 164 million migrant workers, representing 64 per cent of total international migrants (ILO, 2018a). The benefits that these migrant workers provide to both their countries of origin, notably related to the transfer of remittances, and their countries of destination, had already been widely discussed prior to the pandemic (see, for example, UNCTAD, 2018).

The COVID-19 pandemic has shed more light on the important role played by migrant workers in countries of destination. During periods of confinement measures and restrictions on movement, several relevant supply chains, such as distribution services, have been maintained thanks to migrant workers. Conversely, barriers imposed on the movement of people, affecting labour migration, have impacted other relevant sectors. For example, in agriculture, a sector strongly reliant on migrant workers, a shortage of seasonal farm workers, with an estimated shortfall of up to 1 million workers, has impacted Europe (International Organization for Migration, 2020). Furthermore, millions of migrants play a key role in the response to the pandemic, as health and care workers. Globally, around 20 per cent of medical doctors and 15 per cent of nursing personnel are foreign-born (figure 2.4).

Figure 2.4
Unweighted average share of foreign-born workers by health-related occupation
(Percentage)

Source: World Health Organization national health workforce accounts data portal.
Note: Data are for World Health Organization members for the latest year available.

Despite their importance, many migrant workers remain highly vulnerable to the effects of pandemic-related crises. Limitations on the mobility of people lead to reduced incomes, lower levels of employment and slower economic activity. Migrant workers are particularly affected by these effects due to a number of factors. Labour migration is mostly centred on the provision of services, which employed around 70 per cent of migrant workers in 2013 (ILO, 2015). Many such workers are manual workers in construction, domestic and tourism services (ILO, 2018a). This means that they are more exposed to low wages and sectors that are more affected by mobility restrictions, due to their manual nature, and more procyclical and subsequently more affected by the economic downturn. The effects of the economic slump are also exacerbated for migrant workers due to informality. In many low-income and middle-income countries, 75 per cent of migrant women and 70 per cent of migrant men are informal workers and are frequently the first to be fired (United Nations, 2020a). The global decline in informal working hours in the second quarter of 2020 was initially estimated to correspond to the loss of more than 305 million full-time jobs (ILO, 2020d). Migrant workers with low levels of social protection, uninformed of their rights and/or dealing with visas and permits with expiration dates that remained largely inflexible despite restrictions and layoffs, are more severely affected by escalating unemployment levels (ILO, 2020b).

As noted, the COVID-19 pandemic disproportionately impacts women migrants. Women migrants represent 42 per cent of migrant workers globally (International Organization for Migration, 2019) and carry most of the burden of paid and unpaid domestic and care work, amplified by restrictions on movement and confinement measures. The latter also compound the risks of domestic violence and shared living conditions and unsafe working conditions may increase the risk of sexual harassment, and migrant women workers in irregular situations may not request assistance due to concerns related to detentions and forced returns (United Nations, 2020a).

The economic vulnerability of many migrant workers has effects on their exposure to the health risks of the pandemic. Housing conditions with shared sanitary and eating facilities or with limited access to water and sanitation services impede the proper implementation of sanitary and physical distancing measures. In 2019, 37 per cent of children and young people on the move in some countries in Africa did not have access to washing facilities, including in urban areas (Mark et al., 2020). In some countries, many migrants lived in below-average housing conditions with poor sanitary conditions or on the street (Quartz, 2020). Moreover, the situation for refugees and migrants held in cramped places of detention is of concern (World Health Organization, 2020). Similarly, overcrowding in many migrant camps severely constrains physical distancing measures and the provision of hygiene services.

As noted, many migrant workers are manual employees in construction, domestic and tourism services, and those continuing to work face challenges due to the nature of their work in following physical distancing and confinement measures. Migrant workers with insufficient social protection may need to work even if ill, and protections for migrants are therefore important in order to protect everyone. Many migrant women are workers in essential health services, often also caring for the elderly, and thus exposed to particular health risks.

Furthermore, difficulties in accessing health systems, with essential services already disrupted or discontinued due to the pandemic, are exceptionally acute for migrants, including with regard to mental health services, which may not be affordable by migrant workers in precarious economic situations. Migrants may not be entitled to all health services, due to discriminatory policies, or may not be aware of their entitlements to social protection. Irregular migrant workers in particular may not have access to such health services or may not use them due to concerns related to detentions and forced returns. Such drawbacks are compounded by linguistic and cultural barriers in understanding health information and by discrimination faced by many migrants due to migration status, race, poverty or other factors (United Nations, 2020a). In 2019, one in four children or young people on the move in some countries in Africa were not able to access health services (Mark et al., 2020).

The combined and intertwined effects of pandemic-related crises may lead to a lasting change in policies governing the mobility of persons. Emerging restrictions, including those related to increasing health-related requirements, may become durable, promoting irregular migration and undermining the pro-development role of migrants. This calls for global cooperation that ensures proportional and coordinated action with common standards. In addition, actions are required to address the current and future economic and health-related challenges of migrant workers. These are interlinked and so need to be handled in tandem. Improving the economic situation of migrant workers is necessary to reduce their health risks which, in turn, is imperative to reduce health risks for all.

Job formalization policies need to be part of the equation, together with initiatives to promote the integration of migrants in countries of destination. UNCTAD, through its Empretec programme and together with the International Organization for Migration and the United Nations High Commissioner for Refugees, developed the *Policy Guide on Entrepreneurship for Migrants and Refugees*. The guide, leveraging the bonding nature of the UNCTAD Empretec methodology, aims to support migrant and refugee entrepreneurship and, thereby, their improved integration into local communities. This initiative has allowed for the development of action plans in 16 developed and developing economies across Africa, Asia and the Pacific, Europe and Latin America and the Caribbean. This supports progress towards achieving target 10.7 of the Sustainable Development Goals, on facilitating the orderly, safe, regular and responsible migration and mobility of people.

During the global financial crisis of 2008/09, countries with stronger social protection and basic services suffered less and recovered faster (Calvo, 2010). In line with lessons learned from this crisis, up to 22 May 2020, 190 countries had planned or put in place protective measures addressing the effects of the pandemic, mainly cash transfers. Attention is required to ensure that the design of such measures is inclusive of migrant workers. Societies cannot be protected from the pandemic if there are unprotected groups. This also requires the universalization of decent living conditions and of access to health and basic services, such as water and sanitation services. The provision of health services needs to be independent of immigration enforcement, to improve health care for migrants and overall resilience to health-related risks. For example, in Portugal, all migrants with pending residence applications were treated as permanent residents for a period of time. In Thailand, irregular migrants were allowed to enrol in the national health insurance scheme. Extended durations for visas and work permits are also important. For example, in Canada, the Government introduced a temporary measure to enable asylum claimants who provided care to patients in health-care institutions to apply for permanent residency. In Chile, an online system allowed for requests for automatic extensions of visas and stay permits for six months. In Uganda, fines applicable to migrants with expired visas were waived. The human rights of people on the move need to be upheld while responding to the pandemic (United Nations, 2020a). The most vulnerable, including women and youth, need special consideration in policy design and implementation.

2.5 Strengthening informal enterprises, microenterprises and small businesses

Microenterprises and SMEs constitute the backbone of the global economy, accounting for over two thirds of employment globally and for 80 to 90 per cent of employment in low-income countries (ILO, 2020a). They are also among the most vulnerable groups to pandemic-related shocks for several reasons.

First, the pandemic has altered the business environment for microenterprises and SMEs and significantly reduced market demand for their products and services. At the sectoral level, supply and demand stagnation has been seen in many industries. Microenterprises and SMEs are major players in non-essential services. The definition of such services varies by country, but they are generally recreational businesses, such as accommodation, catering, entertainment and tourism. Such services are the sectors most affected by restrictions on movement and confinement measures. In addition, many microenterprises and small businesses are in the informal economy, which has been severely affected by the pandemic.

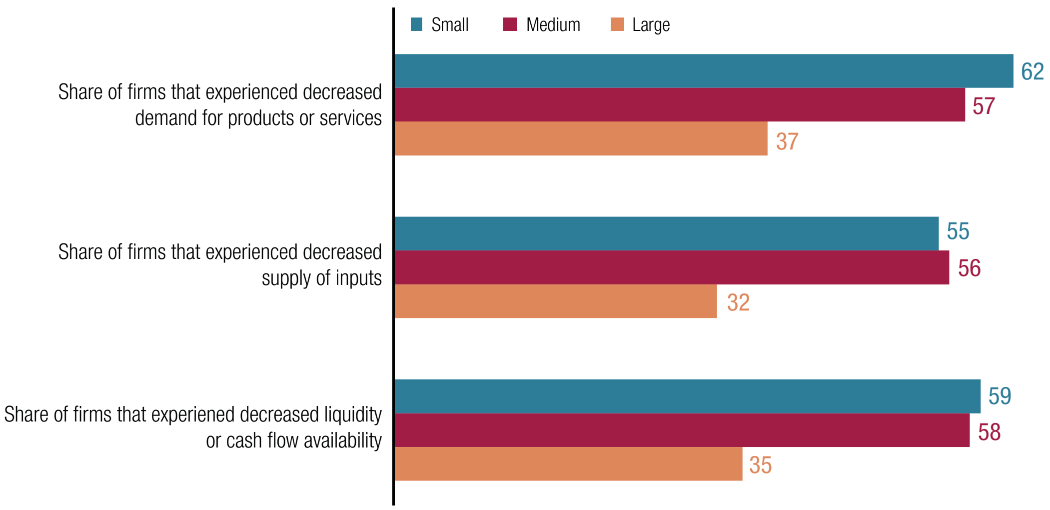
Second, a high proportion of microenterprises and SMEs has experienced heavy losses in revenue, and many such enterprises are out of operation due to confinement measures. In May 2020, a summary of the results of 40 surveys on the impact of the pandemic on SMEs showed that more than half of these enterprises had suffered from steep revenue losses and that one third feared they would be out of business within one month (Organization for Economic Cooperation and Development (OECD), 2020). In the context of a developing region, a comprehensive survey that covered 54 countries in Africa and took stock of the impact of the pandemic on SMEs indicated that four fifths of respondents were significantly affected and that the rate of capacity utilization ranged from 30 to 40 per cent for small businesses, compared with 50 to 60 per cent for large enterprises (Economic Commission for Africa and International Economics Consulting, 2020). Another survey of about 490 SMEs in Ethiopia, three fourths of which were microenterprises and small businesses, showed that 37 per cent had closed by April. Some empirical evidence further illustrates the negative effects of the pandemic on microenterprises and SMEs in other regions (Chen et al., 2020).

Third, the pandemic has posed daunting challenges to the survival of many microenterprises and small businesses. Whether the shutdown will be temporary or lead to business closure or bankruptcy depends on the duration of confinement measures and the resilience of firms. Cash is vital during a crisis. Without timely external support, cash holdings largely determine the destiny of firms. A survey of the catering industry in China showed that 79 per cent of sampled companies could not survive three months with their cash holdings. This is in addition to the difficulties faced by microenterprises and SMEs in gaining access to financing. For instance, the International Finance Corporation (2014) demonstrated that the formal banking system supplied less than one third of the credit needed by microenterprises and SMEs in India. Finally, an analysis of data from SMEs in 11 countries in Africa, Asia and Europe shows that, compared with large firms, more small firms have experienced a decrease in demand for products or services, in supply of input and in liquidity or cash flow availability as a result of the pandemic (figure 2.5).

Figure 2.5

Impact of pandemic on firms, selected indicators

(Percentage)



Source: UNCTAD, based on data from Enterprise Surveys (http://www.enterprisesurveys.org).

Notes: These results are obtained from probit regressions, using an empirical specification that controlled for several firm characteristics (including sector; foreign ownership; gender of top manager; exporter status; and country and region of firm), on a sample of over 4,800 formal enterprises collected by the World Bank in 2020 in the following 11 countries: Albania, Chad, Cyprus, Greece, Georgia, Guinea, Italy, the Niger, the Republic of Moldova, the Russian Federation and Togo.

Apart from their sectoral characteristics, several factors explain the vulnerability of microenterprises and SMEs. Compared with large firms, small businesses have fewer resources and lower levels of capacity to cope with abrupt economic shocks. Such small firms normally do not have diversified businesses, markets, suppliers and external sources to leverage in the face of a crisis.

The pandemic has also led to significant job and income losses, with negative consequences for microenterprises and SMEs. The rapidly rising levels of job losses among such enterprises highlight a severe unemployment crisis at the global level. As indicated in chapter 1, ILO estimates show a worldwide decrease of working hours equivalent to 400 million full-time jobs for the second quarter of 2020. The effect on microenterprises and SMEs is particularly significant because of their higher level of vulnerability. In Europe, for example, at least two of three jobs at risk are in SMEs (McKinsey, 2020). As perhaps the most vulnerable in the labour market, informal economy workers have been the most affected. The first month of the crisis caused a drop of 60 per cent in their income globally and of 81 per cent in Africa and the Americas, 70 per cent in Europe and Central Asia and 22 per cent in Asia and the Pacific (ILO, 2020d). As many as 1.6 billion of the world's 2 billion informal economy workers have experienced significant damage to their capacity to make a living (ILO, 2020e). As developing countries have substantially higher degrees of informality (ILO, 2018b), they suffer the most from these consequences of the pandemic. There is a need for Governments to use this crisis as an opportunity to better harness the potential of the sector for development. Formalization of the informal sector has been proposed as one way to integrate informal actors into the formal system. Other options that have been proposed include registering informal enterprises, providing them with State support measures and reducing transaction costs for informal actors (Narula, 2020).

Notwithstanding the challenges experienced by firms, there are opportunities emerging from the pandemic. On the one hand, short-term opportunities have appeared in increased market demand for certain products and services, such as personal protection equipment, biodiversity-based products and medicinal plants and other medical products and services. On the other hand, the pandemic-induced economic transformation may present opportunities for certain firms and these opportunities could be long-lasting. Since the outbreak of the pandemic, a major transformation has been associated with the enforcement of physical distancing and confinement measures, which have been changing the ways in which people commute, communicate and consume. Given various restrictive measures, people have been increasingly participating in activities such as online shopping, social media use and teleconferencing. A rapid pandemic-driven digitalization is on its way, providing opportunities associated not only with specific ICT products and services, but also with the digitalization of traditional businesses. As more and more activities have shifted online, large companies and microenterprises and SMEs alike are finding new channels to reach more customers at lower costs. However, this digitalization is uneven both across and within countries. It has taken place in a significant manner in developed economies and relatively high-income developing economies, where a sound ICT infrastructure, an e-commerce ecosystem and a distribution network are already in place (World Trade Organization (WTO), 2020). LDCs and the economically weaker areas in many developing countries, particularly rural areas, do not have such an infrastructure, ecosystem or network.

Concerted and coordinated efforts are needed to enable microenterprises and SMEs to better recover from the crisis. Supporting such enterprises has been an important part of the pandemic-related relief packages of Governments in many countries. Some policies apply to enterprises in general, while others target microenterprises and SMEs and their employees specifically. Specific policy instruments aim to change working arrangements, such as by shortening working times and providing sick leave, to ease liquidity constraints, such as with regard to rent, utility, social security and debt payments, and to provide direct financial support. World Bank (2020) indicates that with regard to SME support measures in response to the pandemic, debt finance (loans and guarantees) and employment support are the policy measures used most. In the area of fiscal policy, a large number of targeted measures have been introduced, such as tax exemptions, deferrals and relief, in order to reduce the tax burden of microenterprises and SMEs and help sustain their businesses. Enterprises consider tax measures, along with financial programmes, the most helpful, as seen for example in the results of the International Trade Centre COVID-19 business impact survey in April 2020. For example, various agencies of the Government of China have undertaken a range of policy actions aimed at supporting microenterprises and SMEs. In February 2020, for instance, the National Development and Reform Commission introduced measures to support enterprises to resume work and production, and to reduce the cost of their electricity consumption. Many other developing countries have adopted targeted policies to support microenterprises and SMEs in response to the pandemic. Some policy measures prioritize international trade and try to help export-oriented businesses. For example, the Government of Bangladesh has committed to pay the wages of employees in exporting firms and the Government of Pakistan accelerated tax refunds for such firms (International Trade Centre, 2020).

Overall, government policies supporting microenterprises and SMEs need to be strengthened in developing countries, in particular in low-income countries. First, Governments need to establish a set of specific policy objectives and prioritize actions based on the degree of business continuity, the rate of survival of microenterprises and SMEs and the number of jobs in microenterprises and SMEs. Second, Governments need to design and introduce specific policy measures targeting three different stages, namely, the lockdown phase, the reopening phase and the recovery phase. Third, Governments need to make sure that specific policy measures reach those most in need, evaluate the impact of such measures at each specific phase and adjust measures, if necessary, in order to achieve the best possible results. The prioritization of policy interventions varies along the timeline. In the first phase, financial support to microenterprises and SMEs to ease liquidity constraints is key. In the second phase, it is crucial to help workers, particularly migrant workers, return to work safely and to help firms deal with supply chain disruptions effectively and resume business quickly. For the latter, both economic and public health measures are needed, including the provision of sufficient testing facilities to help ensure that returning to work and business is safe. In the third phase, Governments need to help rebuild consumer confidence and try bringing market demand back to normal. This also applies in the second phase, to supplement supply-side measures. It is important to note that the timeline differs between localities and industries and policies therefore need to be adapted to specific contexts.

UNCTAD has already made tangible contributions to policy responses and can continue to make further contributions to the process of recovery from the pandemic. The crisis exposed and deepened pre-crisis fragilities in the microenterprises and SMEs sector. It has underscored the need for a coherent and holistic policy response to build a resilient microenterprises and SMEs sector and provides an unprecedented opportunity to emerge with a better set of policies and measures for the promotion of microenterprises and SMEs than existed prior to the pandemic. The UNCTAD Entrepreneurship Policy Framework provides a comprehensive and holistic approach to the promotion of entrepreneurship and microenterprises and SMEs that ensures government coordination and facilitates the impact of recovery measures and the efficiency of financial support provided to microenterprises and SMEs (UNCTAD, 2012). In particular, the Entrepreneurship Policy Framework provides assistance in designing and implementing national entrepreneurship strategies and in supporting specific target groups, such as youth (see UNCTAD and Commonwealth, 2015), women, the rural poor, migrants and refugees.

UNCTAD also provides capacity-building activities for microenterprises and SMEs through the implementation of the Empretec programme. As an immediate response to the COVID-19 pandemic, for example, UNCTAD has developed and is assisting Empretec centres to deliver online training courses to microenterprises and SMEs, to enhance their resilience and competitiveness, improve their financial literacy and facilitate their green and inclusive resurgence, including by reaching out to informal enterprises and entrepreneurs with low levels of literacy. UNCTAD is also adapting, for online delivery by local trainers, its Farming as a Business course, aimed at improving the basic management skills of small farmers in rural areas. Through the Empretec programme and the Business Linkages programme for inclusive value chains, UNCTAD assists developing countries, in particular LDCs, in promoting inclusive entrepreneurship, even under international crisis conditions.

In addition, the UNCTAD Business Facilitation Programme – including web-based platforms for the simplification of regulations (eSimplification) and administrative processes (eRegulations), as well as for simultaneous online registrations with several agencies (eRegistrations) – helps Governments improve the enabling environment for businesses by streamlining administrative processes and mobilizing technology. Increasing the number of SMEs formalizing their operations also generates greater fiscal revenues and social security contributions, thereby helping Governments and communities achieve greater resiliency during the crisis. The web-based platforms and business facilities have allowed entrepreneurs to continue obtaining the licences they need for uninterrupted business operations and tax payments and have assisted SMEs to access pandemic-related support packages, thereby protecting jobs and livelihoods. In particular, through the use of eRegistrations, local and national governments could make all of their administrative procedures accessible through the Internet, thereby avoiding physical visits to administrative offices, made difficult or impossible during the COVID-related lockdowns (box 2.1).

Box 2.1 How UNCTAD digital government services have helped Governments stay open for business online and supported vulnerable populations affected by the crisis

Faced with the challenges of a global pandemic, countries have been using the UNCTAD digital government platform, known as eRegistrations, to continue providing essential services to SMEs through online single windows while offices have been closed. By integrating card and mobile payments as well as chatbots and voice communications, the digitalization of administration also offers other advantages. Users no longer have to travel at times long distances from rural areas to queue at crowded offices, processes have been sped up to prevent disruptions to businesses and procedures have been simplified so as to be understood by those not familiar with the bureaucratic procedures, thereby eliminating expensive intermediaries. Vulnerable populations have benefited from local versions of the platform during the pandemic. Examples include the following:

- In Benin, 48 per cent of those setting up a business through monentreprise.bj, a process which now takes less than five hours to complete, are 30 or under, one third are women and over 50 per cent are based outside the capital. Use of the platform has more than tripled as the pandemic has spread.
- In El Salvador, 56 per cent of entrepreneurs using the dedicated microenterprises and SMEs account platform to access a support package of $600 million are women and the numbers increased by two and a half times in June–July 2020.
- In Guatemala, online company registrations through registromercantil.gob.gt increased by more than two and a half times as the pandemic spread. The Economy Minister stated that “reducing paperwork in government agencies is one of the actions we are taking as part of [the] economic recovery strategy”.
- In Iraq, where entrepreneurs may need to limit visits to administrative offices because of both the pandemic and the risk of violence, government officials launched the online business registry business.mot.gov.iq, aimed in particular at those affected by the current crisis.
- In Rwanda, the rwandatrade.rw trade portal was reconfigured to help traders obtain the necessary licences to import pharmaceutical and medical equipment into the landlocked country.

UNCTAD staff have worked remotely with Governments during the crisis to develop new online services using the platform. Simple online services were created within two days and more complex services involving multiple government offices were set up and operational within a week.

Source: UNCTAD (see https://businessfacilitation.org/).

2.6 Mitigating the effects of the pandemic on tourism

Tourism makes important contributions to development in both developed and developing countries. The sector has been severely affected by the crisis, given the severity of the restrictions on movement, border closures and other restrictions imposed on travel in response to the pandemic. These measures have resulted in a significant decline in international tourism arrivals, with negative consequences for revenue and growth. In the first half of 2020, international tourist arrivals fell by 65 per cent, compared with the same period in 2019 (UNWTO, n/d). The greatest drop was observed in East Asia and the Pacific (72 per cent), followed by Europe (66 per cent), Africa (57 per cent), the Middle East (57 per cent) and the Americas (55 per cent).

It is estimated that in 2020, there will be between 850 million to 1.1 billion fewer international tourist arrivals, $910 billion to $1.2 trillion lost in tourism export revenue and 100 million to 200 million jobs at risk due to the pandemic (UNWTO, 2020b). A recent study by UNCTAD estimates that under the most optimistic scenario, in which lockdown measures last for four months, the resulting drop in global GDP due to tourism contraction will amount to about $1.2 trillion, or about 1.5 per cent of global GDP, and if lockdown measures last for 8 or 12 months, the resulting drop in GDP will amount to $2.2 trillion and $3.3 trillion, respectively. With regard to country-specific impacts, economies that are heavily dependent on tourism will be more affected. For example, in Jamaica, tourism represented as much as 20 per cent of GDP in 2018 and the decline in output is expected to be as high as 11 per cent (UNCTAD, 2020a).

The significant projected economic impact of the crisis arising from the decline in tourism is because of the strong backward linkages of the sector in destination countries, including with accommodation, catering and beverage-related services and transport. Such indirect services employ millions of people worldwide, who have lost their livelihoods during the pandemic. Of increasing concern to policymakers is the impact of the decline in tourism on cultural heritage and creative industries. Because of the crisis, museums have had to close, traditional festivals have been postponed and the activities of workers who sell traditional crafts and souvenirs have been brought to a standstill (United Nations, 2020b).

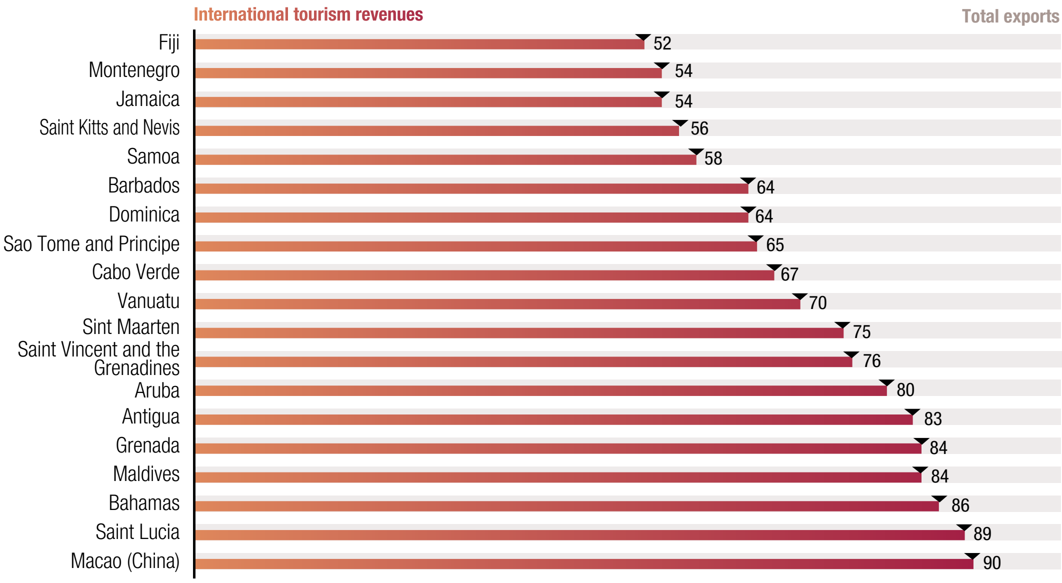
Developing countries in Africa, LDCs and SIDS are particularly susceptible to the decline in international tourism because of their high levels of openness to trade in goods and services and dependence on tourism for foreign exchange and revenue. SIDS are the most vulnerable to downturns in international tourism because of the small sizes of their economies and their higher levels of exposure to and dependence on the tourism sector and trade. In 2018, trade in goods and services accounted for about 95 per cent of GDP in SIDS, compared with 54 per cent in LDCs, 56 per cent in Africa and 60 per cent in developing countries. The difference in degree of openness across these country groups is also evident with regard to trade in services, which accounts for about 41 per cent of GDP in SIDS, compared with 11 per cent in LDCs and 13 per cent in Africa.

International tourist arrivals in SIDS are estimated to have declined by about 62 per cent in the first six months of 2020 (UNWTO, n/d). This represents a significant loss in foreign exchange and tax revenue and reduces the capacity of Governments to provide an adequate and appropriate response to the negative impact of the crisis. It also represents a significant cost in terms of job losses because the sector is a major employer, particularly of vulnerable groups such as women, low-skilled workers, part-time workers and workers in informal employment. For example, Seychelles is dealing with domestic economic consequences due to the decline in international tourism triggered by the pandemic. Tourism accounts for more than 25 per cent of GDP and the economic downturn in the sector has therefore had a significant effect on the economy of Seychelles. Real output is forecast to decline by as much as 11 per cent in 2020, driven mostly by a decline of about 13 per cent in services sector output. The state of the economy prompted the African Development Bank to provide Seychelles with a $10 million loan in June 2020. Similar challenges are being faced in other SIDS, in which international tourism accounts for a significant share of export revenue (figure 2.6). For example, the share of international tourism revenue in total exports is 86 per cent in Bahamas, 84 per cent in Maldives, 67 per cent in Cabo Verde and 58 per cent in Samoa.

Figure 2.6

International tourism revenues as share of total exports, selected tourist destinations

(Percentage)



Source: UNWTO, 2020c.

Note: The selection of economies is based on UNWTO, 2020c.

There are several policies that developing countries could adopt to help reduce the negative socioeconomic impact of the decline in tourism revenue and reduce their vulnerability to economic shocks. In the short term, there is a need to introduce social protection programmes where they do not exist and to enhance access to such schemes where they already exist. One of the lessons learned from the pandemic is that although the virus does not discriminate with regard to infections, the socioeconomic impact is disproportionately felt, with certain sectors and disadvantaged groups more affected than others. The tourism sector and disadvantaged groups, such as women and casual and self-employed workers, are likely to bear more of the burden resulting from the decline in tourism arrivals and revenue. There is a need to protect such groups through social protection schemes. There is also a need for Governments to offer targeted temporary assistance for activities and sectors that rely on the tourism sector and that have been significantly affected by the turmoil experienced in the sector. For example, the aviation industry has been significantly affected by the crisis and several Governments have responded through financial support for airlines, to help reduce layoffs and the impact of the crisis on employment and income. The provision of low-interest loans and debt relief is another example of the policy options available to Governments to assist sectors heavily affected by the crisis.

In addition to such short-term policy actions, there are other, novel measures that Governments are putting in place to offset the negative impact of the pandemic and associated travel restrictions on the economy. For example, in July 2020, the Government of Barbados announced plans to grant foreigners from selected countries a one-year visa to visit and work remotely in the country. It is expected that this will create an incentive for international tourists to travel to Barbados, as they will be entitled to much longer stays than previously and will be less constrained by self-isolation requirements that may be set on international travellers in places of origin or destination. It is important to note that implementation of such a policy should be complemented by enhanced health checks on travellers to ensure that the infection rate due to the virus does not increase, with negative consequences for the health system, government budgets and growth.

In the medium to long term, Governments should build economic resilience to shocks by building productive capacities and transforming their production and export structures, particularly towards manufacturing. Governments may seize the opportunity created by the crisis to strengthen efforts to diversify their economies and lay solid foundations for sustained growth and employment creation, as well as to enhance the capacities of their economies to absorb shocks.

2.7 Concluding remarks

This chapter examined the impact of the pandemic on vulnerable groups and sectors. It suggests that the pandemic will have short-term and long-term impacts, which require policymakers to focus not only on the short-term challenges but also address the long-term consequences of the crisis, to ensure a sustained recovery. This requires strengthening efforts to transform production and export structures in developing countries, to build resilience to future shocks and create good conditions for sustained growth and development. It also requires adequate human, financial and technological resources.

Reducing the poverty-related impact of the crisis requires the adoption of universal social protection policies in developing countries, to help cushion the impact and enable societies to recover better. It also requires building productive capacities through, for example, enhanced support for microenterprises and SMEs, to help increase their capacity to create decent jobs. The pandemic has created significant job and income losses, with negative consequences for microenterprises and SMEs and poverty alleviation efforts. In this context, government policies supporting microenterprises and SMEs need to be strengthened in developing countries, in particular in low-income countries.

Enhancing the voice and participation of women in decision-making processes can play a positive role in ensuring that the challenges they face are addressed. Improved education and training opportunities for women could facilitate the shift from precarious and low-skill jobs, those most affected by the crisis, to more stable and regular employment that implies access to social security benefits.

To address the impact of the crisis on food insecurity, there is a need for developing countries to strengthen efforts to boost domestic food production. However, increasing domestic food production is only one step towards enhancing food security. It does not necessarily mean that all segments of the population will have access to ample food. To ensure universal access to food, complementary measures are needed in several other areas, including investment in distribution and storage infrastructure and processing facilities, the constitution of strategic food stocks, targeted income support for vulnerable groups and the streamlining of policies and administrative procedures related to food trade.

The pandemic has underscored the importance of business facilitation tools such as contactless transaction technology and supporting for entrepreneurship. UNCTAD technical cooperation programmes can help countries put in place policies, regulations and institutional frameworks, as well as to mobilize the resources needed to mitigate and recover from the impacts of the COVID-19 pandemic.

The combined and intertwined effects of pandemic-related crises may lead to a lasting change in policies governing the mobility of persons. Emerging restrictions, including those related to stricter health-related requirements, may become durable, promoting irregular migration and undermining the pro-development role of migrants. This requires global cooperation to ensure proportional and coordinated action with common standards.

More generally, there is a need for a coordinated global response to the crisis, as a global crisis requires a global solution, and no country acting in isolation has either the resources or the capacity to effectively deal with the health-related and socioeconomic challenges arising from the emergency. It is evident that some of the short-term national responses in developed and emerging economies have a negative impact in vulnerable developing countries. In this context, there is a need for international coordination to ensure that short-term responses to the crisis do not create long-term economic problems in developing countries.

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Chapter 3

Financing the response and recovery from the pandemic in developing countries

Chapter 2 examined the impacts of the COVID-19 pandemic within countries, focusing on real economic activities and related income effects for particularly vulnerable groups, firms and economic sectors. This chapter provides a cross-country perspective and examines the impact of the pandemic on the external financial position of developing countries. It focuses on three interdependent areas, namely, official development assistance (ODA), worker remittances and external public debt (for more detail on debt issues, including the private external debt of developing countries, see UNCTAD, 2019a, and United Nations, 2020, and for more detail on broader issues related to financing for the achievement of the Sustainable Development Goals, see UNCTAD, 2019a, chapters 4–6, and UNCTAD, 2020a, chapter 5).

Examining the external financial position of developing countries is of particular importance because, with an end to the pandemic currently not in sight, developing countries will face a prolonged period of additional budgetary outlays, to shield their populations from the health-related and economic impacts. However, their access to additional external finance may have become even more limited than usual, jeopardizing not only an adequate response to the pandemic but also progress towards achieving the Sustainable Development Goals.

The COVID-19 pandemic has come at a time when developing countries are already struggling with mobilizing sufficient resources to achieve the Goals. By 2019, a number of such countries had reached unsustainable debt burden levels, making further borrowing for health-related, social and economic spending to combat the impact of the pandemic an unviable option. With depressed economic activity through most of 2020 and a likely slow recovery in 2021, even servicing existing external debt obligations will represent a challenge for many developing countries. The Group of 20 has offered a suspension, recently extended by another six months to mid-2021, on debt service payments on official bilateral loans to 73 developing countries in receipt of International Development Association financing and/or classified by the United Nations as LDCs. Yet further debt relief beyond the temporary suspension of service payments will be needed to help developing countries overcome the crisis, build a solid recovery and attain the Goals. Furthermore, should there be a prolonged period of depressed economic activity and a series of sovereign defaults by developing countries, restructuring will be required, and the procedures for restructuring sovereign debt at the international level remain fragmented, ad hoc and insufficient to solve sovereign debt crises in a sustainable way. With additional resources unlikely to be mobilized from other sources, such as ODA or remittances, debtor countries will be left without additional external finance for extended periods of time just when their populations will need additional government support for social and health-care programmes. This points to the need for broader and bolder action to ensure the sustainability of the external debt of developing countries.

The global macroeconomic environment has direct impacts on government budgets and employment and thus on flows of ODA and worker remittances to developing countries, as well as on the debt servicing capacity of developing countries. It is against this background that this chapter provides a brief account of the global macroeconomic situation, then discusses recent developments in ODA and worker remittances before addressing the debt situation in developing countries. The final section discusses policy implications regarding improved fiscal space and liquidity support and the need for broader and bolder action, in particular in the area of sovereign debt.

3.1 Dire macroeconomic situation limits external financial support

The global economy has plunged into the deepest recession since the Great Depression. An UNCTAD baseline scenario forecasts a 4.3 per cent reduction in world output in 2020 and a 4.1 per cent expansion in 2021, yet with rising levels of unemployment (UNCTAD, 2020b).

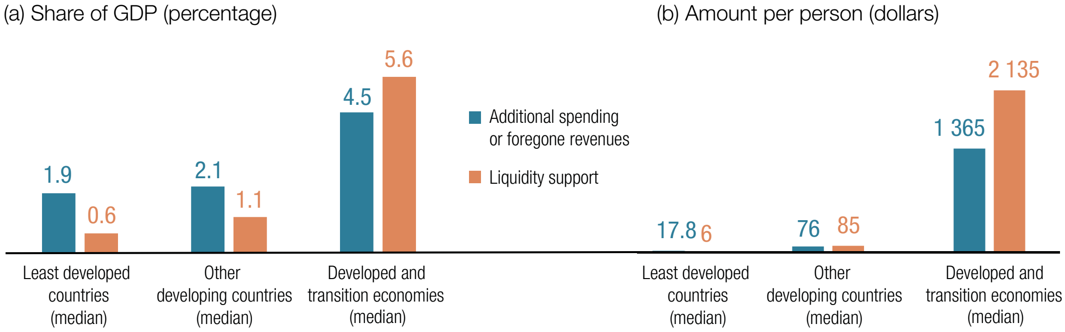
This scenario is based on the assumption that, globally, the expansionary policy response will be properly targeted and continue into 2021. In 2021, world income will nonetheless remain substantially below the pre-pandemic level, and rising levels of unemployment will be a growing concern. For developing countries, UNCTAD estimates a 2.1 per cent contraction of their combined GDP in 2020 and a 5.7 per cent growth in 2021.

As shown in chapter 1, global merchandise trade is estimated to have contracted by an unprecedented 19 per cent year-on-year in the second quarter of 2020. Oil prices plunged, and international tourist arrivals were down by 65 per cent in the first six months of 2020. Capital inflows were accompanied by large net capital outflows from developing countries, estimated at $103 billion in the period January to mid-May 2020 (OECD, 2020a; UNCTAD 2020b). Taken together, these factors have grave implications for the income of developing countries, as they translate to lower export levels and export prices and lower income receipts from reduced tourism, compounded by decreased flows of remittances and ODA.

In reaction to the deep recession caused by lockdown measures, donor countries have been able to mobilize significant amounts to support and stimulate their domestic economies. By contrast, developing countries have much more limited resources for financial support and stimulus packages (figure 3.1). Given the size of most developing economies and their limited fiscal space, the per capita amount of such packages is limited in comparison with both their needs and the magnitudes mobilized by developed countries. This means that without stepped-up international assistance, many developing countries cannot afford adequate response policies to the COVID-19 crisis.

Figure 3.1

Fiscal measures in response to the pandemic by country group



Source: UNCTAD calculations, based on data from International Monetary Fund, 2020a, and the UNCTADstat database.

Stepping up international financial support is particularly important as the pandemic emerged at a time when developing countries were already dealing with growing debt difficulties. In November 2019, during the twelfth Debt Management Conference of UNCTAD, participants warned of the global economic dependence on debt-fuelled growth, in particular in advanced economies, and of the obstacle that already high or unsustainable debt burdens in developing countries were likely to pose to achieving the Goals. Furthermore, concerns were raised regarding the squeeze on fiscal space that could result from a combination of exogenous macroeconomic shocks and high levels of external indebtedness in developing countries. UNCTAD (2019a) details some of the growing vulnerabilities in the external debt landscape of developing countries in the context of hyperglobalization and financialization, underlining the risk of a looming new developing country debt crisis. The report highlights the steep increase of private indebtedness in developing countries since the global financial crisis of 2008/09, growing from 79 per cent of their combined GDP in 2008 to 139 per cent in 2017. While this increase has been largely concentrated in high-income developing countries, low-income and middle-income developing countries have also seen private indebtedness rise steeply, if from lower initial levels. High and growing levels of private sector debt represent a potentially large contingent liability on public balance sheets, through a few channels, which adds substantially to the growing risk profile of the overall debt of developing countries.

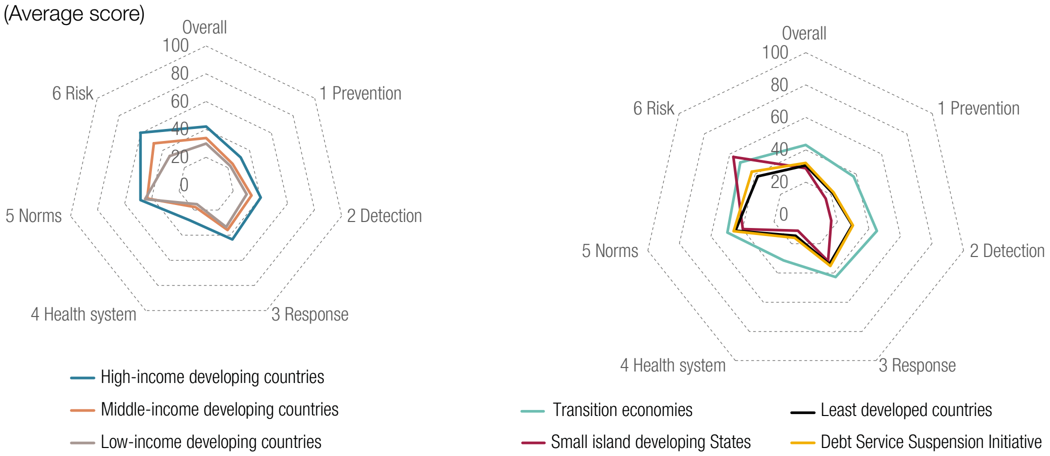
Many developing countries lack fiscal space and have shallow financial and banking systems that leave them ill equipped to respond to the potential scale and duration of the crisis. Central banks in developing countries do not have the capacity to act as lenders of last resort as such banks do in developed countries. The use of large-scale debt-financed stabilization packages in most developing countries would bring the risk of devaluation of their domestic currencies vis-à-vis hard currencies and would undermine the ability to service debt denominated in foreign currencies. At the same time, developing countries face portfolio (equity and debt) outflows whose speed and extent far exceed previous episodes of reversals of financial flows, such as the global financial crisis and the taper tantrum, that is, the surge in United States Treasury yields in 2013 resulting from the announcement of the Federal Reserve of future tapering of its policy of quantitative easing (see https://www.investopedia.com/terms/t/taper-tantrum.asp). The magnitude of outflows to date during the pandemic has been approximately four times greater than during the financial crisis, exposing developing countries to the risk of much greater shortfalls of the foreign currency needed to service their external debt obligations (see UNCTAD, 2020b, chapter 1).

The interaction of these developments and the complex financial dynamics they create will challenge the capacity of developing countries to service and maintain their debt in the face of increased financing requirements with regard to responding to the multifaceted crisis created by the pandemic. In the wider context of responding to the public health crisis, developing countries have relatively greater health and social protection expenditure requirements due to their weaker health systems and response mechanisms. Consequently, they require greater external liquidity support in foreign currencies to pay for vital imports, while also servicing their outstanding debt obligations (UNCTAD, 2020b).

Figure 3.2

Global Health Security Index, 2019

(Average score)



Source: UNCTAD calculations, based on the Global Health Security Index.

Note: Debt Service Suspension Initiative refers to countries eligible for participation in the initiative.

The Global Health Security Index, designed prior to the outbreak of the pandemic, aims to assess and benchmark the capabilities of countries with regard to health security and related capabilities, and provides an overview of the areas of weakness in developing countries in responding to the pandemic. The Index was designed to assess national capacities in the areas of prevention, detection, response, health, norms and risk, and suggests that countries have room for improvement across all areas. The Index report in 2019 concluded that no country was fully prepared for epidemics or pandemics and that international preparedness was weak (figure 3.2).

Considering Index results across developing country groups reveals significant shortfalls across all six areas, with low-income countries as the most vulnerable in responding to epidemics and pandemics. Furthermore, crisis response and mitigation measures will divert resources away from the efforts of countries to achieve the Goals. As the priority will be to restore public health, countries will need to make difficult choices with regard to pursuing other objectives of the 2030 Agenda for Sustainable Development should they not receive additional assistance.

To assess the dimensions of such choices, it may be useful to recall that UNCTAD (2014) first evaluated investment requirements for the Goals, identifying 10 relevant sectors encompassing all 17 Goals, and estimated an annual investment gap in developing countries of $2.5 trillion. One of the key activities of UNCTAD in the area of helping to scale up investment for the Goals is an action plan in accordance with the request of the General Assembly, in its resolution 74/199 on promoting investments for sustainable development, for concrete recommendations for the advancement of investment for the implementation of the 2030 Agenda. UNCTAD will continue its regular monitoring of global Goals-related investment trends and policies in the Sustainable Development Goals Investment Trends Monitor, the Investment Policy Monitor and the *World Investment Report.* Progress on investment in the Goals from all sources, domestic and international, public and private, is now evident across 6 of the 10 sectors, namely, infrastructure, climate change mitigation, food and agriculture, health, telecommunications and ecosystems and biodiversity. However, overall growth is falling well short of requirements (UNCTAD, 2019a; UNCTAD, 2020a).

Sustainability funds have grown rapidly in number, variety and size. UNCTAD estimates that funds dedicated to investment in sustainable development have reached $1.2 trillion–$1.3 trillion. However, most of these funds are invested in developed countries, for example in renewable energy. Global efforts to curb the pandemic are boosting the growth of sustainability funds, particularly social bonds. In the first quarter of 2020, social bonds related to crisis relief raised $55 billion, exceeding the total value of social bonds issued in all of 2019. Over the next 10 years, the decade of delivery for the Goals, capital markets can be expected to significantly expand their offerings of sustainability-themed products. The challenge will be how to combine growth with a greater focus on channelling funds to Goals-relevant investment projects in developing countries, in particular LDCs.

3.2 Official development assistance in times of crisis

As the pandemic response puts additional pressure on government budgets in developed countries, there is a risk that ODA flows will fall or stagnate at a time when the financial needs of the poorest countries to meet the Goals are increasing. The global financial crisis showed that as donor budgets came under pressure during an economic slowdown, ODA flows to developing countries were not shielded from cuts. However, to grasp the potential impact of the COVID-19 crisis on ODA flows to developing countries, it is important to contextualize these flows in the longer-term evolution of the development finance landscape. According to OECD data, net ODA disbursements from official donors to developing countries, in constant 2018 dollars, increased from $69 billion in 2000 to $166 billion in 2018 (figures include Development Assistance Committee bilateral donors, multilateral donors and other bilateral donors not members of the Committee but reporting ODA figures; and exclude some large providers of official flows in the context of South–South cooperation, such as India and China). Meanwhile, preliminary data for 2019 portend a virtual stagnation of global aid flows, when assessed on the basis of comparable metrics, that is, on a cash basis (OECD, 2020b).

Despite the real long-term increase, the trend in aid disbursement is far less impressive once assessed against long-standing and periodically reaffirmed aid targets, also enshrined under

Goal 17.2. Even prior to the pandemic, ODA provided by OECD- Development Assistance Committee members only reached 0.31 per cent of their gross national income, as opposed to the 0.7 per cent targeted internationally, with only a handful of such donors delivering on their promises. Similarly, UNCTAD has recently estimated that, had Development Assistance Committee donors met the target of 0.15–0.20 per cent of their gross national income as ODA to LDCs, the latter would have received an extra $32 billion–$58 billion per year (UNCTAD, 2019b).

The combined effect of these trends and of the relatively rapid GDP growth in many developing countries over the past two decades implies that the importance of ODA disbursements has been declining since the early 2000s relative to the size of recipient economies. The evidence shows, however, that ODA continues to represent a critical source of external finance for some developing countries, particularly those unable to attract large FDI inflows or lacking large diaspora communities. Moreover, although larger developing economies tend to receive, in absolute terms, the greatest ODA inflows, it is the smaller, more vulnerable economies that top the list of most aid-dependent countries (table 3.1). In particular, LDCs and SIDS are extremely reliant on ODA and, to a lesser extent, on remittances, to finance their capital accumulation (UNCTAD, 2019b).

Table 3.1

Countries most dependent on official development assistance and other international financial inflows

	Net ODA inflows (2018)		Remittances (2019)		FDI inflows (2019)	
	(percentage of GDP)	(millions of dollars)	(percentage of GDP)	(millions of dollars)	(percentage of GDP)	(millions of dollars)
Least developed countries						
Tuvalu	44	19	10	4	0.7	0.3
Kiribati	38	74	10	20	0.3	0.5
Central African Republic	30	656	..	..	1.1	26
Yemen	29	7 985	14	3 771	-1.2	-371
Afghanistan	19	3 789	4	804	0.2	39
Other developing countries						
Palau	30	84	1	2	7.6	22
Nauru	25	32	5	7	..	..
Micronesia (Federated States of)	25	99	6	23	..	..
Marshall Islands	24	54	14	31	1.9	4
Tonga	19	87	41	183	2.4	13

Source: UNCTAD calculations, based on data from the World Bank and the UNCTADstat database.
Note: Two dots (..) indicate that data are not available or are not reported separately.

Beyond the mere magnitudes involved, it is also worth noting that, in recent years, even prior to the pandemic, a wide-ranging evolution in aid modalities has been witnessed. This includes a gradual deterioration of concessionality (that is, an increasing recourse to loan instruments, as opposed to grants), the predominance of project-related disbursements and an increasing complexity in terms of the actors and instruments involved (including private philanthropy, blended finance and other private-sector instruments). With the aid effectiveness agenda remaining largely an unfinished business, many of these trends in the nature of ODA have posed additional challenges to recipient Governments, stretching their institutional abilities to ensure aid coordination and genuine ownership of their development agenda (UNCTAD, 2019b).

In light of the above, as well as the current state of international cooperation, even prior to the pandemic, the Inter-Agency Task Force on Financing for Development stated that "international economic and financial systems are not only failing to deliver on the Sustainable Development Goals, [but] there has been substantial backsliding in key action areas" (United Nations, Inter-Agency Task Force on Financing for Development, 2020). The outbreak of COVID-19 and the ensuing global recession have further worsened the outlook, exposing long-standing flaws and entrenched asymmetries in the global financial architecture, as well as the existence of weak policy coordination and lack of global leadership.

The experience of previous financial crises suggests that, as donor countries attempt to cope with their own domestic downturns, bilateral aid budgets may be the most affected, with significant cuts, potentially leading to reduced overall aid flows. The COVID-19 pandemic is putting additional pressure on aid budgets, yet in times of heightened uncertainty it is too early to have more than anecdotal evidence about the potential impact (see, for example, Devex, 2020a, Devex, 2020b, and Fox, 2020). If donor countries were to maintain their ODA as a share of their own gross national incomes constant, total ODA to developing countries could decline by as much as 10 per cent in 2020 compared with in 2019 (Development Initiatives, 2020, chapter 1).

Revamped international cooperation is much needed. With the development finance architecture at a crossroads, a Marshall Plan in response to the pandemic would send an encouraging signal that the time to invest in "building back better" and differently has not passed. It is noteworthy in this context that multilateral donors have stepped in with additional resources. International financial institutions and regional development banks have reacted by mobilizing and/or redirecting significant additional resources (Djankov and Kiechel, 2020). Moreover, multilateral efforts have been made towards combating illicit financial flows, in particular those that are tax-motivated and originate from cross-border multinational enterprises (box 3.2). However, in the absence of stronger concerted action, including fresh injections of capital, their actions cannot but fall far short of the $2.5 trillion package for developing countries called for by UNCTAD and the International Monetary Fund (Djankov and Kiechel, 2020; UNCTAD, 2020c). Against this background, there is a concrete risk that the fallout from the pandemic will not only entail serious setbacks in achieving many of the Goals, but also worsen entrenched inequalities.

Box 3.1 Combating illicit financial flows to narrow the financing gap to address pandemic-related crises and achieve the 2030 Agenda for Sustainable Development

The need to mobilize domestic resources, in particular since the onset of the COVID-19 pandemic and its economic impact, puts fiscal capability and tax revenue generation firmly in centre stage. Illicit financial flows encompass a range of cross-border economic and financial activities that are either already illegal under given national and international regulations and laws or considered illicit in the sense of constituting a systematic and aggressive abuse of loopholes in regulations that therefore require prompt adjustment by relevant authorities. A common identifier of illicit financial flows is the persistent use of financial secrecy jurisdictions to hide the origins and destinations of such flows from public scrutiny.

In addition to worsening income and wealth-related inequalities, undermining state-building, hampering structural and environmental transformation and undermining financial integrity and thereby posing a threat to global financial stability, illicit financial flows undermine sustainable and inclusive growth and development by depriving developing countries of tax revenues. Fiscal revenues are crucial for domestic resource mobilization because of their greater stability and predictability compared with many other sources of finance. Tax revenues and policies are also an essential mechanism with which to mitigate income inequalities and promote inclusive growth and development, through redistributive tax designs and transfer programmes to the poorer sections of society. Finally, tax revenues provide core funding for essential public services, such as education and health care.

Developing countries are particularly vulnerable to public revenue leakages arising from tax-motivated illicit financial flows. Currently available aggregate estimates of such flows vary due to the hidden nature of the flows and to differing measurement methodologies. However, recent estimates of revenue losses caused by tax-motivated illicit financial flows from developing countries alone point to a range of $49 billion–$193 billion. As a proportion of GDP, the regions most affected are Africa and Latin America and the Caribbean, with revenue losses accounting for 2.3 per cent of their GDPs, while in developing Asia and Oceania, the figure is about 1.7 per cent. Moreover, tax-motivated illicit financial flows affect revenue raising capacity most strongly in low-income and lower middle-income countries, due to the higher proportion of corporate tax in their total revenues. More recently, the COVID-19 pandemic has further shone a spotlight on the limitations of developing country Governments in marshalling their budgetary resources in times of crisis, in particular against a background of already insufficient ODA flows.

In addition to trying to deal with financial flows related to organized crime and grand corruption, existing international regulatory and legal initiatives to combat illicit financial flows have to date largely been developed to tackle tax-motivated illicit financial flows originating from cross-border operations by multinational enterprises. The most important international response in this area is the base erosion and profit shifting project led by OECD and the Group of 20, launched in 2013. This project aims at an international consensus by end-2020, to establish an up-to-date method to tax the profits of multinational enterprises based on where the profit-generating economic activities take place and generate value. The reduction in corporate income tax liabilities of multinational enterprises as they shift profits to affiliates in tax havens, or exploit tax loopholes in domestic legislation or international tax treaties, have never been less affordable to developing countries. While the base erosion and profit shifting project has had a number of milestone achievements, important challenges remain.

Perhaps most significantly, a recent OECD proposal, for the first time, moves beyond the arm’s length principle and the rule that companies need to pay taxes only in jurisdictions in which they have a physical permanent establishment, towards a fractional apportionment scheme; yet this does not sufficiently address the concerns of developing countries. This is because the main increase in fiscal revenue from this scheme would accrue to developed countries, since the scheme would include only residual profits and exclude basic (routine) profits, even though all profits of multinational enterprises are ultimately based on their worldwide operations. Moreover, the proposal bases revenue allocation only on sales, thereby excluding criteria related to physical production processes, such as employment, which would be particularly important for developing countries. Finally, as at September 2020, the base erosion and profit shifting project had yet to address tax competition through a specific proposal for implementing a minimum unitary global corporate tax rate. The unitary taxation of multinational enterprises(that is, taxing multinational enterprises and their subsidiaries as a single firm based on their worldwide operations) would challenge the clear advantage that such enterprises have in being able to treat their subsidiaries as separate individual entities under different national regimes, rendering their effective taxation rate lower than that of locally registered firms.

Another core challenge arises from the increasingly pervasive digitalization of the economy, which further erodes the assumptions underlying current international corporate tax norms to determine where taxable value is created and how to measure and allocate this between countries. This is because (a) digitalization reduces the necessity of a physical presence in the markets in which enterprises operate, while under current norms this is a requirement for taxation in foreign States; (b) a greater reliance on intangible assets further invalidates the arm’s length principle and increases the scope for profit shifting towards low-tax jurisdictions; and (c) an important part of digitalized business models relies on user-generated value that existing tax norms cannot capture; measuring the resulting profits is effectively impossible because data provision and user participation generally occur at zero nominal prices. Foregone fiscal revenues from digitalization are particularly high for developing countries because they are less likely to host digital businesses but tend to be net importers of digital goods and services. The base erosion and profit shifting project increasingly includes considerations of digitalization in recognition of this problem yet, for example, its recent proposal of a fractional apportionment scheme does not include in its formula the suggestion by the Group of 24 to retain users of digital platforms or a significant economic presence by such platforms (see https://www.g24.org/wp-content/uploads/2019/03/G-24_proposal_for_Taxation_of_Digital_Economy_Jan17_Special_Session_2.pdf).

The United Nations Committee of Experts on International Cooperation in Tax Matters and its Subcommittee on Tax Challenges related to the Digitalization of the Economy has worked independently of the base erosion and profit shifting project, by undertaking capacity-building activities and by updating the *United Nations Practical Manual on Transfer Pricing for Developing Countries*. Its focus on the interests of developing countries is also reflected in its seeking simplicity and administrability and stressing that reforms “of corporate tax rules applicable to cross-border transactions, including digital transactions, should include considerations of revenue implications for all countries and their impact on broader sustainable development objectives”.

It will be essential to support even small steps towards the unitary taxation of multinational enterprises and acceptance of the principle that the resulting tax should be shared based on negotiations between countries to help end tax competition and the use of tax havens. Important steps in this regard would be the inclusion of the notion of routine profits as a general principle, to refine currently proposed fractional apportionment schemes for the taxation of the profits of multinational enterprises and further consideration of the significant economic presence approach to platforms, as suggested by the Group of 24. Moreover, criteria relating to physical production processes should gain more prominence in this regard. Clearer rules requiring public country-by-country reporting by multinational enterprises are also urgently needed, not least to track the impact of tax-motived illicit financial flows under existing norms on the domestic resources of developing countries more clearly (see, for example, https://www.icrict.com/icrict-documentsresponse-to-the-oecd-consultation-on-the-review-of-countrybycountry-reporting).

UNCTAD, in collaboration with other relevant United Nations agencies, will continue to support countries in data collection and compilation with a view to developing a practical compilation guide for the measurement of illicit financial flows based on the relevant conceptual framework of UNCTAD. This will include a classification of activities generating illicit financial flows, linked to the types and channels of such flows, with recommended methods for measuring them. Further work will also aim to develop a nuanced measurement of illicit financial flows, to support policy action, as well as more regular reporting on the matter.

Sources: UNCTAD, 2019a; UNCTAD, 2020d; United Nations, 2017; United Nations, Committee of Experts on International Cooperation in Tax Matters, 2019.

3.3 Remittances in times of crisis

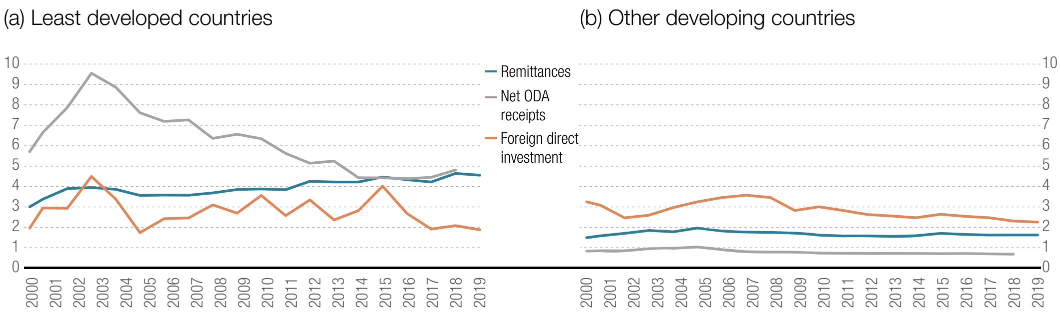
Worker remittances are a particularly important source of external financial resources and a major source of foreign exchange for many poorer developing countries, which have limited access to international financial markets. For such countries, remittances are significant in terms of both GDP and in comparison with some other international financial inflows, such as FDI and ODA. Remittances support economic activity in such countries through the following three channels: (a) from a balance of payments perspective, they increase the availability of foreign exchange, thereby facilitating imports; (b) they provide a social safety net for recipient families, acting as a cushion against poverty; and (c) as an aggregate, they boost domestic demand. All of these functions are crucial during a period of global economic downturn but, as detailed in this section, current projections are for a 20 per cent fall in remittances in 2020 compared with 2019. This situation is in stark contrast to the global financial crisis, when remittances proved to be resilient to the global economic downturn and provided a source of stable financing for developing countries.

Worldwide, worker remittances totalled $57 billion in 2019, with almost 70 per cent going to other developing countries (that is, developing countries other than LDCs, and including transition economies), 24 per cent to developed countries and the remainder to LDCs. In LDCs, inflows of remittances have been increasing steadily since 2000 and are now at par with net ODA inflows, at just below 5 per cent of GDP (figure 3.3). In contrast, net ODA disbursements by donor countries as a share of GDP have been decreasing since their peak in 2003 and are at their lowest since 2000. FDI is relatively less important for the world's poorest economies. Such inflows corresponded to just 1.7 per cent of GDP in 2018. This highlights the strong dependence of LDCs, the world's most vulnerable countries, on both ODA and remittances. Among other developing countries, ODA and remittances matter much less, as they represented 0.13 and 1.22 per cent of GDP in 2018 and 2019, respectively. By contrast, FDI inflows corresponded to 1.96 per cent of GDP and, therefore, played a greater role as a source of external financing. Although remittances matter less in other developing countries in terms of GDP, their magnitude is substantial, with a total value of almost $400 billion in 2019.

Figure 3.3

International financial flows to developing countries, by group and type of flow

(Percentage of GDP)



Source: UNCTAD calculations, based on data from the World Development Indicators database of the World Bank and the UNCTADstat database.

Country groupings mask wide country-specific heterogeneities. Table 3.2 shows the countries that are most dependent on remittances relative to GDP, along with a reliance on other forms of international financial flows: four are LDCs and the others are mostly small economies. These countries have few other sources of international financial flows to rely on if there is a cyclical downturn in inflows of remittances, as is occurring due to the recession caused by the pandemic.

Table 3.2

Countries most dependent on remittances and other international financial inflows

	Net ODA inflows (2018)		Remittances (2019)		FDI inflows (2019)	
	(percentage of GDP)	(millions of dollars)	(percentage of GDP)	(millions of dollars)	(percentage of GDP)	(millions of dollars)
Least developed countries						
Haiti	10	992	39	3 274	0.9	75
Nepal	5	1 451	27	8 128	0.6	185
Lesotho	6	152	24	595	4.6	118
Gambia	14	233	16	275	1.8	32
Other developing countries						
Honduras	3	660	22	5 401	2	498
El Salvador	1	249	21	5 656	2.5	662
Bahamas	..	..	20	2 517	5	637
Samoa	14	115	17	147	0.1	1
Jamaica	1	99	16	2 574	4.2	665
Lebanon	3	1 420	14	7 467	3.8	2 128

Source: UNCTAD calculations, based on data from the World Development Indicators database of the World Bank and the UNCTADstat database.

Note: Two dots (..) indicate that data are not available or are not reported separately.

In addition to their size, remittances matter as they are less volatile than other sources of external financing and stay relatively stable even during episodes of high instability in international financial markets, such as the ones provoked by sudden stops or financial crises. Since remittances do not move with the business cycle, they have a stabilizing effect on consumption over that cycle. For example, the global financial crisis saw sudden stops and reversals of capital inflows, but remittances grew slightly above the 1980–2012 trend (De et al., 2016). During the pandemic, however, developments have been different, in terms of both magnitude and direction.

Working-hour losses in the second quarter of 2020 compared with the fourth quarter of 2019 could be equivalent to over 400 million full-time jobs worldwide. This also means that 1.6 billion workers in the informal economy are at immediate risk of seeing their livelihoods reduced (ILO, 2020). Migrant worker employment is often most vulnerable in host countries. The ensuing adverse impact on remittances could be observed at the start of lockdown measures in major host countries such as the Russian Federation and the United States, as well as countries in Western Europe and member countries of the Gulf Cooperation Council), when thousands of immigrants lost their jobs, had their working hours reduced and/or suffered wage cuts. Migrants in some host countries benefited from measures facilitating their stays, yet others had to return to their countries of origin. For example, an estimated 3 million foreign workers were expected to leave Saudi Arabia between 2019 and 2020, including as a result of the local economic downturn exacerbated by the pandemic (Kerr and England, 2020).

Worldwide, remittances volumes dropped sharply in March 2020, due to the start of lockdown measures in major migration destination markets. Remittances stabilized in the following two months and started recovering in June 2020, as lockdown measures began to be eased in major host countries. Migrants may have stepped up their efforts, such as by drawing from their savings, to send money to their countries of origin as a reaction to the economic hardship faced by recipients in these countries (Quayyum and Kangny Kpodar, 2020).

In 2020, worldwide remittances are forecast to experience a sharp downturn of 20 per cent. There are wide regional heterogeneities, since countries of origin are affected differently by the pandemic. Inflows of remittances are expected to fall most in Europe and Central Asia, by 27.5 per cent, followed by sub-Saharan Africa, by 23.1 per cent, and South Asia, by 22.1 per cent. They are also likely to contract significantly in the Middle East and North Africa, by 19.6 per cent; Latin America and the Caribbean, by 19.3 per cent; and East Asia and the Pacific, by 13 per cent (World Bank, 2020a).

This sharp downturn clearly outpaces the decline in remittances following the global financial crisis. Twelve years ago, growth remained reasonably strong in low-income developing countries, and the need for remittances in recipient countries was not as urgent as it is now. At present, by contrast, the deep recession has affected countries at all income levels and, therefore, those most dependent on remittances are even more in need of external resources than usual. The forecast 20 per cent decline in remittances in 2020 indicates that, in this crisis, remittances will not provide a cushion against the downturn in international financial flows to developing countries. Moreover, the decline in remittances is even more significant given that it arises in the midst of an increase in the relative importance of remittances as a source of external resources. This accrued importance is the consequence of the shrinking of other international financial flows to developing countries such as FDI and ODA.

Rural households in countries of origin that are dependent on inflows of remittances rely on this source of income to finance the consumption of goods and services such as food, health care and education. Reduced inflows of remittances from both abroad and within the country will thus worsen the living conditions of such households and cause a deterioration in developing country social outcomes more generally. Moreover, some rural households rely on foreign remittances to finance the hiring of labour for agricultural work. Therefore, the shrinking of these inflows will further depress labour demand and employment levels. Taken together, these developments will strongly contribute to the worsening of poverty in several developing countries and will have adverse indirect effects on the achievement of several other Goals beyond Goal 1.

There is a trend in some migration destination countries to give preference to national workers over immigrants. Related measures were already in place before the COVID-19 pandemic, but have been accentuated since its outbreak (Kerr and England, 2020). This means that even when economic recovery begins, the number of foreign immigrants is unlikely to rapidly return to pre-pandemic levels. Therefore, it may be expected that remittances will take a long time to recover the role that they have had to date in alleviating the balance of payments constraints in countries of origin and supporting the incomes of recipients.

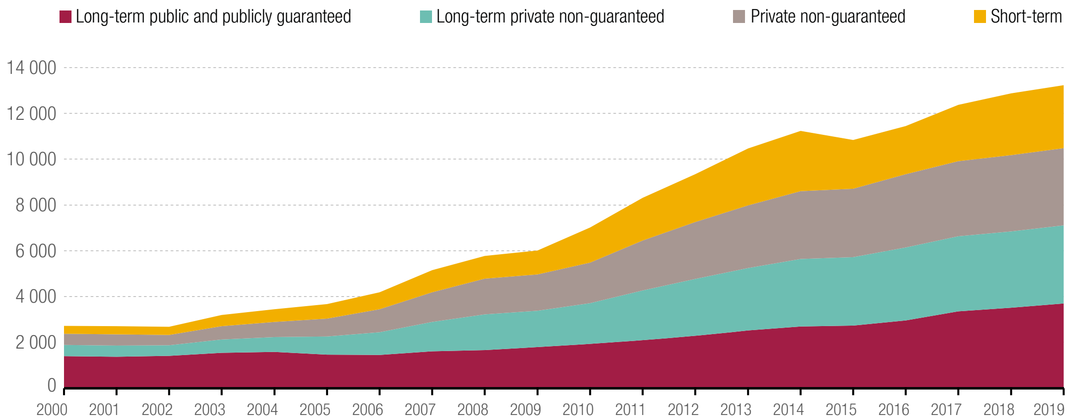
3.4 Debt sustainability

The total external debt stocks of developing countries and transition economies as a group reached an estimated $10.1 trillion in 2019; the highest level to date (United Nations, 2020). This is more than double the level recorded at the outbreak of the global financial crisis, when total external debt stocks amounted to $4.3 trillion. However, the 3.5 per cent year-on-year increase from 2018 to 2019 represents a slower rate of debt accumulation compared with the 8.19 per cent average annual growth of these stocks over the period 2009–2019 (figure 3.4). This rate is above the average GDP growth rate of 4.75 per cent in the period, indicating that, on average in 2009–2019, debt was growing faster than income in developing countries. Consequently, ratios of debt to GDP have also undergone a steady increase from 2008 to 2019, from a group average of 22.8 per cent to an estimated 29 per cent. The average masks the greater differences in ratios between countries yet indicates an overall deterioration. This ratio is expected to worsen as global GDP levels decline and financing requirements increase in the absence of bold and timely deliveries of international assistance.

Figure 3.4

Developing countries: External debt stocks

(Billions of current dollars)



Source: UNCTAD calculations, based on data from the International Monetary Fund, the World Bank and national sources.

Notes: Numbers for 2019 are estimated. Total debt stocks include long-term debt, short-term debt and use of International Monetary Fund credit (data do not include such credit as a separate item). Data used for ratio calculation are adjusted according to data availability. Exports comprise exports of goods, services and primary income. Country groupings are those used in UNCTADstat.

Other debt ratios also reflect trends that may cause concern. The share of total external debt in exports has been steadily rising, from 63.8 per cent in 2008 to an estimated 110.7 per cent in 2019. The average ratio of international reserves to short-term debt in developing countries and transition economies has halved since the global financial crisis, decreasing from 505 per cent in 2008 to 278 per cent in 2019, signalling weaker capacity to respond to external shocks, such as the current liquidity (and even solvency in some cases) crisis.

In addition to the rising level of debt, the structure of developing country debt has shifted in ways that expose these countries to additional vulnerabilities. For example, the average share of short-term debt in total debt has steadily increased since the early 2000s, from 14 per cent to an estimated 29 per cent in 2019. Increased exposure to short-term maturities increases the rollover risk associated with refinancing. Developing countries are historically vulnerable to external shocks owing to narrow export bases and less diversified economies. External borrowing in United States dollars, as their currencies are not internationally accepted, further makes them vulnerable to foreign exchange fluctuations and currency mismatches.

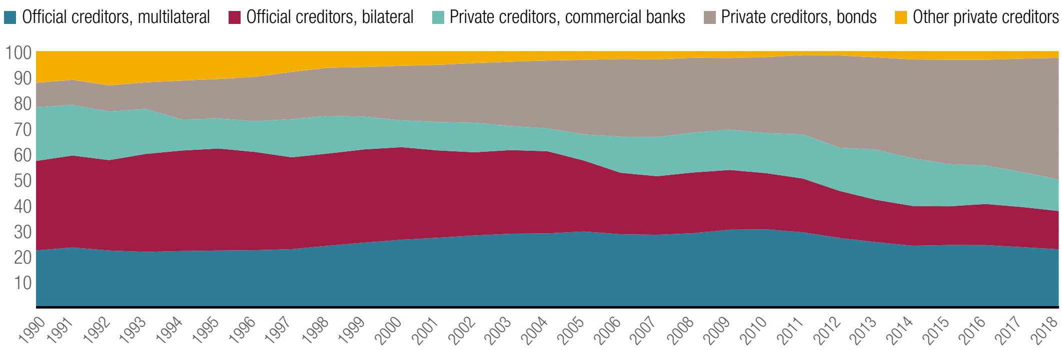
Long-term private non-guaranteed debt increased from 26 to 48 per cent in 2000–2008, reflecting a period of rapid privatization of debt. This share reached a peak of 52 per cent in 2012–2016, then declined to an estimated 48 per cent by 2019. This poses additional challenges to sustainable debt management in the face of exogenous shocks. For example, when private non-guaranteed debt is denominated in a foreign currency, it essentially represents a claim on the country's international reserves, particularly when private entities are unable to hedge their foreign currency liabilities against foreign currency assets. In the case of private non-guaranteed debt denominated in local currency that is held by external creditors, sudden reversals of external credit flows can undermine a country's debt sustainability. Private non-guaranteed debt denominated in local currency and held by domestic residents represents a contingent liability on public sector finances and can lead to widespread bankruptcies in the face of exogenous shocks or the widespread deterioration of the creditworthiness of borrowers.

These changes in debt structure have also been accompanied by changes in the creditor composition of the external long-term public and publicly guaranteed debt of developing countries (figure 3.5). Since the early 1990s, the composition has shifted to a larger share of the bondholders of private creditors. With regard to the creditor base across developing country groupings, bond issuance is largely concentrated in high-income developing countries but also present in middle-income developing countries (figure 3.6). The presence of dispersed creditors and bondholders can complicate debt relief and/or restructuring efforts, as there may be an incentive to hold out from restructuring deals.

Figure 3.5

Developing countries: Creditor composition of external long-term public and publicly guaranteed debt

(Share by creditor)

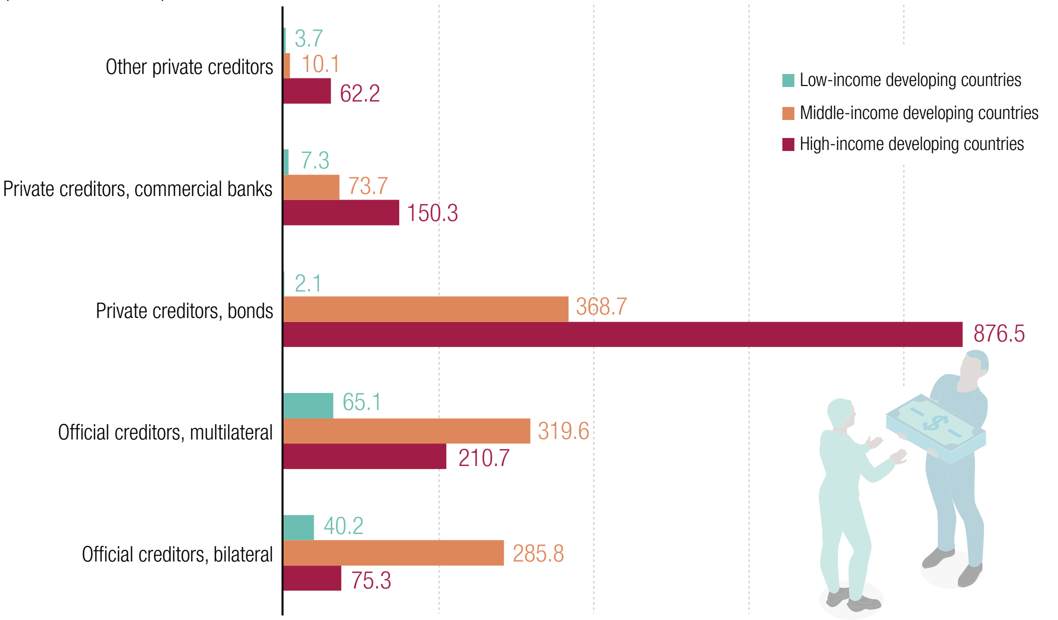


Source: UNCTAD calculations, based on data from the International Debt Statistics database of the World Bank.

Figure 3.6

Developing country groups: External long-term public and publicly guaranteed debt, by creditor, 2018

(Billions of dollars)



Source: UNCTAD calculations, based on data from the International Debt Statistics database of the World Bank.

3.5 International responses

Efforts to provide fiscal space and liquidity support to respond to the crisis began to emerge in mid-April 2020. On 13 April 2020, the International Monetary Fund announced the cancellation of the debt repayments of the 25 poorest developing economies under the catastrophe containment and relief trust. This debt cancellation is estimated to amount to around $251.24 million (International Monetary Fund, 2020b). In addition, the International Monetary Fund responded with the provision of emergency financing through a range of financing facilities (catastrophe containment and relief trust, flexible credit line, standby arrangements, extended fund facility, extended credit facility, standby credit facility, rapid credit facility and rapid financing instrument). As at 16 September 2020, the International Monetary Fund had responded to requests by providing financing of $88,635.83 million to 81 countries (International Monetary Fund, 2020c; see the COVID-19 financial assistance and debt service relief tracker of the International Monetary Fund).

On 15 April 2020, Group of 20 leaders announced their Debt Service Suspension Initiative for the poorest countries, which applies to 73 countries eligible to borrow from the International Development Association or classified as LDCs (Group of 20, 2020a; four International Development Association countries are not eligible due to being in arrears with the International Monetary Fund or the World Bank, namely Eritrea, the Sudan, the Syrian Arab Republic and Zimbabwe). The initiative relates to interest and principal payments on official bilateral debt, limited to bilateral official debt only; it initially applied from 1 May to end-December 2020 but has been extended by another six months (Group of 20, 2020b). The Group of 20 requested private creditors to provide comparable treatment and multilateral development banks to consider their participation. As at 8 September 2020, 43 of the 73 eligible countries (59 per cent) had signed up to the initiative, amounting to $8.77 billion in debt service payments that have been deferred (World Bank, 2020b). Countries in debt distress record the highest level of participation, at 80 per cent; those at low levels of debt distress have a lower level of participation, at 33 per cent. In examining participation across income groups, it may be seen that high-income developing countries have the highest levels of participation (80 per cent), followed by low-income developing countries. Across geographic groups, sub-Saharan Africa has the greatest number of countries eligible to participate in the initiative, representing 74 per cent of the region, followed by South Asia, at 75 per cent of the region, and East Asia and the Pacific, at 47 per cent of the region.

In response to requests for private creditors to extend similar treatment, the Institute of International Finance, following consultations with Governments and private creditors, issued terms of reference for voluntary private sector participation in the Debt Service Suspension Initiative. The 15 July 2020 progress update on private sector engagement in the initiative indicated that there had been no formal requests for debt service suspension from eligible countries (Institute of International Finance, 2020). A likely reason for the lack of requests is concern that an economy might be downgraded by credit agencies upon application for debt service suspension.

The international community should also consider increasing resources for technical cooperation with developing countries in the area of debt management. There is broad recognition that the new financial vulnerabilities and increased risks of debt distress faced by developing countries as a result of the COVID-19 crisis reinforce the need for effective debt management as an intrinsically important component of public financial management. An appropriate response by Governments to the pandemic requires the effective management of their public debt. Debt transparency and the availability of comprehensive, accurate and timely information on public debt are crucial with regard to policy decisions, risk management and the implementation of emergency financing and debt moratorium measures. However, many developing countries lack the appropriate human and technical capacities to effectively handle public resources and liabilities. In this context, as a leading provider of technical cooperation in debt management, the UNCTAD Debt Management and Financial Analysis System programme offers countries solutions in improving their capacities to manage public liabilities, to record and monitor public debt and to provide reliable debt data consistent with international standards.

In the context of the international policy reaction to the COVID-19 crisis, bilateral donors should consider increasing their ODA, possibly by setting apart a certain percentage of their fiscal stimulus packages for ODA to developing countries, including LDCs.

With regard to rebuilding economies differently in future, ODA has a positive and supportive role to play, provided that it is forthcoming in adequate volumes and that the modalities of aid management and delivery become more supportive of sustainable development in beneficiary countries. Recipient countries need to successfully realign to the new aid architecture. This means reviewing the terms and modalities of their relationships with sources of external finance, whether public or private. The immediate objective is to significantly strengthen aid effectiveness and boost its contribution to sustainable development by targeting structural transformation. ODA beneficiary countries also need to adopt effective aid management and coordination policies, in order to maintain ownership of their development agendas and harness the benefits from the wider availability of development partners.

The relevance of South–South and triangular cooperation has increased in recent years and could have a critical role with regard to sustainable development prospects in both LDCs and other developing countries. Given the development needs of the former, increased South–South cooperation by non-traditional partners in a position to do so could bring considerable benefits.

Traditional donors and beneficiary countries are advised to launch a new agenda, namely, an “Aid Effectiveness Agenda 2.0” (UNCTAD, 2019b). This agenda should have two components;

first, addressing the unfinished business of the original agenda, including the implementation of previous commitments on the volume of ODA and ensuring that donors align with national priorities; and second, contemplating dealing with the challenges that have emerged from ongoing changes in the aid architecture, including the following:

- Collaborating on private sector engagement in development cooperation. Donors and beneficiaries should collaborate and ensure that private sector engagement in ODA contributes to developing the endogenous entrepreneurial base in recipient countries
- Developing an internationally agreed development impact evaluation framework for non-State actors
- Enhancing transparency in project selection and implementation
- Ensuring additionality. Partners should ensure that the new forms of cooperation bring additional financing that complements domestic resources and are not substitutes that entail costly private financial flows and additional public liabilities.

Finally, it is also necessary to strengthen the State capacity of aid recipient countries by means of (a) enhancing policymaking capacity; (b) setting up capacity-building and training programmes for policymakers, in particular in the fields of development planning, financial analysis and understanding the aid architecture; (c) establishing a specific office in charge of financial planning with regard to national development plans; (d) eliminating state-weakening features in the present aid architecture, such as parallel aid delivery structures and project focus as opposed to budget support.

With regard to an agenda for remittances, the average transactional cost of sending remittances to countries of origin was about 7 per cent in the first quarter of 2020 (Quayyum and Kangny Kpodar, 2020). Reducing this cost has long been an objective of the international community and has been incorporated into the Goals, with a target average cost of 3 per cent. High hopes have been placed on the use of technologies such as mobile telephones, blockchain, digital coins, crytpocurrencies, stable coins and others. However, to date, their impact has been minimal. The international community can take decisive action to leverage the possibilities of such new technologies in order to fulfil their promise to contribute to reducing the cost of remittances. This requires, however, not only a technological fix, but also institution-building, in particular at the receiving end of remittances flows.

As many immigrants work in sectors such as health care, agriculture and personal care, which are in high demand in times of health and economic crises, they contribute to the capacities of host countries to react to the pandemic and to their economic recovery. Host countries are encouraged to provide greater support to migrants, for example by providing them with access to health care and to basic goods and services. This would not only provide them with material support for their own livelihoods, but also raise their chances of maintaining their capacity to send remittances to their countries of origin and support economic activities and personal incomes in receiving countries.

Governments in countries of origin can step up income support to poor families most dependent on remittances, for example through social safety net measures that can include cash transfers and food aid. At the same time, for migrants expecting to return home permanently, Governments are encouraged to assist reintegration into local economies and societies. In doing so, they may encourage returnees to use their savings locally and stimulate economic activity.

3.6 Concluding remarks

This chapter examined the impact of the pandemic on the external financial position of developing countries, focusing on ODA, remittances and the sustainability of external public debt. It underlines that while developing countries will require more resources to deal with the pandemic, the pandemic may reduce their access to additional external finance. Welcome initial international responses have alleviated some of the most urgent needs. Yet broader and bolder action is needed, in particular with regard to external public debt.

In assessing the redemption schedules for developing country public external debt, UNCTAD estimates that developing countries will face substantial debt service payments in 2020 and 2021, amounting to $2 trillion–$2.3 trillion for high-income countries and $700 billion–$1.1 trillion for middle-income and low-income countries (based on the global debt monitor of the Institute of International Finance, the global debt database of the International Monetary Fund and the quarterly external debt statistics of the World Bank). These figures do not take into account the additional financing that countries will need to address public health challenges with regard to the pandemic, nor do they include financing to shield economies from the associated external shocks to the real economy.

The Debt Service Suspension Initiative is welcome as it provides temporary budgetary relief to eligible debtor countries, but it needs to be emphasized that it is not a debt relief scheme. In fact, as the obligations maturing in 2020 are repackaged into new loans to be paid at a future date, the initiative simply rearranges the payment schedules of debtor countries, thereby providing liquidity support in 2020 without alleviating future debt service payments.

In April 2020, UNCTAD called for $1 trillion in debt relief, given the significant levels of debt faced by debtor countries. However, it should be clear that debt relief is not a panacea that can by itself ensure that future debt burdens will be sustainable. More relevant in the short-term is substantive direct liquidity support, to provide fiscal space to deal with the COVID-19 crisis and facilitate a solid recovery. In the long term, what matters are international frameworks for sovereign debt restructuring that put sustainable development at their centre. Nevertheless, in the absence of comprehensive debt relief, reliable aid flows or good debt management, the ability of the poorest countries to succeed will be greatly diminished. Moreover, there is the risk that a sovereign liquidity crisis could quickly turn into a solvency crisis if countries do not receive sufficient liquidity support. Proactive steps by the international community are required to avert a broader and deeper crisis.

When reflecting on international efforts to support all developing countries, it is clear that there is no one-size-fits-all strategy for all countries. Given the broad-based shock to the global economy, efforts to support countries will need to adopt a multifaceted approach in their dealings with the range of creditor types, as access to each varies greatly across income groups. While debt relief can provide much needed breathing space, the international community should consider expanding its toolbox, to include additional instruments and initiatives to respond to the challenges posed by the crisis (for more detail, see United Nations, 2020). These could take the form of the following:

- Extended and broader temporary debt standstills, to provide additional breathing space, that comprehensively cover multilateral, bilateral and private creditors. These should be granted on a request basis and prioritize vulnerability rather than income criteria. Comprehensive coverage is key to ensuring that suspended repayments are not redirected to creditors not included in the temporary standstills.
- Long-term debt sustainability assessments to identify countries that require deeper debt restructuring. These must ensure that the resultant obligations are compatible with the restoration of inclusive growth-related, fiscal and trade balance trajectories; and the investment requirements necessary to implement the 2030 Agenda.

- Debt swaps, possibly modelled on existing programmes to address problems with debt structure and composition, particularly exposure to commercial debts; and debt buy-back initiatives, in particular for countries with sovereign debt that already trades at substantive discounts.
- An ODA Marshall Plan to mobilize unfulfilled ODA commitments, to provide funding for COVID-19 health expenditures and serve to mitigate the rise in debt burdens.

Furthermore, the pandemic presents an opportunity to reconsider the current ad hoc approach to addressing debt problems and to envisage reforms that would deal with key problems associated with existing sovereign debt restructuring practices (UNCTAD, 2015). The issues that need particular attention are the following:

- Fragmentation and a lack of coordination among stakeholders. This favours influential hold-out creditors and creditor groups that buy sovereign bonds at large discounts and aggressively pursue litigation strategies to obtain the full face value of such bonds in the courts. Such actions have been particularly disruptive in the context of multilateral debt relief efforts.
- Too little too late. Under the current system, neither debtor Governments, that may have concerns about a self-fulfilling crisis and reputational risk, nor creditors, that may have concerns about facing undue losses, have an incentive to recognize a situation of over-indebtedness early enough to provide orderly and sustainable solutions. For example, in 1970–2013, over half of sovereign debt restructurings with private creditors were followed by another default or restructuring within five years.
- Outcomes unfavourable to developmental goals. The economic recovery needed to repair the government balance sheet requires a supportive international framework that allows a debtor country to conduct countercyclical policies that will enable it to restore its debt servicing capacity through investment, output and export growth, rather than income, expenditure and import contraction. The current international financial and monetary system, including sovereign debt restructurings, favours the latter. This is evidenced by International Monetary Fund standby agreements under which, even after some relaxation of conditionalities, access to associated credits typically includes a requirement for fiscal and monetary austerity.

To date, different types of creditors have used different mechanisms and forums to coordinate and address unsustainable debt burdens. The fragmented and uncoordinated nature of this approach has fuelled many of the calls to create a sovereign debt workout mechanism that can deliver comprehensive, fair and timely debt relief in times of distress. In the absence of such a mechanism, future debt relief should seek to address failures from past debt restructurings, which have been associated with drawn out periods of implementation or insufficient provisions of debt relief.

In April 2020, UNCTAD called for the establishment of an international developing country debt authority. Such a body could be charged with building an institutional memory on sovereign debt restructuring processes, provide independent and impartial expert advice to parties during the restructuring process and develop blueprints for fully-fledged international sovereign debt workout mechanisms, among other possible activities.

As the United Nations is neither a creditor nor a borrower, it has long served as a forum to advance the dialogue between creditors and borrowers and is well positioned to lead an international action agenda for a durable solution to developing country external debt sustainability beyond the pandemic and with a view to achieving the 2030 Agenda for Sustainable Development. Work has already been done in the area of best practices.

In particular, the General Assembly in its resolution 69/319 on basic principles on sovereign debt restructuring processes stresses "the importance of a clear set of principles for the management and resolution of financial crises that take into account the obligation of sovereign debtors and their creditors to act in good faith and with a cooperative spirit to reach a consensual rearrangement of the debt of sovereign States". The basic principles were highlighted in the report of the Ad Hoc Committee on Sovereign Debt Restructuring Processes (United Nations, 2015). While these principles leave open institutional details, they could serve as the basis for a coherent and comprehensive approach to debt crisis intervention and resolution. Furthermore, such a process could also be informed by the UNCTAD Sovereign Debt Workouts: Going Forward – Road Map and Guide, which identifies sovereign debt workout principles that include legitimacy, impartiality, transparency, good faith and sustainability.

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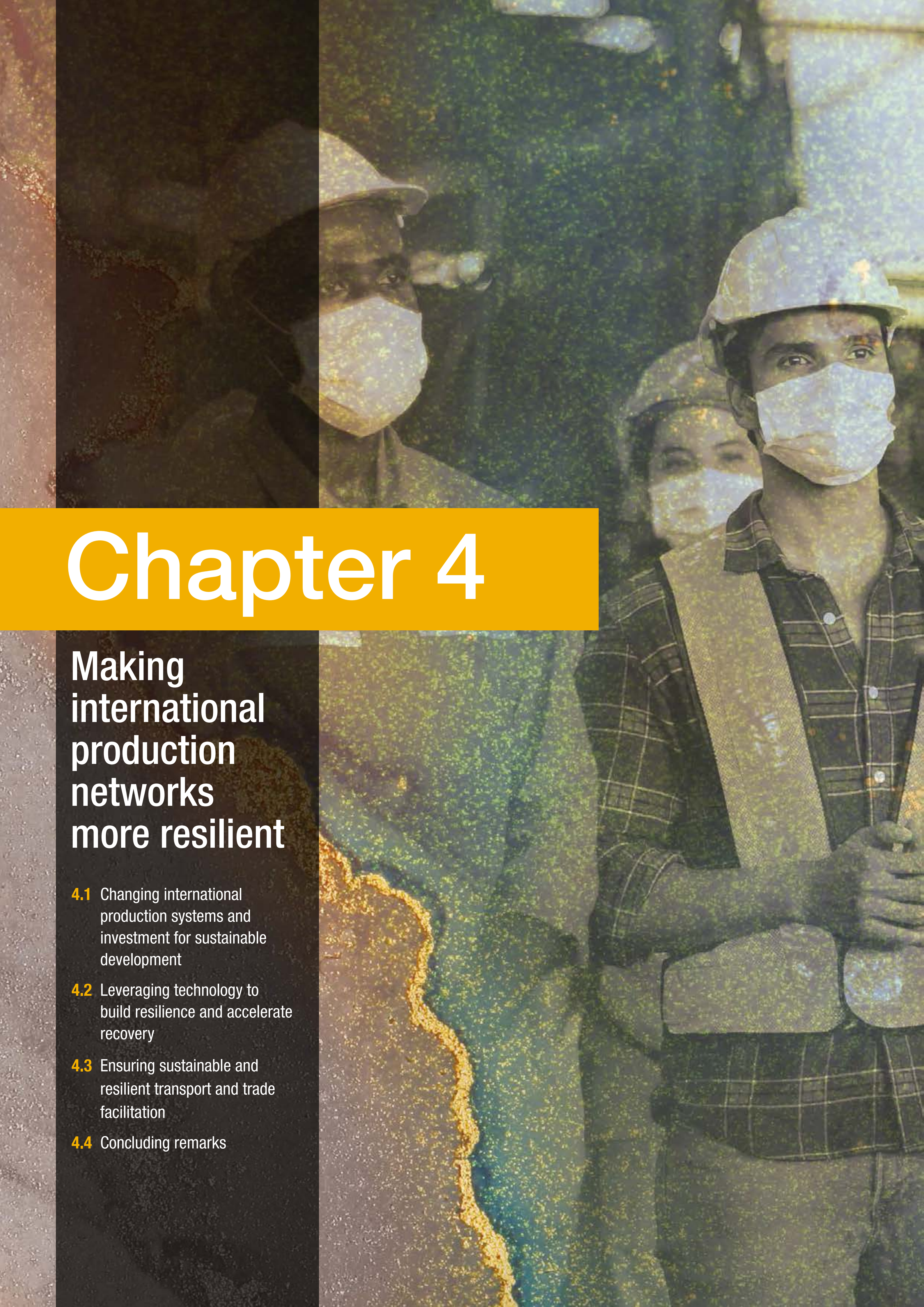


Chapter 4

Making international production networks more resilient

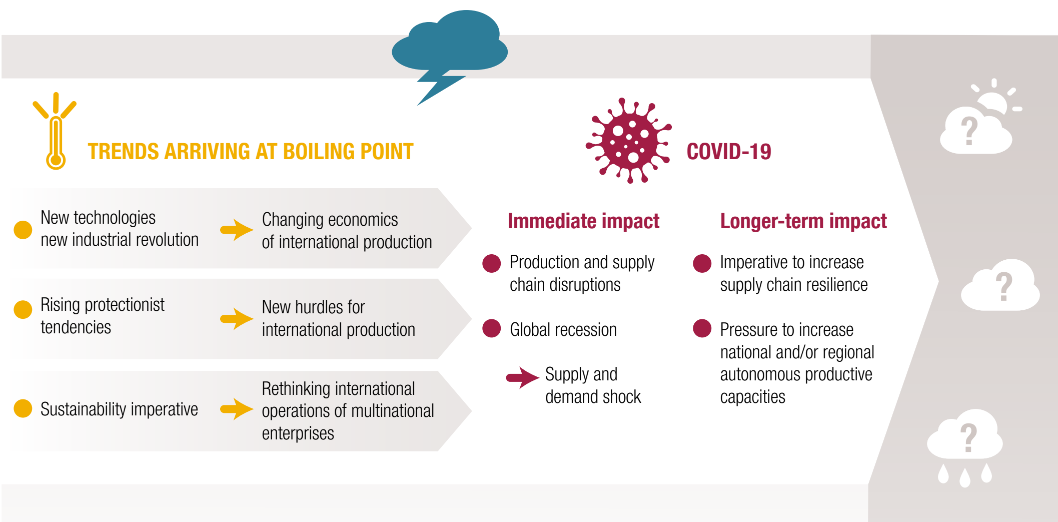
This chapter examines the changes that the COVID-19 pandemic is bringing to global production systems and international trade linkages, exploring what is needed to turn these changes into development gains. The first section deals with the impact of the pandemic on international production and related investment policy and sustainability issues. The next section examines science, technology and innovation, as they serve as enablers for the integration of manufacturers in developing countries into global supply chains and also play a key role in the global response to the current health and economic crises. A close look is taken at the recent acceleration in digitalization and the impact of the COVID-19 crisis on e-commerce. Finally, international transport and trade facilitation are discussed as important transmission channels that can exacerbate disruptions but can also enable the recovery of more interdependent economies. An examination is provided of how the impacts of the pandemic can be considered in strategies for more resilient transport and logistics infrastructure.

4.1 Changing international production systems and investment for sustainable development

4.1.1 International production in a perfect storm

International production integrates both international and domestic firms into a global system through various channels, mainly value chains and links with suppliers. International production by multinational enterprises accounts for a significant share of the global economy; around 80 per cent of global trade is linked to the international production networks of multinational enterprises (UNCTAD, 2020d). Within this system, the roles of foreign affiliates of multinational enterprises and local firms differ. While most direct jobs are created by domestic enterprises, in particular SMEs, exports are controlled primarily by multinational enterprises. Moreover, while local firms dominate employment creation, many jobs depend on the supplier links established with multinational enterprises. The COVID-19 crisis is a major challenge for international production in itself and in combination with pre-existing mega trends. As a result, international production finds itself in a "perfect storm" (UNCTAD, 2020d), and is being forced to undergo swifter transformations (figure 4.1).

Figure 4.1
International production in a perfect storm, 2020

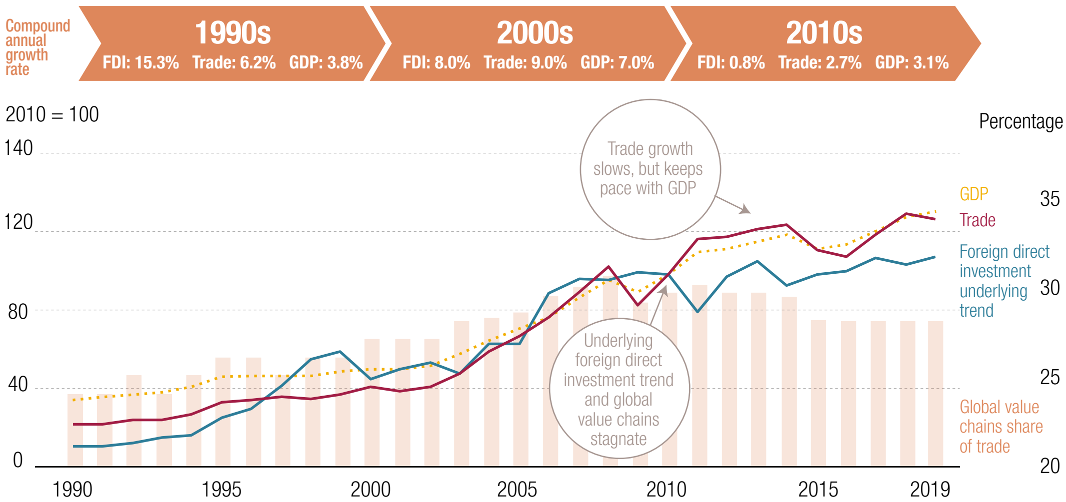


Source: UNCTAD, 2020d.

There are three pre-existing mega trends. First, the pandemic has accelerated technological change, in particular robotization, automation and digitalization, leading to less tangible production, less dependence on physical assets and the greater use of non-equity modes of organizing production. Second, there is increasing fragmentation of international economic policymaking, with a shift away from multilateralism and towards bilateralism and regionalism, as well as increased protectionism. Third, sustainable development imperatives reflect the increasing need to channel investment to the Sustainable Development Goals. As a result of these mega trends, the growth of both global value chains and FDI had already started to decline before the onset of the pandemic (figure 4.2).

Figure 4.2

Trends in global value chains, foreign direct investment, trade and gross domestic product



Source: UNCTAD, 2020d.

Notes and abbreviation: Trade refers to the global exports of goods and services. The global value chain share of trade is proxied by foreign value added in exports, based on the UNCTAD Eora global value chain database. FDI, foreign direct investment.

While the pandemic has provoked a general disruption in all activities related to international production, interactions with the mega trends are at times mutually reinforcing, occasionally push in opposite directions and generally play out differently across industries and geographies. Depending on the starting point of individual industries, the changes created tend to favour one of four archetypal trajectories, as follows (figure 4.3):

- **Reshoring.** In some industries, reshoring is leading to shorter, less fragmented value chains and a greater geographical concentration of value added, primarily in higher technology-intensive industries, bringing about more divestment and a shrinking pool for efficiency-seeking activities. For some economies, this implies the need to re-industrialize; for others, to deal with premature deindustrialization. Access to, and upgrading in, global value chains becomes more difficult for developing countries.

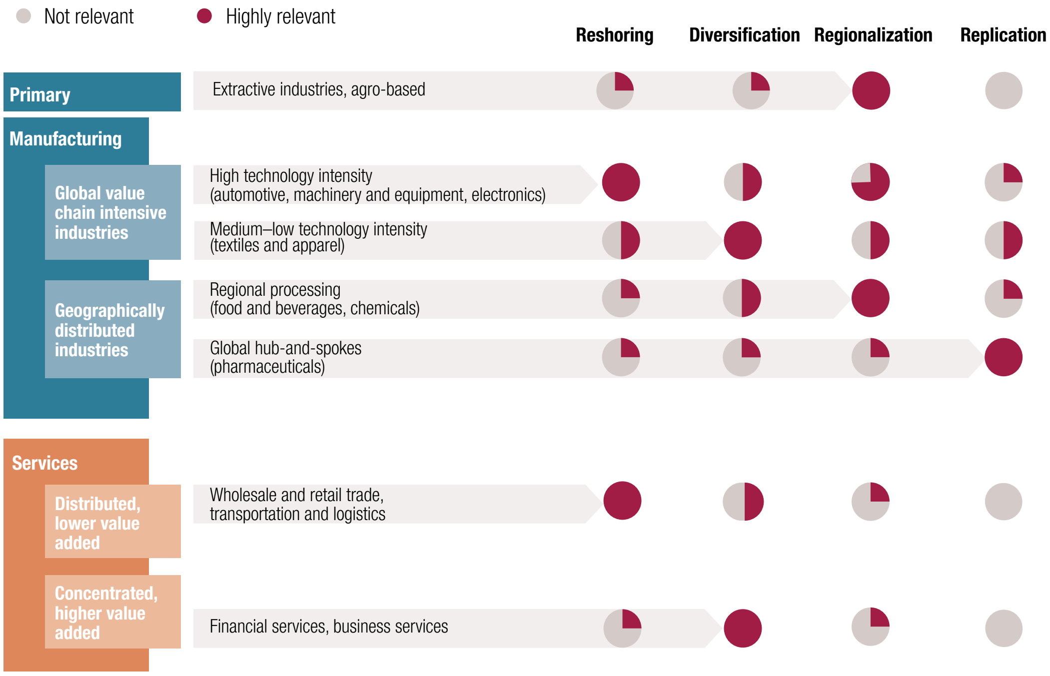
- **Diversification.** The diversification of economic activities is primarily affecting services and global value chain-intensive manufacturing. While it increases opportunities for new entrants (economies and firms) to participate in global value chains, this comes at the cost of relying on supply chain digitalization and more limitations in value capture in host countries. Global value chain participation in such a configuration requires high-quality hard and soft (digital) infrastructure.

- **Regionalization.** Changes may also lead to increased regionalization, reducing the physical length but not the fragmentation of supply chains. The geographical dispersion of value added increases, stimulating regional processing. It also leads to a shift from global efficiency-seeking investment to regional market-seeking investment and from investment in vertical global value chain segments to investment in broader industrial bases and clusters. Regional economic cooperation, industrial policy and investment promotion become indispensable in order to benefit from emerging regional value chains (UNCTAD, 2018b).

- **Replication.** This leads to shorter value chains and a rebundling of production stages in some industries, resulting in more geographically distributed activities and more concentrated value added. It is especially relevant for hub-and-spoke and regional processing industries, resulting in a shift from investment in large-scale industrial activity to distributed manufacturing, relying on lean physical infrastructure and high-quality digital infrastructure. A local manufacturing base, in particular involving SMEs, and producer services become prerequisites to participating in global value chains, yet value capture and technology dissemination are not guaranteed.

Figure 4.3

Relevance of different trajectories of global value chain configurations for selected industries, 2020–2030



Source: UNCTAD, 2020d.

These trajectories do not lead to unidirectional transformation in international production. The trends overall show an international production system under severe pressure, with heightened risks of the dismantling and hollowing out of global value chains and declining cross-border investment.

4.1.2 Declining foreign direct investment in the wake of the pandemic

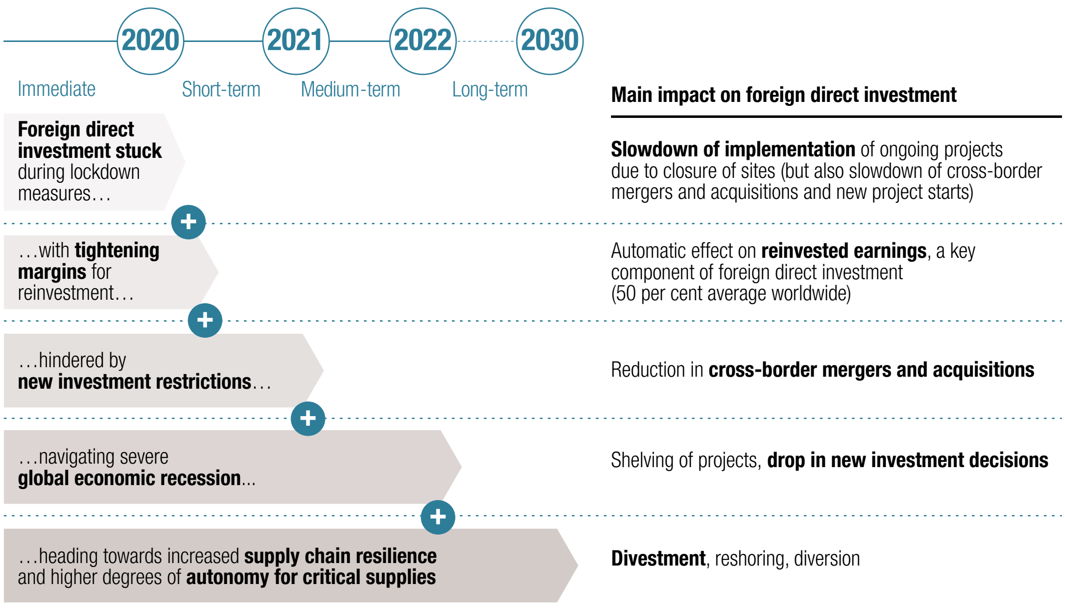
FDI is one of the most salient forms of international production and has been affected, mostly negatively, by the pandemic at all time horizons, creating spillovers to other activities in international production. In the first half of 2020, FDI declined by almost half, as foreign affiliates experienced difficult operational, market-related and financial conditions, with profits plummeting. In February–May 2020, the vast majority of the 5,000 largest multinational enterprises revised their earnings expectations for 2020 downward by over 35 per cent, on average (UNCTAD, 2020d), severely impacting global FDI. Further declines are expected as several Governments are taking measures to avoid fire sales of domestic firms during the crisis, as well as to introduce new screening requirements and investment restrictions.

In the medium term, expectations are for a modest and uncertain recovery of GDP in 2021 (International Monetary Fund, 2020). A longer contraction of demand would have particularly adverse effects on international production. Uncertainty about economic prospects dampens new investment plans. Moreover, financial distress and liquidity problems limit the room for manoeuvre of businesses, in particular smaller and more vulnerable businesses, which, during this crisis, have been forced to divert available funds from investment to operations. Depending on the severity of the recession, ongoing or announced projects that were delayed due to the initial measures could be cancelled indefinitely. Over the two critical years of 2020 and 2021, the demand shock is expected to be the most significant factor affecting FDI.

In the long term, the need to build supply chain resilience and higher degrees of autonomy for critical supplies will drive the strategic decisions of multinational enterprises (figure 4.4). Such decisions will also be affected by increased pressures from Governments and the public to increase national or regional autonomy in the production of essential goods and services. The trend towards the rationalization of international operations is likely to accelerate, leading to changing patterns in FDI. Prospects depend on the duration of the health crisis and on the effectiveness of policy interventionsin mitigating economic effects. Geopolitical and financial risks and continuing trade tensions may add to uncertainty.

Figure 4.4

Impact of the pandemic on foreign direct investment: Transmission mechanisms, 2020–2030



Source: UNCTAD, 2020d.

4.1.3 Policy trends, opportunities and challenges and a new investment paradigm

Investment policy is a significant component of the pandemic response. Services provided by foreign services suppliers present in an importing country are closely related to FDI. As part of the immediate pandemic response, more than 70 countries took actions either to mitigate the negative effects on FDI or to shield domestic industries from foreign takeovers. Support measures included online investment facilitation, the pandemic-related services of investment promotion agencies and new incentives for investment in health care. Several countries tightened foreign investment screening mechanisms to protect health care and other strategic industries. Other State interventions included mandatory production and export bans for medical equipment, as well as the reduction of import duties for medical devices (UNCTAD, 2020d).

The pandemic could have lasting effects on investment-related policymaking. It may solidify the shift towards more restrictive admission policies for foreign investment in strategic industries, yet may also trigger increased competition for investment as economies seek to recover. At the international level, the pandemic may accentuate the need for the reform of international investment agreements, as current international investment agreement obligations could create frictions. In the medium and long terms, the pace and extent of adoption of the key technologies that will reshape international production will depend largely on the policy environment for trade and investment, which is trending towards more interventionism, rising protectionism and a shift away from multilateral to bilateral and regional policy frameworks. They will also depend on sustainability concerns affecting the economics of international production, including differences in approach between countries and regions on emissions targets and environmental, social and governance standards, market-driven changes in products and processes and supply chain resilience measures.

International production can become an important factor in recovery, economic growth and job creation, in particular for lower-income countries. Therefore, policymakers are expected to seek to maintain a trade and investment policy environment that favours a gradual, rather than an abrupt, transition to the new normal. In this process, they need to look for new opportunities in the emerging new international production structure, while addressing different challenges, including increased divestment, relocation and investment diversion, as well as a shrinking pool of efficiency-seeking investment, implying tougher competition for FDI. Value capture in global value chains and development based on vertical specialization will become more difficult and infrastructure built for a world of global value chains may see diminishing returns. Changes in locational determinants of investment may negatively affect the chances of developing countries in attracting international production.

On the other hand, policymakers may also benefit from new opportunities, for example by attracting investors looking to diversify supply bases and building redundant and resilient production capacities in various locations. Furthermore, the pool of regional market-seeking investment will increase, while shorter value chains will bring more investment in distributed manufacturing and final goods production with broader industrial capacity-building and clustering. In addition, digital infrastructure and platforms enable new applications and services and improve bottom-up access to global value chains.

Taking advantage of the opportunities and dealing with the challenges require a change in the paradigm of investment for development. Priorities given to export-oriented efficiency-seeking investment in narrowly specialized global value chain segments will need to shift to an export plus-plus approach, whereby “plus-plus” designates additional attention paid to production for regional markets and broader industrial bases. The focus will also need to move from cost-based competition for single-location investors to diversified investment based on resilience and flexibility and to making room for smaller scale manufacturing facilities and services, instead of prioritizing large-scale industrial investors.

In general, a shift in industrial policies and investment promotion strategies is necessary. Investment geared towards exploiting factors of production, resources and low-cost labour will not disappear completely, but the pool of such investment will shrink. This calls for a rebalancing, from almost exclusively export-oriented production towards growth based on domestic and regional demand and on services. Investment in the green economy and the blue economy, as well as in infrastructure and domestic services, presents great potential for contributing to achieving the Sustainable Development Goals (box 4.1). Finally, policy responses in developing countries should be geared towards boosting both domestic and foreign investment, as well as better exploiting the linkages between both categories to maximize their development impact. In short, a "big push" for sustainable investment in developing countries is needed (box 4.2).

Box 4.1 Investing in the Sustainable Development Goals: The case of project finance

The pandemic has had a negative effect on all forms of investment with a potential to fill the Goals-related financing gap. FDI has declined by almost half, greenfield projects by 37 per cent and project finance – funding in the form of non-recourse or limited-recourse financial structures for permanent infrastructure or public services projects that are central to building productive capacities – by 25 per cent. In the first three quarters of 2020, both globally and in developing countries, the number of projects in project finance also decreased by 25 per cent. Africa was affected the most (-49 per cent), followed by Latin America and the Caribbean (-34 per cent). Only in developing Asia did project finance escape the downward trend, growing by 8 per cent.

This is in part a break with past trends. Prior to the crisis, in the period 2015–2019, the number of projects financing Goals-related sectors grew by more than 40 per cent compared with in 2010–2014, from 478 to 676 (see table). Of the 676 projects, more than one third were financed or started, while the share of projects announced in LDCs rose from 8 to 12 per cent, although their value remained negligible. Of note, already in the period 2015–2019, the overall value of projects had declined by 32 per cent in all developing countries and by 20 per cent in LDCs, due to the shrinking sizes of projects in some sectors such as energy.

Project finance in Goals-related sectors

	Developing economies			Of which: LDCs		
	Announced projects, average (billions of dollars)		Change (percentage)	Announced projects, average (billions of dollars)		Change (percentage)
	2010–2014	2015–2019		2010–2014	2015–2019	
Total	**616.1**	**417.7**	**-32**	**41.7**	**33.5**	**-20**
Number of projects	***478***	***676***	***42***	***40***	***79***	***99***
Power (excluding renewable energy)	162.8	73.4	-55	6.7	9.5	41
Number of projects	*144*	*117*	*-19*	*13*	*18*	*37*
Climate change mitigation	117.3	125.7	7	11.5	13	13
Number of projects	*80*	*334*	*318*	*15*	*39*	*170*
Transport services	310.2	191.6	-38	23	9.9	-57
Number of projects	*209*	*178*	*-15*	*10*	*18*	*88*
Telecommunications	8	4	-50	0.3	0.5	85
Number of projects	*10*	*8*	*-22*	*1*	*1*	*-29*
Water and sewerage	17.8	23.0	29	0.2	0.6	142
Number of projects	*35*	*41*	*17*	*1*	*2*	*200*

Source: UNCTAD, 2020d.

Notes: Five-year averages include both cross-border and domestic projects and all public or private projects. Climate change mitigation project figures are estimated using data from the renewable energy sector.

The pandemic is expected to exert a longer-term impact on Goals-related investment, in addition to the initial shock. If the negative effect persists, there is a risk that the moderate progress made in Goals-related investment in the last few years could be undone. However, despite the observed negative trends, investment in sectors such as public health and digital infrastructure could be boosted in the immediate future and in the medium term. Higher than expected levels of capital and operational expenditure are likely to be financed from both national and international and public and private sources. For example, the European Investment Bank recently announced a partnership with the World Health Organization to reinforce support for immediate pandemic response needs. The initiative will develop targeted financing to enhance health investment and help in building resilient health systems and primary health-care services in low-income and middle-income countries. The Access to COVID-19 Tools Accelerator, the global response framework of the World Health Organization, has already raised $8 billion for the collaborative development and universal deployment of diagnostic tools, treatments and vaccines against the coronavirus. UNCTAD will work with partners and member States to assess financing needs deriving from the pandemic as the global crisis abates and recovery options become clearer.

Source: UNCTAD.

Box 4.2 Harnessing sustainability financing and business practices

Progress on investing in the Goals is not just about mobilizing funds and channelling them to priority sectors. It is also about integrating good environmental, social and governance-related practices in business operations to ensure positive investment impacts. Global capital markets are instrumental in this process. More than half of exchanges worldwide now provide guidance to listed companies on sustainability reporting. Security regulators and policymakers, as well as international organizations, such as the International Organization of Securities Commissions and the Sustainable Stock Exchanges Initiative of the United Nations, also push for the integration of environmental, social and governance-related practices.

The influence of shareholders demanding changes in the governance and policies of multinational enterprises along the entirety of their value chains is also important to capital market authorities. Shareholders can also demand other governance changes leading to more corporate governance spillovers. Due to the pandemic, more efforts are needed to implement regulations on sustainability with the involvement of various stakeholders. In this way, multinational enterprises can participate in policy changes towards sustainability and global efforts to achieve the Goals.

Taking private sector contributions to the Goals to the next level will require enhanced measurement and reporting by multinational enterprises, the investment industry and financial markets. In 2019, UNCTAD published the *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* as a framework for corporate reporting on contributions towards achieving the Goals. As part of the move towards sustainability-dedicated investment, regulations and guidelines are increasingly important drivers of the integration of environmental, social and governance-related practices by investors, particularly large institutional investors. Many best-practice funds use them as benchmarks to develop their own policies, to provide asset managers with guidance on sustainability issues. Such efforts can help put necessary policies and processes in place and thereby mitigate regulatory risks.

Addressing all aspects of sustainable development, from poverty to climate change, is the best way to mitigate further the negative effects of the pandemic. The Sustainable Development Goals currently provide the best framework to achieve this and can help guide policy and transform investment and business decisions. UNCTAD has proposed several options to facilitate this process and promote a greater mobilization of private sector finance to Goals-related sectors. Such options include the following:

- Deepen the integration of environmental, social and governance-related practices information into financial markets, by establishing a global monitoring mechanism with a harmonized approach to disclosure, the development of sustainability standards and the use of data to enhance the credibility of sustainable financial products.
- Promote the integration of sustainability along the entire investment chain and across public and private markets, as well as more sustainability-themed capital market products dedicated to the Goals.
- Boost the widespread adoption of the *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* and the Accounting Development Tool, to support entity reporting.
- Further enlarge the Sustainable Stock Exchanges Initiative, to support the capital market integration of Goals-related reporting and performance.
- Expand the investment facilitation programme of UNCTAD, to improve Goals-related reporting and performances by this key group of stakeholders.

Source: UNCTAD.

The UNCTAD Investment Policy Framework for Sustainable Development provides a holistic strategic framework and a related action plan to mobilize funds, channelling them into Goals-related sectors; maximizing their impact is particularly valuable under the pandemic conditions requiring a quick response. The action plan has been updated in accordance with the request of the General Assembly, in its resolution 74/199 on promoting investments for sustainable development, calling for concrete recommendations for the advancement of investment for the implementation of the 2030 Agenda for Sustainable Development. The transformative actions proposed in the action plan take into consideration the negative impact of the pandemic and require reinforced efforts towards investing in Goals-related sectors. Four guiding principles for all types of investment and investment policies for sustainable development are suggested, as follows:

- Balancing liberalization with regulation. Goals-related sectors often, given their nature, provide public goods and front-line services; private sector involvement requires a careful balancing of market access considerations with appropriate public regulations and possible oversights.
- Balancing the need for attractive risk-return rates with the need for accessible and affordable services for all. The risks undertaken by corporate actors and their expected returns need to be weighed against the requirement to ensure the accessibility and affordability of goods and services.
- Balancing a push for private investment with public investment. Private sector involvement is not a panacea for solving the Goals financing problem but can play an important role in complementing and supporting public sector engagement. Mobilizing private and public funding must follow a coherent strategy.
- Balancing the global scope of the Goals with the need to make a special effort in LDCs and other vulnerable economies. The persistent development challenges in such countries requires national and international measures tailored to their specific contexts.

The UNCTAD policy framework and action plan provide flexibility and a range of policy options in responding to the opportunities and challenges of mobilizing and channelling investment and ensuring its impact in developing countries as required during the pandemic. The key policy options should be implemented simultaneously with changes in the global business mindset.

At present, more than 150 countries have adopted national strategies on sustainable development or revised existing development plans to reflect the Sustainable Development Goals. However, concrete action plans for attracting more investment in achieving the Goals are vague or non-existent. Research by UNCTAD, based on 128 voluntary national reviews, reveals that although many of these strategies highlight the need for additional financial resources, few contain concrete road maps for the promotion of investment in the Goals (UNCTAD, 2020d). In addition to national investment policies, factoring in the Goals in international investment treaties presents a daunting task. The majority of the 3,300 existing treaties pre-date the Goals. Thus, a more systematic approach to articulating investment promotion in national Goals-related strategies, and to mainstreaming the Goals into national investment policy frameworks and the international investment agreement regime, is needed.

The policy advice of UNCTAD in the area of international production in the broad sense includes FDI-related monitoring tools on recent flows and policy trends, advice for investment promotion agencies on how to adjust to the new normal (UNCTAD, 2020e) and an electronic government platform that has helped developing countries keep services open during the closure of physical offices, as well as advice on international investment agreements and enterprise development.

With regard to advice to investment promotion agencies in formulating responses to the pandemic, UNCTAD has monitored and provided an overview of the individual measures applied, highlighting emerging trends and challenges (UNCTAD, 2020e). UNCTAD has maintained its dialogue with investment promotion agencies and stakeholders through a series of webinars devoted to the link between investment promotion and response to the pandemic. The majority of investment promotion agencies have quickly switched from routine investment promotion and facilitation to crisis management, notifications to investors of government emergency and economic relief measures, the provision of crisis support services and contributions to local pandemic response efforts, while increasingly serving the investor community online. Agencies have also instituted more collaboration and exchanges of best practices with peers, facilitated by international organizations, including UNCTAD and investment promotion agency associations.

UNCTAD policy advice also covers the post-pandemic reform of international investment agreements, which may give a stimulus to calls for the revision of rules for treaty-based investor–State dispute settlement procedures. The need to safeguard sufficient regulatory space in international investment agreements, to protect public health and to minimize the risk of investor–State dispute settlement proceedings, has become a paramount concern, in particular with regard to restrictions on all arbitration claims related to government measures targeting the health-related, economic and social dimensions of the pandemic and its effects.

4.2 Leveraging technology to build resilience and accelerate recovery

4.2.1 Mobilizing science, technology and innovation

Science, technology and innovation are important enablers for the integration of manufacturers in developing countries into global supply chains. The increasing use of open innovation models, which entail collaboration with external partners to expand and strengthen the competitive advantages of firms through innovation, takes place at both the local and international levels. Collaboration between different actors, including local manufacturers and multinational enterprises, is key to creating an enabling environment for innovation (UNCTAD, 2018a). In developing countries with nascent innovation systems, building endogenous innovation potential involves developing basic capacities to learn how to adopt, assimilate, adapt and diffuse existing knowledge and technologies. Such capabilities are required to benefit from technology transfers, which should supplement efforts to build domestic innovation potentials and promote their integration into global value chains (UNCTAD, 2014).

Science, technology and innovation also play a key role in responses to the health-related, economic and social disruptions caused by the pandemic. Related policies can help deliver progress on the pandemic response by strengthening innovation systems and by increasing capacities to participate in global science and innovation networks (including through open data and open science) and in multilateral cooperation.

At the annual session of the United Nations Commission on Science and Technology for Development in 2020, Member States shared experiences and solutions to the challenges raised by COVID-19 that illustrated how many developing countries were harnessing the pandemic response to build or augment their innovation and productive capacities. For example, in the Islamic Republic of Iran, companies and research institutes had enhanced their capacity to produce more than 270,000 tests per day and manufacture a range of medical equipment and supplies such as face masks, disinfectants and ventilators and the Ministry of Science and Technology of Pakistan had mobilized national organizations and domestic resources to start exporting personal protective equipment, hand sanitizers, testing kits and ventilators (see https://unctad.org/meeting/commission-science-and-technology-development-twenty-third-session-virtual-informal-meeting). Some developing countries, such as the Philippines and South Africa, were utilizing three-dimensional printing to support the manufacturing of ventilators and personal protective equipment (see https://unctad.org/system/files/non-official-document/ecn162020_s10_sti_Philippines_RGuevarra_en.pdf and https://unctad.org/system/files/non-official-document/ecn162020_s16_sti_SouthAfrica_MChaba_en.pdf). The recognition by Member States of the Commission of the role of science, technology and innovation in the health emergency response led them to select the following priority theme for the twenty-fourth session of the Commission (2020/21): “Using science, technology and innovation to close the gap on Sustainable Development Goal 3, good health and well-being”.

Addressing global challenges in vastly different local contexts requires the combination of cutting-edge scientific capabilities and detailed local knowledge. Global collaboration can contribute to this process, providing opportunities to both create new knowledge and increase the impact of research, by diffusing existing knowledge quickly and at all levels. Regional and global scientific networks devoted to the development of diagnostics, therapeutics and vaccines in relation to the pandemic can increase the capacities of developing countries to participate in other global science and innovation networks.

Effective collaboration also requires stronger partnerships with and among developing countries in scientific research. Encouraging examples include several projects that address the coronavirus outbreak, such as the African Coalition for Epidemic Research, Response and Training and the Partnerships for Enhanced Engagement in Research.

Open science is another key instrument for collaboration, the use of which UNCTAD and the Commission have long advocated. This can take the form of open access, virtual science libraries, geospatial analysis and other complementary ICT and science, technology, engineering and mathematics assets to address development issues, with particular attention to education (Kituyi, 2020; UNCTAD, 2012). From the initial outbreak of COVID-19, when a team of scientists from Australia and China made the genome sequence of the virus available, open access to newly generated data and knowledge has grown rapidly. In addition to scientific collaboration, open access approaches have facilitated the sharing of technological knowledge among private companies and academic institutions, for example with regard to ventilator designs.

International cooperation must ensure that the benefits of scientific advances made during the pandemic and in the longer term are widely shared. For example, the European and Developing Countries Clinical Trials Partnership supports regional health research networks in Africa to fight the pandemic and has launched an emergency call to support research activities in sub-Saharan Africa to manage and/or prevent the spread of the virus (see https://unctad.org/system/files/non-official-document/ecn162020_s16_sti_SouthAfrica_MChaba_en.pdf). The United Nations Technology Bank for the Least Developed Countries has launched a global technology sharing platform that helps facilitate the sharing of open source technologies and technologies that are made available on a voluntary basis, in particular those that are essential to the COVID-19 response. The Technology Access Partnership facilitates technology transfer, access and capacity-building, to boost the local production of health technologies.

By early September 2020, there were at least 35 vaccine candidates in clinical evaluation and another 145 in preclinical evaluation (see https://www.who.int/publications/m/item/draft-landscape-of-covid-19-candidate-vaccines). Accessibility to treatments and vaccines raises three key considerations for developing countries concerning intellectual property rights.

First, innovators are likely to seek intellectual property protection to recoup the research and development costs of new, effective and evidence-based treatments and vaccines. The challenge is to find a balance between providing intellectual property rights to innovators and ensuring that treatments are widely affordable and accessible, in particular in developing countries and LDCs.

Second, while the Doha Declaration on the Agreement on Trade-Related Aspects of Intellectual Property Rights and Public Health has allowed for some progress on the availability of affordable antiretroviral medicines, major health challenges in developing countries in recent years have raised new issues. For example, with regard to the problem related to the limited ability of developing countries to make effective use of compulsory licences, an amendment to the Agreement allows for the production and importation of patented medicines where manufacturing capacity does not exist. The full utilization of flexibilities under the Agreement, to improve both the availability of medicines and local research and development and innovation in the pharmaceutical sector, will require an inclusive multilateral approach.

Third, the integration of scientists in developing countries into international scientific collaboration, particularly research and development for treatments and vaccines, as well as the integration of manufacturers in developing countries into health product supply chains, would support the building of local capacity. This may better facilitate voluntary licencing agreements in developing countries that would have the technical and productive capacity to produce proprietary health products under licence.

4.2.2 Implications of accelerated digitalization

Apart from health sciences, digital technologies have received special attention during the pandemic as they have been critical in both medical and non-medical responses. Digital and data science tools have been essential for epidemiological monitoring, the maintenance of physical distancing and telehealth. Epidemiological modelling for pandemic preparedness, response and prevention requires innovative data collection, sharing and analysis to create predictive models that forecast the spread of the virus.

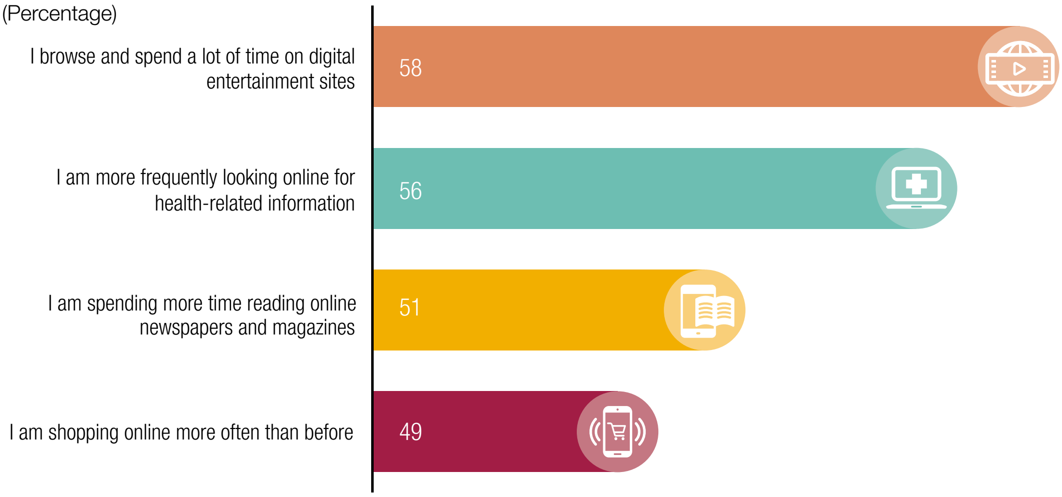
Digital technologies have also deeply impacted social and economic behaviours during the crisis and created new opportunities as well as challenges. In many places, people are relying on teleworking and teleconferencing tools. More consumers are shopping online and more people rely on use of the Internet for news, information and entertainment. Many changes in the use of digital technologies and online activities are likely to continue after the crisis.

Worldwide, the pandemic has seen people turning increasingly to e-commerce platforms to order goods and services. Moreover, online consumer behaviour seems to be changing, according to a recent consumer survey by UNCTAD and Netcomm Suisse E-commerce Association covering nine developed countries and emerging economies (figure 4.5).[1] Preliminary results suggest that even though more people are shopping online, overall expenditures per shopper may have decreased. A refocus from luxury to essential products such as food and beverages and the postponement of large expenditures during the crisis may be explanatory factors. The results also suggest that the increased interest in essential products in e-commerce is likely to continue beyond the pandemic (UNCTAD and Netcomm Suisse E-commerce Association, 2020).

Figure 4.5

Online behaviour since the outbreak of the pandemic

(Percentage)



Source: UNCTAD and Netcomm Suisse E-commerce Association, 2020.

Note: Share of 1,819 respondents who agreed to the question “Since the outbreak of COVID-19, …”

[1] The survey was conducted in June 2020 by UNCTAD and Netcomm Suisse E-commerce Association, in collaboration with the Network Information Centre in Brazil and Inveon in Turkey, to assess the effects of the pandemic on consumer behaviour with regard to e-commerce and the use of digital solutions. There were 3,697 respondents from the following nine developed countries and emerging economies: Brazil, China, Germany, Italy, Republic of Korea, Russian Federation, South Africa, Switzerland, Turkey. Questions related to changes in behaviour compared behaviour during the pandemic with behaviour in the previous year. Results for Brazil are not available for the question presented in figure 4.5 due to differences in methodology.

These findings are largely congruent with those of another UNCTAD survey on the impact of the pandemic on digital businesses and platforms, covering 23 countries, mainly LDCs (UNCTAD, 2020f).[2] In Cambodia, for example, some e-commerce start-ups have seen an increase of more than 150 per cent in online grocery sales since the outbreak of COVID-19 (see https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2401). Yet the survey also found that many e-commerce businesses had experienced declining sales. By contrast, third-party marketplace sales were generally more positively affected. Social media and direct online sales are increasingly important channels for e-commerce businesses. Contactless payments, in particular mobile payments, have also significantly increased. Nonetheless, in the countries surveyed, cash-on-delivery payments have remained significant in absolute terms and the use of this method has continued to increase during the pandemic.

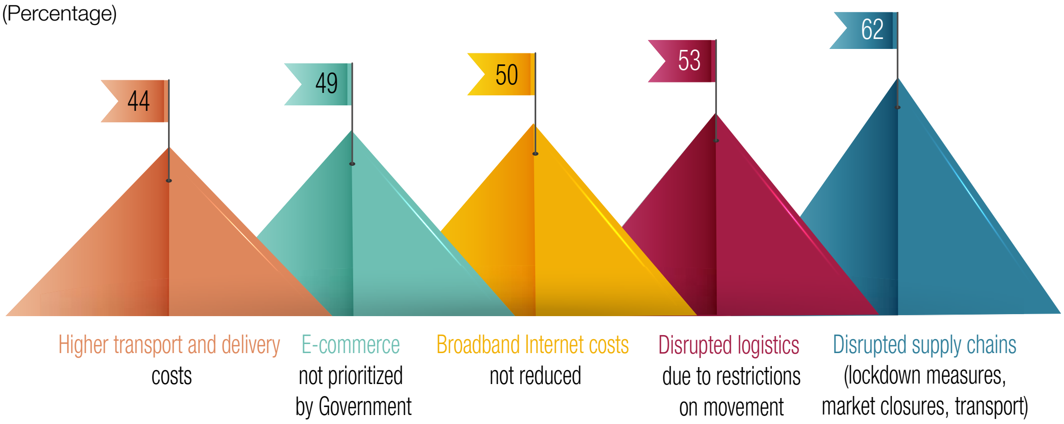
In parallel with these emerging general trends, the pandemic has added urgency to bridging the wide digital divides worldwide. Digital infrastructure is often insufficient, leading to limited or unaffordable connectivity in order to undertake effective e-commerce and other online activities. The most vulnerable populations are usually the ones left offline. As a result, countries strongly differ in levels of e-commerce uptake, affecting opportunities to benefit from the increasing demand for e-commerce. For instance, in sub-Saharan Africa, Kenya, Mauritius, Namibia and South Africa are the only countries in which the share of the population shopping online exceeds 8 per cent; in most other countries in sub-Saharan Africa the share is below 5 per cent (UNCTAD, 2019a).

The UNCTAD survey of digital entrepreneurs and e-commerce platforms highlighted several key obstacles that developing countries have been facing during the COVID-19 crisis (figure 4.6). These include disruptions to supply chains and trade logistics, restrictions on movement and lack of Internet access and affordability. Moreover, respondents expressed the need for improved e-commerce policies and strategies in response to the pandemic. The findings also confirmed the presence of many of the pre-existing bottlenecks in e-commerce ecosystems in developing countries. However, respondents stressed the aggravated impact of the crisis on their capacity to invest, on further exacerbating gaps in ICT adoption and on consumer protection and fair competition, as well as challenges related to a persistent cash-based and payment-on-delivery culture.

Figure 4.6

Key pandemic-related challenges faced by online businesses and platforms in developing countries

(Percentage)



Source: UNCTAD, 2020f.

Note: Share of 232 respondents to the question “Since the outbreak of the COVID-19 crisis, what are the challenges that most impacted on your business?” A maximum of 10 choices was allowed.

[2] The survey was conducted in June 2020 and covered e-commerce businesses in 23 LDCs and other countries in Africa and Asia and the Pacific, namely, in Africa, Benin, Burkina Faso, Madagascar, Mali, the Niger, Rwanda, Senegal, Togo, Uganda, the United Republic of Tanzania and Zambia, as well as Côte d’Ivoire and Tunisia, and in Asia and the Pacific, Bangladesh, Bhutan, Cambodia, Kiribati, the Lao People’s Democratic Republic, Myanmar, Nepal, Tuvalu and Vanuatu, as well as Samoa. Of the 699 invited representatives from e-commerce businesses or third-party marketplaces, a total of 257 responses were received. Responses from the private sector were complemented by public sector responses from 12 countries, elaborating on measures taken during the pandemic to support e-commerce and the use of e-commerce for economic recovery efforts.

Many developing countries are struggling to harness various digital opportunities. By contrast, the digital shift during the pandemic has further boosted the performance of the leading digital platforms. Most digital solutions being used for e-commerce, teleworking, social media and cloud computing solutions are provided by a relatively small number of large companies, based mainly in China and the United States. These companies are benefiting from the increased demand and have seen their market valuations grow significantly. Meanwhile, the increased market dominance of a handful of global digital players is accentuating existing concerns about the distribution of the value created and about consumer protection and fair competition (UNCTAD, 2019b).

4.2.3 Policy opportunities and challenges

Substantial investments in science, technology and innovation infrastructure, institutions and human capital – all the underpinnings of sound innovation systems – must be an integral part of the immediate response to the COVID-19 crisis and of the long-term effort to rebuild better and prepare for similar future challenges (UNCTAD, 2020b). Efforts to strengthen science, technology and innovation resources in developing countries could distinguish between the needs of immediate responses and longer-term strategies. During the crisis, support for research and development should be included in emergency measures and fiscal recovery packages. For example, grants focusing on therapeutics or COVID-19 prevention that are adapted to the specific needs and environments of developing countries or that support knowledge-intensive firms affected by the crisis, in particular smaller firms, are good candidates.

The pandemic adds to the urgency of using open science as an instrument to close the gaps between countries in both accessing treatments and preventive measures and in building more resilient societies. Multilateral cooperation and coordinated science, technology and innovation responses to the pandemic should continue to support data-sharing and research and networking centres of scientific excellence. This includes national efforts to balance intellectual property rights with affordable and accessible treatments and the promotion of an inclusive multilateral approach to treatments and vaccines.

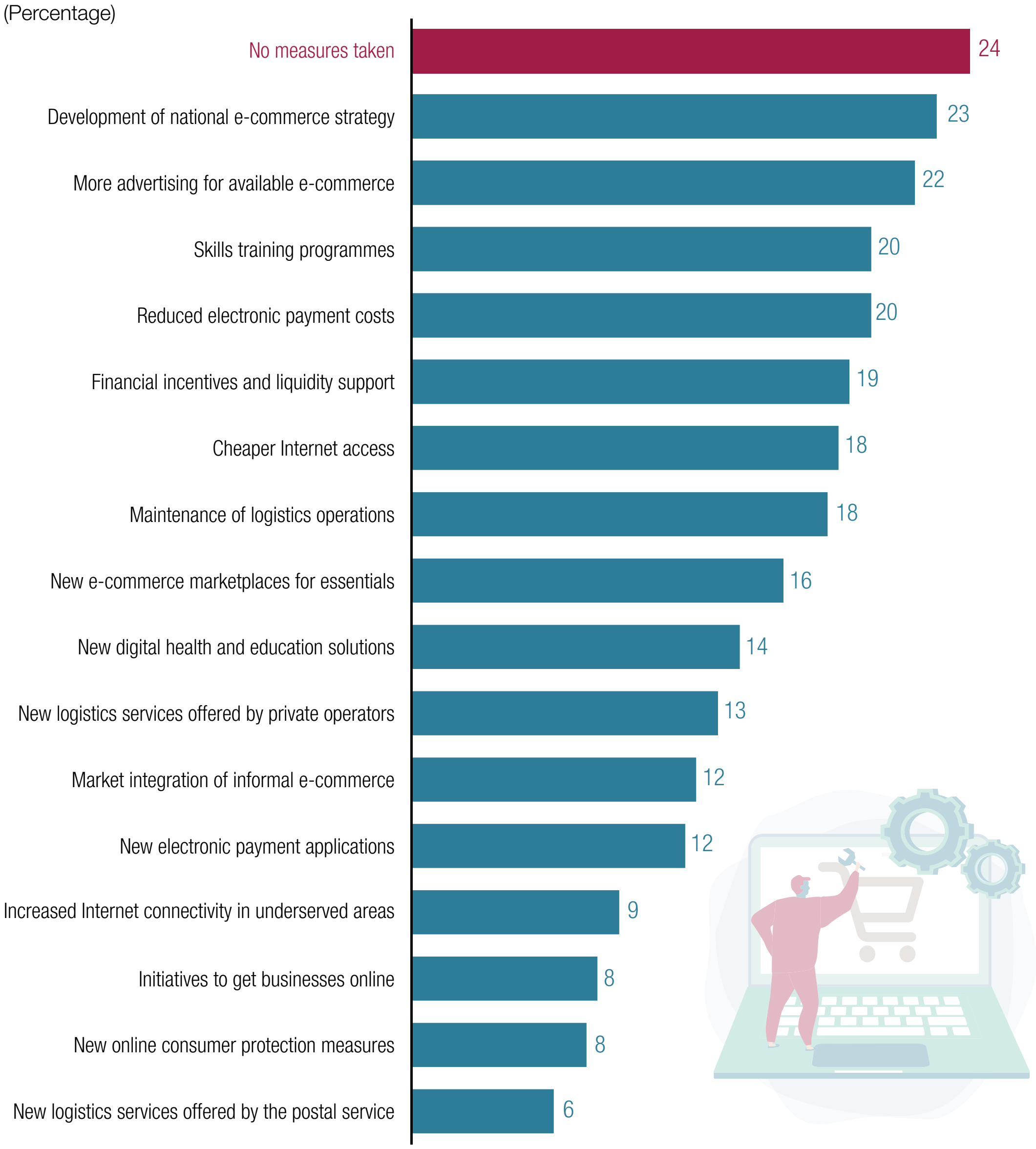
The effects of the pandemic on the use of digital technologies, in particular the e-commerce sector and its supply capacity across developing countries, and LDCs in particular, will depend on the capacity to sustain reforms and investments. These need to be geared towards building the readiness of overall national e-commerce ecosystems, to both meet this exceptional situation and spur sustainable growth in the long term. As documented by UNCTAD, LDCs in particular trail behind in the digital economy and rapidly need to overcome a range of barriers and bottlenecks. Some 27 eTrade readiness assessments had been carried out by mid-2020, providing useful policy recommendations for more inclusive e-commerce. A review of the implementation of these recommendations indicates that there is a lot of room to improve policies and coordination processes and review and update legal frameworks to increase trust in online transactions. Most of the countries reviewed lack comprehensive and inclusive national e-commerce strategies, requiring greater mobilization and a coordinated approach by development partners to fill these gaps and enhance digital trust and security. These findings are supported by the results of the recent UNCTAD survey on the impact of the pandemic on digital businesses and platforms (figure 4.7).

Achieving sustainable development through digital trade also requires stronger global cooperation among development partners and better aligned work programmes, which is why UNCTAD set up the eTrade for all initiative. The initiative seeks to bring together the donor community, development agencies, international and non-governmental organizations and the private sector, to share digital solutions, support e-commerce and bring more coherence into policymaking on digital trade. The latter objective is also supported by the High-Level Panel on Digital Cooperation road map and the United Nations Group on the Information Society Dialogue on the Role of Digitalization in the Decade of Action, two key dialogue spaces in which to enhance policy effectiveness across the multiple stakeholders working to regulate digitalization in a fair and inclusive way.

Figure 4.7

Most important measures taken during the pandemic in developing countries

(Percentage)



Source: UNCTAD, 2020f.

Note: Share of 211 respondents to the question “Since the outbreak of the COVID-19 crisis, which governmental or private sector measures, if any, have been most important to facilitate your e-commerce business?” A maximum of five choices was allowed.

4.3 Ensuring sustainable and resilient transport and trade facilitation

As countries continue to adopt measures to bring the pandemic under control, international transport and trading systems remain under pressure. Transport networks and border agencies face the challenge of linking supply chains; delivering goods; expediting imports, exports and transits, including of necessary medical supplies and donations and relief consignments;

ensuring the prevention of the spread of the virus; and providing adequate customs clearance and compliance controls for goods and transport personnel. Transport services, ports and border agencies must be strengthened to cope with the new additional challenges. Effective collaboration, coordination and cooperation among public and private stakeholders at all levels will be key (UNCTAD, 2020c).

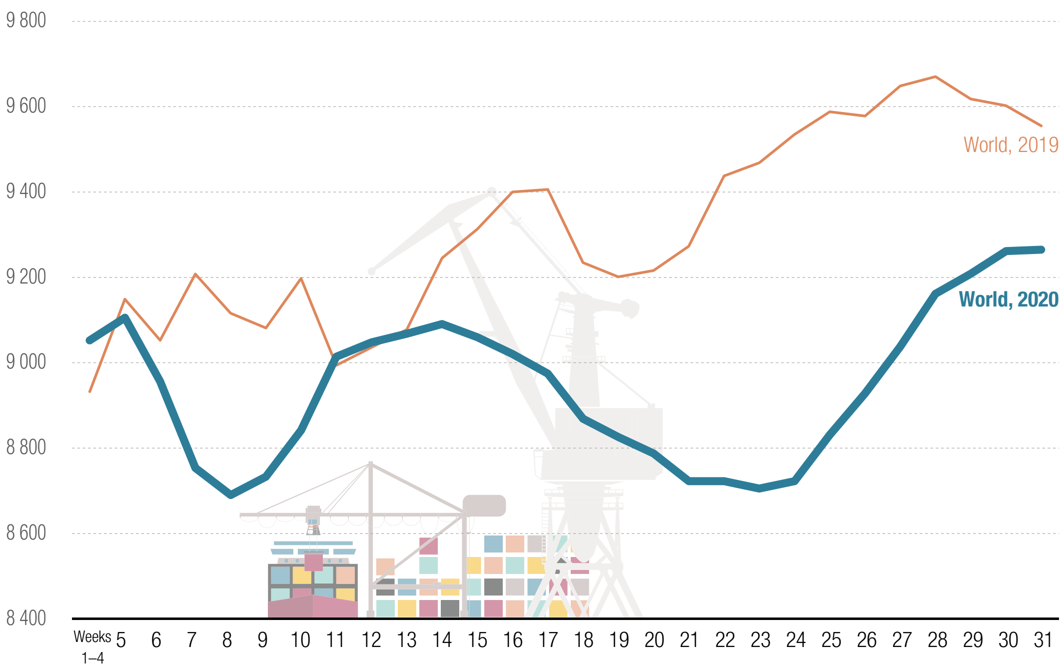
4.3.1 Keeping ships moving and ports open to service international cargo flows

Shipping and ports handle over 80 per cent of global merchandise trade by volume and about 70 per cent of its value. As the sector links supply chains and markets worldwide, challenges imposed by pandemic-related restrictions have caused disruptions to maritime transportation systems. The problems faced have included lead time issues, blank sailings, port closures, reduced working hours, equipment and labour shortages and inland transport capacity constraints. For maritime transport, ensuring effective crew changes has been a major challenge.

Disruptions triggered a sharp fall in maritime trade volumes across all market segments in early 2020, in particular for containerized trade, which carries intermediate and manufactured goods. Lower cargo volumes were matched by reduced global vessel calls and liner shipping connectivity levels (Hoffmann et al., 2020). Automatic identification system data on weekly port calls allows more detailed trends in vessel calls to be depicted (figure 4.6; weekly port calls for all ships are shown in chapter 1).

Figure 4.8

Global change in weekly container ship port calls, 2020 over 2019



Source: UNCTAD calculations, based on data provided by Marine Traffic.

The situation was particularly challenging in SIDS, as they experienced a 20 per cent drop in vessel calls during the second quarter of 2020. These economies typically already experience remoteness and marginalization from the main shipping and trading networks and missing a single vessel call can raise concerns related to livelihoods, as their economies and local communities depend heavily on maritime transport for much of their imports, including the provision of essential goods. In regions linked through multimodal transport corridors, maintaining landside operations has been the most difficult task for those involved in maritime supply chains, with long queues at borders and delays undermining the reliability of the transport chain. In addition, landlocked and transit countries need to maintain their access to seaports (UNCTAD, 2020a).

The pandemic has set in motion new trends that will reshape the transport and logistics landscape. The sector needs to continue to address the immediate concerns raised by the pandemic and also manage longer-term considerations, such as potential shifts in supply chain design, globalization patterns and consumption and spending habits, and generally adapt to the new operating landscape, in which a focus on risk assessment and vulnerability reduction is moving high up on policy and business agendas. In parallel, the sector needs to mitigate the impact on trade of increasingly inward-looking policies and protectionism and also needs to carry forward the sustainability and low-carbon agenda.

New trends are likely to unfold in the post-pandemic world, combining an element of shortened supply chains (nearshoring, reshoring) and redundancy (such as by maintaining high inventories). This holds important implications for transport and logistics in general and maritime transport in particular, and entails both challenges and potential opportunities.

Actions and policies that consider the immediate impacts of the pandemic, as well as its longer-term implications for the sector, will be crucial to rebuild better in a post-pandemic future. Priority areas include the need to:

- Strengthen international collaboration and enhance cooperation across maritime supply chain stakeholders to address key challenges such as crew changeover processes.
- Ensure that future transport and logistics solutions are designed to adequately respond to shifting consumer spending patterns and tailored to potential accelerated growth in e-commerce.
- Invest in transport and logistics risk assessments and preparedness.
- Address longer-term concerns such as climate change and maintain momentum on current efforts to address carbon emissions from shipping and the ongoing energy transition.
- Enable a greater uptake of technology while being mindful of the digital divide.

4.3.2 Trade facilitation to prepare for the recovery

Many Governments have implemented measures and restrictions related to international trade and transport to curb the spread of the pandemic. Such restrictions have caused interruptions to international trade flows and value chains, including of needed aid and technical support, leading to negative social and economic effects in the countries concerned. Consequently, Governments and border agencies, including port authorities and customs administrations, have pushed for reforms that aim to keep trade flowing while protecting populations, transport workers and border officers. Such reforms will be useful to help prevent outbreaks and related effects and to help revive global economies by enabling trade.

In this context, the provisions of the Agreement on Trade Facilitation of the World Trade Organization provide Governments with a sound basis for facilitating international trade flows. Implementing measures contained in the Agreement can help to ensure that trade in critical supplies proceeds smoothly and safely. Nearly all trade facilitation measures that are included in the Agreement help to achieve the twin objectives of ensuring faster and more transparent trade procedures while protecting public interests (Ugaz and Sun, 2020).

Coordination is key, and national trade facilitation committees can play a key role in the path to recovery by keeping trade facilitation stakeholders informed, undertaking efficient coordination of trade facilitation reforms and supporting the implementation of pandemic response and recovery plans. Empowering national trade facilitation committees to achieve these objectives requires actions that ensure the capacities of such committees and their members.

Another important element in the continuation of trade flows is the availability of information on trade procedures, including emergency measures and restrictions. From the point of view of traders, access to such information seems to be most efficiently achieved through centralized web-based portals that are one-stop information resource hubs providing step-by-step guidance on import, export and transit procedures for cross-border trade. Such portals are a good medium for disseminating emergency and crisis information to all stakeholders involved in cross-border trade. For example, during the pandemic, trade information portals implemented with the technical assistance of UNCTAD in East Africa and the Pacific have been updated with the latest emergency guidelines and regulations, to help inform stakeholders of new protocols put in place related to crossing borders.

The UNCTAD Automated System for Customs Data, an automated customs information technology system implemented in more than 90 countries, provide customs personnel, cross-border agencies and traders the ability to electronically submit and exchange data and documentation and to computerize procedures, to expedite the clearance of imports, exports, transits and other trade transactions, reducing to a great extent the need for face-to-face interaction. Linked to the system is the Automated System for Relief Emergency Consignments, which has been developed to provide for the immediate recognition of organizations involved in United Nations relief operations and allows such entities to expedite imports for humanitarian relief.

Through the dematerialization of processes, data can be transmitted faster and physical contact can be reduced. Many concrete trade facilitation measures require investments in digitalization and automation. Accepting digital copies instead of paper-based originals, implementing pre-arrival processing and electronic payments, automating customs, applying risk management techniques and enhancing cooperation among agencies within a country and with trading partners all help speed up the processes of international trade. At the same time, all of these measures also help agencies, such as ministries of health, customs, bureaux of standards and border police, to better detect unwanted activities.

As Governments and regional organizations have enhanced international cooperation and invested in further trade facilitation reforms during the COVID-19 crisis, the progress achieved should also help revive international trade. It will be important to assess what has worked and what has not, so that any progress made during lockdown measures can be locked in.

In essence, an efficient response to the COVID-19 crisis requires speeding up and streamlining the process of the release and clearance of essential goods. This includes a variety of measures that could prove relevant in further facilitating such processes, such as the following:

- Expediting import procedures, including pre-arrival processing; use of fast-track lanes; release upon arrival and prioritization of essential goods; use of trusted trader principles for fast release; and simplification of goods declarations.
- Applying risk management procedures.
- Facilitating transit procedures.
- Ensuring flexibility regarding payments, interests and guarantees.
- Strengthening coordination mechanisms, such as national through trade facilitation committees.

4.4 Concluding remarks

This chapter analysed the changes that the COVID-19 pandemic is bringing to international production networks, as well as the related policy opportunities and challenges. The pandemic is acting as a catalyst for deep transformations in global value chains related to new technologies, growing economic nationalism and the sustainability imperative. The pandemic is leading to redefinitions of the investment–development paradigm and sharpened focus on investment policies for sustainable development, on the science and policy interface, on the need to address widening digital divides and on the need to ensure sustainable and resilient transport infrastructure and trade facilitation. With regard to the decade of transformation ahead, the pandemic also impacts efforts to achieve the Sustainable Development Goals. The crisis is exerting negative effects on international production, challenging the role that global value chains can play to support the achievement of the Goals. However, it is also opening new production possibilities for responding to the health and resilience-related imperatives. In this context, investment policy, science, technology and innovation policy, e-commerce strategies, sustainable transport infrastructure and trade facilitation must all play significant roles in the response to the pandemic and an eventual better recovery from its effects.

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Chapter 5

Trade as a catalyst for a fairer and greener recovery

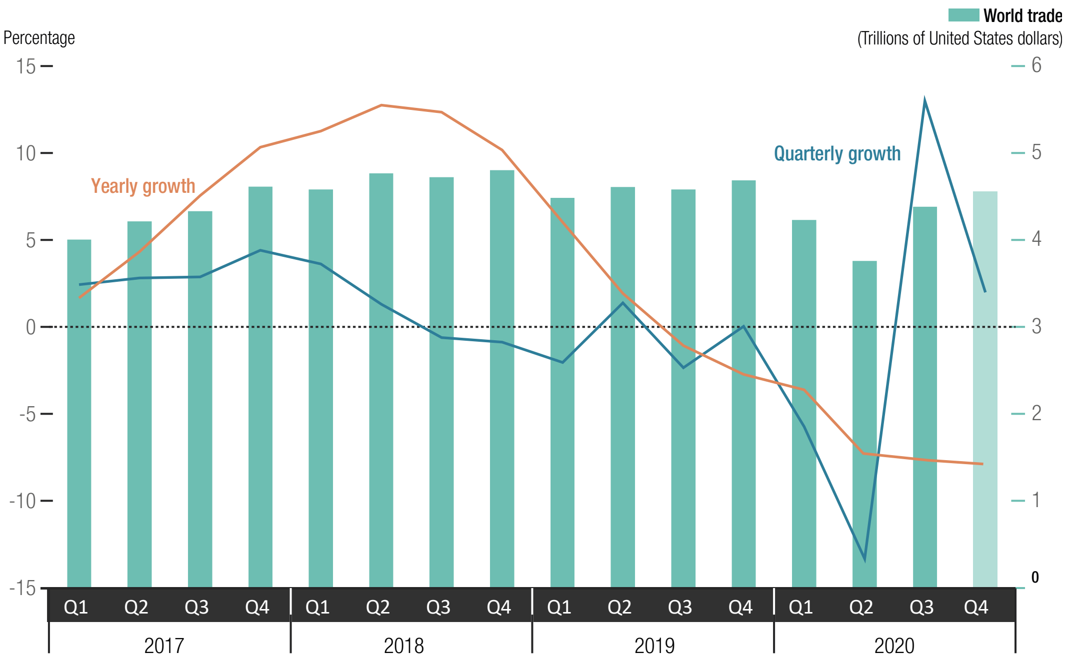
Economic disruptions caused by COVID-19 have resulted in an unprecedented collapse of international trade in 2020. Through various trade channels, demand and supply shocks that originated in major economies quickly spread to developing regions, leading to disproportionately negative economic shocks in developing countries. Yet international trade also plays a key role in fostering economic recovery. The question is how countries can best balance the speed and the magnitude of recovery, with the aspirations of achieving inclusiveness and sustainability of socioeconomic growth under the 2030 Agenda for Sustainable Development.

In this chapter, the role of international trade is first discussed as a transmitter, across the globe, of market disruptions that caused income shocks for many developing countries through a massive reduction in export earnings from, for example, commodity exports, tourism and remittances. Market disruptions affected those with limited market power the most, such as SMEs and entrepreneurs, and seriously impacted all consumers. How to design a policy mix that will help countries achieve a stronger, more inclusive and greener economic recovery through trade is then discussed.

5.1 Trade as a transmitter of market disruption across the globe

Over the past four years, growth in international trade hit the lowest level in the second quarter of 2020, with a reduction of 13 per cent from the previous quarter (figure 5.1). Preliminary data from the third quarter of 2020 suggest that, while rebounding from the second quarter, global trade growth on a year-over-year basis remains negative, with a decline of about 4.5 per cent.

Figure 5.1
Global trade in goods stabilizes at lower levels



Source: UNCTAD. (2020). Global Trade Update, October, and UNCTAD calculations, based on national statistics.
Abbreviations: Q1, first quarter; Q2, second quarter; Q3, third quarter; Q4, fourth quarter.
Notes: Quarterly growth is the quarter over quarter growth rate of seasonally adjusted values. Yearly growth is the average growth rate of last 4 quarters. For 2020, third quarter figures are preliminary, and fourth quarter figures are forecast.

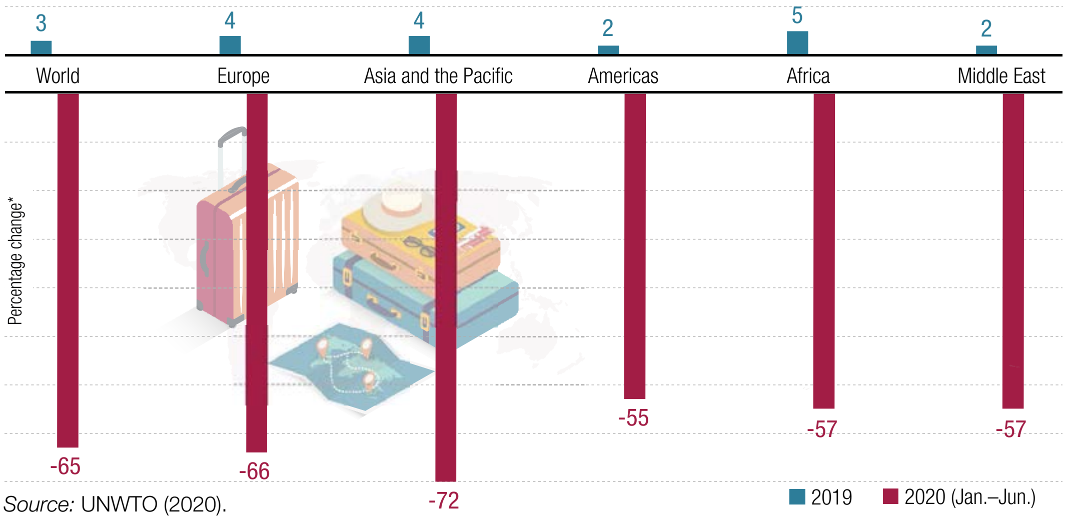
Lockdown and other emergency measures implemented by major economies in Europe and North America in the first half of 2020 caused market disruptions unparalleled in recent decades. The combined demand and supply shocks in these economies were quickly transmitted to developing regions through networks, or due to a breakdown of such networks, of trade in goods and services. Sectors that represent a major source of external earnings of many developing countries, such as tourism and commodities, were hit hardest by lockdown, transport disruption and emergency health measures taken by major economies.

In the tourism sector, inbound tourist arrivals were down 65 per cent in the first six months of 2020, with a staggering 97 per cent decline in April 2020 (UNWTO, 2020b). Between January and April 2020, the loss in receipts from inbound tourism amounted to $195 billion (UNWTO, 2020a). The impact has been felt in all regions of the world (figure 5.2).

In the commodities sector, the abrupt halt in economic activities in major economies resulted in a massive fall in demand for commodities. A sharp fall in commodity prices led to a decline in export earnings among African and Latin American countries. From a year-on-year perspective, the percentage decline in the UNCTAD Commodity Price Index in 2020 is comparable to the declines experienced in 2015 and 2016 (figure 5.3). When fuels are excluded, year-on-year changes are much more muted.

Figure 5.2

International tourist arrivals, January 2019–June 2020



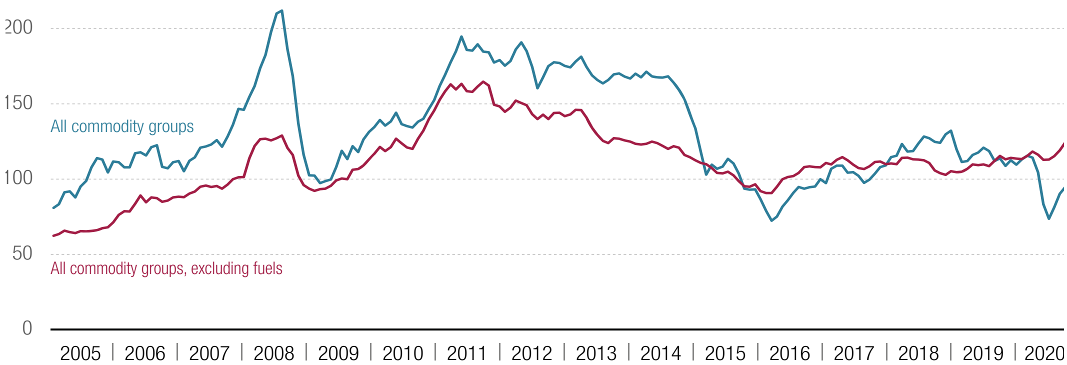
Source: UNWTO (2020).

* Change over the same period of the previous year.

Figure 5.3

UNCTAD Commodity Price Index*

(2015 = 100)



Source: UNCTAD (2020a).

* Year-on-year percentage change.

5.1.1 Unilateral trade measures exacerbated supply shortages of essential goods

The COVID-19 pandemic has increased the demand of medical goods and personal protective equipment, such as ventilators, thermometers, hand sanitizers, protective masks and garments (United Nations, 2020). In order to ensure adequate supplies of essential goods for domestic markets, many countries resorted to emergency measures to influence trade flows by either promoting imports (e.g. tariff reductions and easing of non-tariff measures) or restricting exports (e.g. export bans) of such products.[3]

Countries that depend on imports of medical supplies and essential goods lowered import barriers by reducing or eliminating tariffs and relaxing technical regulations that apply to the import of such goods, so as to expedite flows of imports. In normal times, technical regulations, such as sanitary and phytosanitary measures and product safety standards (Olivier Cadot et al., 2015), can be three to four times more influential on trade costs than tariffs (UNCTAD, 2013a). However, as these measures have important public policy objectives, such as protection of health and safety, they cannot not be simply eliminated. In this context, efforts to boost regulatory cooperation through mutual recognition and harmonization of standards and conformity assessment procedures are worth focusing on, in normal and exceptional circumstances.

During March and April 2020, there was a surge of export-restricting measures taken up by global suppliers of medical and other essential goods, which included the world's largest suppliers of medical goods, such as Germany, India, Switzerland and the United States. This almost nullified the effectiveness of the above-mentioned import-enhancing measures. Export-restricting measures included export bans, export licensing requirements and quantitative restrictions (International Trade Centre Trade Map, 2020). When imposed by significant suppliers, export restriction diverts supplies away from world markets and puts upward pressure on international prices. This harms other countries, particularly those which do not have domestic productive capacity for essential goods (OECD, 2020). Domestically, restricting exports could temporarily lower prices and increase availability. In the longer term, however, it diminishes presence and consumer trust of their own firms in the global market.

As of mid-September 2020, 141 countries and territories were using 330 emergency trade measures. Among those measures, nearly 75 per cent had no specified termination dates, while the rest were designed to last for an average of six months (International Trade Centre Market Access Map: COVID-19 Temporary Trade Measures, 2020).

The experiences described above highlight that the multilateral trading system under WTO has limited capacity to calm the emergency storm hitting the international trading environment. One such limitation revealed in the current crisis was that WTO rules had little capacity to coordinate emergency trade actions that have been taken unilaterally by members without consulting trading partners.

Another such limitation is the lack of provision of a safety net to countries that are vulnerable to trade shocks in times of crisis. Small countries and lower-income countries, with their high dependence and openness to trade, had to bear the brunt of export restriction on essential goods. WTO rules allow countries to apply export restrictions under special conditions, for example, to "prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting" (article XI of the General Agreement on Tariffs and Trade).

[3] Non-tariff measures are policy measures – other than ordinary customs tariffs – that can potentially have an economic effect on international trade in goods, changing the quantities traded or prices, or both (UNCTAD, 2012b). They include technical regulations, such as sanitary and phytosanitary measures and technical barriers to trade, as well as non-technical measures, such as price control measures, finance measures and contingent trade protective measures.

But this is not associated with a provision to reduce the disproportionate burden borne by import-dependent vulnerable countries.

5.1.2 COVID-19 market disruptions hurt small firms and consumers

Beyond the macroeconomic level, the COVID-19 crisis has disrupted markets. The initial disruption occurred in both developed and developing countries but in different forms, varying from supply shortages of personal protective equipment and essential products to excessive prices for basic household products.

Firms of all sizes have been affected by COVID-19 measures, but smaller firms with fewer financial reserves have been most vulnerable (as discussed in chapter 4). A study by Gourinchas et al. (2020) on the impact of the COVID-19 crisis on business failures among SMEs for 17 countries estimates an average SME bankruptcy rate of 12.1 per cent, in the absence of any policy intervention, compared to a baseline of 4.5 per cent without a COVID-19 factor. Firm exits are expected to increase in the medium to long term.

The COVID-19 pandemic has created havoc in the lives of consumers as well. Consumers worldwide have experienced shortages of essential goods as well as some abusive business practices, such as cases of price gouging (excessive pricing) for personal protective equipment. This led Governments in some countries, including France, Greece, India, Italy, Kenya and Nigeria, to impose price caps. Furthermore, misleading advertisements with false claims, ranging from products claiming to prevent coronavirus infection to fake test kits, have proliferated (UNCTAD, 2020a).

Consumers around the world have had to deal with airline companies for reimbursement due to the cancellation of flights. According to De Juniac from the International Air Transport Association (April 2020), already prior to April 2020, airlines owed $35 billion to consumers for flight cancellations. Governments should advise airlines to provide full refunds to consumers, as well as appropriate and complete information regarding consumers' options, and prevent airlines from abusing consumers' rights to a refund.

One notable shift in consumer behaviour and habits induced by the pandemic is evidenced by a rapid expansion of electronic commerce (e-commerce). Lockdown measures have triggered an exponential increase in online transactions. People throughout the world have turned to digital platforms to shop online. In developed countries, 18 per cent of consumers said that they were shopping online for the first time due to COVID-19 (Paysafe, 2020). In the first half of March 2020, overall e-commerce sales in Brazil increased by 40 per cent compared to the first half of March 2019.[4] The Chinese online retailer JD.com reported a growth in online sales of 215 per cent in a 10-day period between late January and early February 2020, compared to the same period in 2019.[5]

The growing importance of online and digital services in an era of pandemic is graphically illustrated by the rising fortunes of the leading technology companies (figure 5.4). The Dow Jones and the S&P 500 were very close to their opening positions at the start of January 2020; the Dow Jones fell by 5 per cent between January and September 2020, whereas the S&P 500 increased by 2 per cent. In contrast, the values of leading technology company stock selected in figure 5.4 rose by an average of 41 per cent. The price of Apple stock increased by 50 per cent, Amazon, by 64 per cent and JD.com, by 96 per cent.

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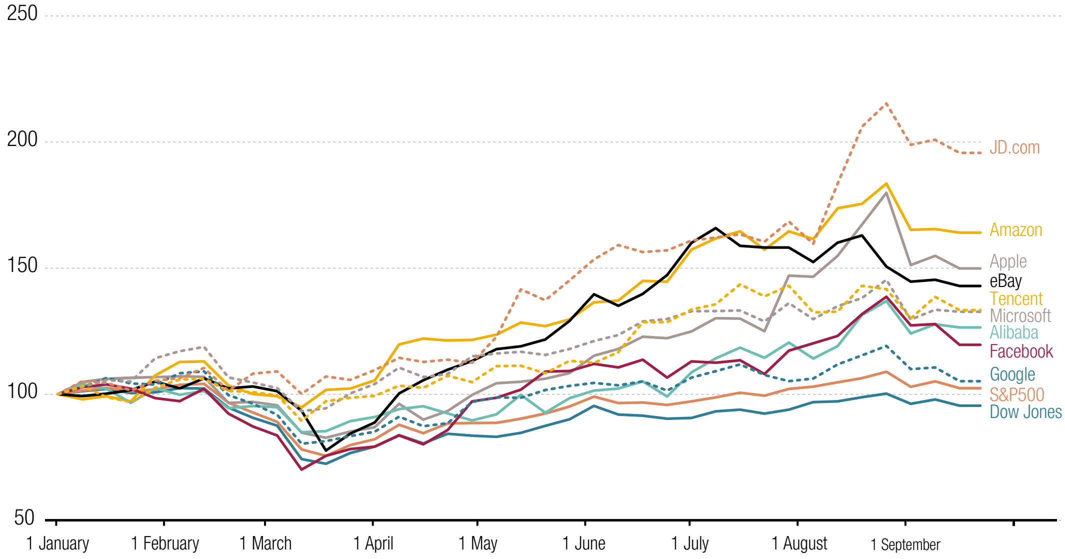
[4] See https://www.statista.com/statistics/1106009/change-online-sales-coronavirus-brazil/.

[5] See https://www.emarketer.com/content/coronavirus-china-us-covid-19-impact-retail-travel.

Figure 5.4

Stock prices of leading technology companies, 1 January–22 September 2020

(1 January 2020 = 100)



Source: Yahoo Finance, available at https://finance.yahoo.com/trending-tickers.

This has created more incentives for these companies to invest in start-ups, thereby strengthening their market position both globally and regionally, by expanding into new territories. Google, Amazon, Apple, Facebook and Microsoft have made 19 acquisitions in 2020, which represents the fastest pace of acquisitions and strategic investments since 2015.[6] This contrasts with an overall short-term decline in cross-border deals of mergers and acquisitions. In April 2020, such deals had decreased by more than 50 per cent compared to April 2019.

In the medium to long term, mergers and acquisitions appealing to the failing firm doctrine within competition law frameworks are expected to increase. SMEs or start-ups may become attractive targets of acquisitions by dominant firms, especially by multinational companies, making them grow even larger. The Amazon–Deliveroo merger approved by the United Kingdom Competition and Markets Authority in August 2020 is a notable example of how a successful company can rapidly become a failing firm during an economic crisis, and how competition authorities can clear transactions, which would raise competition concerns in normal times. A rise in the number of such cases may gradually lead to an increase in market concentration.

5.1.3 COVID-19 pandemic added mixed impact on environment

Economic disruptions caused by COVID-19 has had a dramatic short-term impact on climate change: levels of emissions and major air pollutant in industry and transport came to a near standstill. The lockdown and the scaling down of economic activity has resulted in observable positive environmental effects in terms of CO_2 emission levels, quality of air, water and soil, as well as for the conservation of species and ecosystems.

As shown in figure 5.5, depending on the scenario used, 2020 global CO_2 emissions are forecast to decline by around 8 per cent, the equivalent of 2.6 gigatons. This will be the largest reduction ever recorded and will bring emissions back to levels last seen a decade ago.

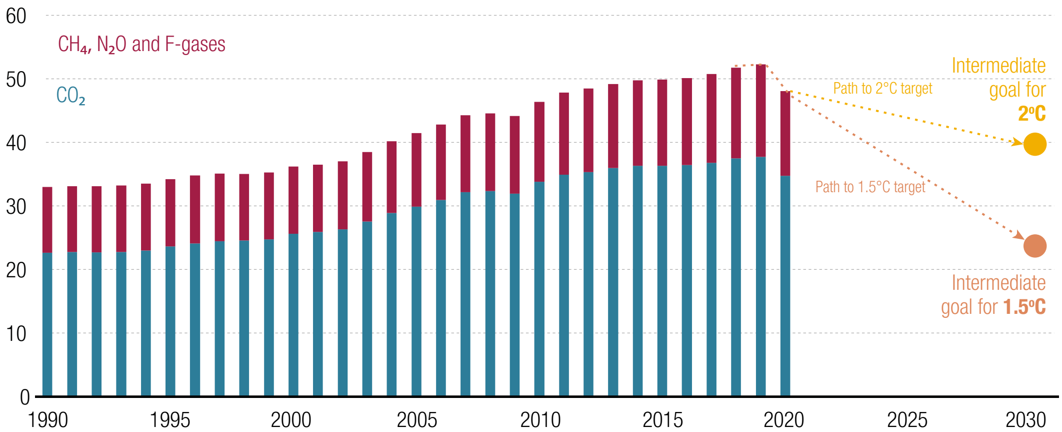
[6] See https://www.pymnts.com/news/partnerships-acquisitions/2020/tech-cos-making-ma-deals-amid-pandemic/ and https://www.nytimes.com/2020/06/13/technology/facebook-amazon-apple-google-microsoft-tech-pandemic-opportunity.html.

In the first quarter of 2020, global CO_2 emissions were more than 5 per cent lower, compared with the same period in 2019, according to estimates by the International Energy Agency (2020). The last significant decline, caused by the global financial crisis in 2008/09, only yielded a reduction of 0.4 gigatons. The forecast reduction of CO_2 emissions resulting from the COVID-19 outbreak, however, will not be enough to achieve emissions targets. Global emissions would need to be cut by almost 8 per cent every year for the next 10 years to reach the objectives of the Paris Agreement on climate change.

Figure 5.5

Greenhouse gas emissions and target reductions

(Gigatons of CO_2-equivalent)



Source: UNCTAD calculations, based on Netherlands PBL (2019) and United Nations Environment Programme (2019).
Abbreviations: CH_4, methane; CO_2, carbon dioxide; N_2O, nitrous oxide; F-gases, fluorinated gases.

The pandemic has also caused some environmental strain. It has led to a boom in the daily use of certain personal protective equipment which led to a surge in global sales of disposable face masks that, in fact, contain plastics. An UNCTAD study (2019a) suggests that about 75 per cent of "coronavirus plastic" will likely become waste clogging landfills and polluting the world's seas. The pandemic also caused negative impacts on economic use of nature-based products. Some biodiversity-based sectors, such as ecotourism in coastal and protected areas, have been badly affected by the pandemic.

5.2 Designing policies to achieve fairer and greener recovery through trade

While trade was a major transmitter of economic disruptions across the globe, it also plays a key role in fostering economic recovery from the current COVID-19 crisis. Economic resilience will not be achieved by closing borders, but rather by diversifying the origin and destination of markets.

The question is how best countries can balance the speed and the magnitude of recovery with inclusiveness and sustainability in socioeconomic growth that is aspired to in seeking to achieve the 2030 Agenda for Sustainable Development. This suggests that a country needs to design a policy mix that would aim at stronger, more inclusive and more environmentally sustainable recovery.

In this section, "how" to design such a policy mix is discussed, with attention on trade policy, competition and consumer protection policies and environmental policy. The "what" is to be included in the policy mix is not discussed, as the choice of exact measures depend on country-specific conditions and needs.

5.2.1 Trade policy for stronger recovery

As countries are lifting emergency trade measures and introducing recovery plans (International Monetary Fund, 2020a), they need to assess the multifaceted impact of trade policies, utilizing them to achieve stronger and more resilient recovery. Overall, trade policies that support a swift and resilient return of the private sector will help leverage Governments' burden of "building back better". In this section, three elements that are important when selecting trade as an integral element of a recovery package are discussed: (a) transparency, (b) cooperation and (c) making best of the existing multilateral trading system and its framework.

Enhance transparency of trade measures

Transparency contributes to restoring trust and cooperation in the rule-based trading system. It reduces trade costs and can increase trade around 20 to 25 per cent (Disdier et al., 2019). Easier access to information would benefit SMEs that are heavily affected by COVID-19 and employ relatively more women.

More support is needed for Governments that face a multiplying burden of transparency obligations under various trade agreements. For example, UNCTAD built a trade portal for the Pacific Agreement on Closer Economic Relations – PACER – Plus signatories, to facilitate the implementation of transparency requirements. The new Trade Analysis and Information System (TRAINS) software facilitates real-time non-tariff measure data collection by Governments and allows easy accessibility of such regulations among different government agencies.[7] By achieving transparency at the government level, the tool will help strengthen national and even regional policy coherence, resulting in overall better policy outcomes.

Non-governmental entities such as media, the private sector and research institutes could join forces to strengthen transparency. During the past few months, the media was used as a de facto source of information by many international organizations, Governments and researchers. The private sector too can be a driving force in improving transparency. For example, the African Union, supported by UNCTAD, has established a non-tariff barriers mechanism in Africa that allows traders to report their grievances and governments to monitor and resolve barriers.[8] Globally, UNCTAD works with various agencies and research institutes to collect non-tariff measures data. Currently, through its TRAINS database, UNCTAD provides data covering around 80 per cent of world trade.[9]

The importance of transparency over non-tariff measures has increased during the pandemic. As discussed previously, non-tariff measures address all policy measures that can have an influence over the flows of trade in goods, and the majority of non-tariff measures applied by countries fall in a category of regulatory measures aiming to protect human, plant and animal health, product safety and environmental sustainability. That is, almost all emergency measures used against the COVID-19 pandemic are likely to be categorized as non-tariff measures.

If properly designed and implemented, they will help countries reap economic, social and environmental gains. Non-tariff measures directly address at least nine Sustainable Development Goals (figure 5.6) (United Nations, Economic and Social Commission for Asia and the Pacific (ESCAP) and UNCTAD, 2019).

Take the exponential surge in medical and plastic waste during the pandemic, for example. Countries may consider adopting and enforcing non-tariff measures embedded in the Basel Convention and its Plastic Waste Amendments in order to handle the risk to human health and

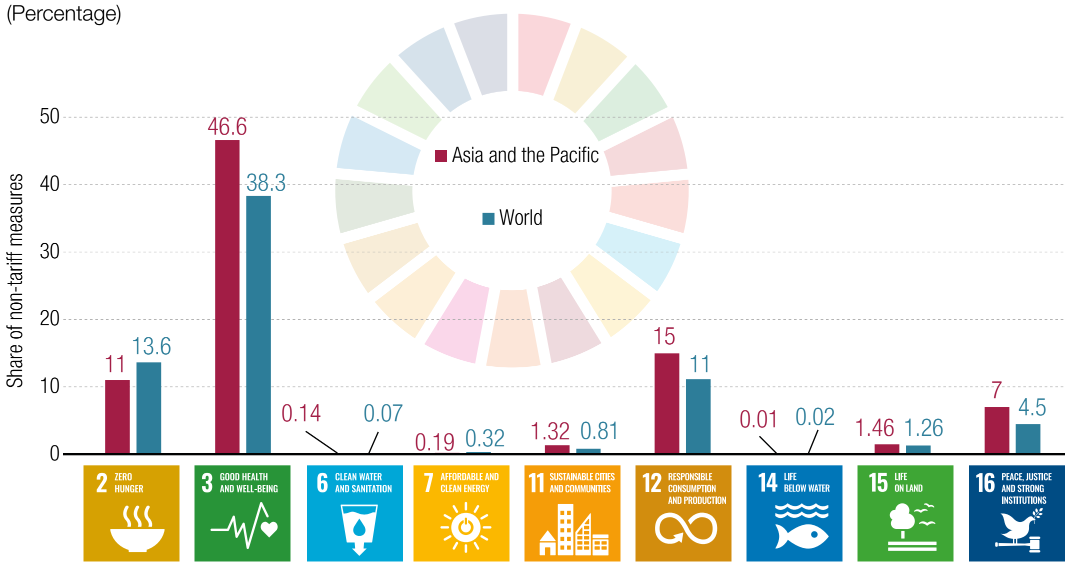
[7] See https://dataentry.trains.unctad.org/.
[8] See https://tradebarriers.africa/about.
[9] See TRAINS, https://trains.unctad.org/Forms/Analysis.aspx.

the environment.[10] Such non-tariff measures may help cope with the aftermath of COVID-19 and achieving Sustainable Development Goal target 12.4, on the responsible management of chemicals and waste.

Figure 5.6

Sustainable Development Goals directly addressed by non-tariff measures

(Percentage)



Source: Kravchenko et. al, 2019. Calculations based on UNCTAD TRAINS database and methodology developed by ESCAP and UNCTAD.

Enhance trade cooperation to address global health crises

The many issues exposed by the global health crisis require countries to intensify efforts to cooperate. As regards trade measures aiming at economic recovery, cooperation with trading partners through bilateral or regional frameworks can be more useful for achieving a greater multiplier effect of a policy measure than the situation where it is unilaterally implemented. Such cooperation could also pave a way for strengthening cooperation at the multilateral level.

For instance, cooperation in regulatory measures concerning essential medical products can help reduce trade costs while still ensuring the quality and safety of these products. Cooperation in reducing regulatory divergence can lower trade costs by 25 per cent (Knebel and Peters, 2019) which in turn will lower consumer prices. Each additional technical measure increases prices of traded goods by about 2 per cent; however, if a measure is harmonized with another country, this price increase becomes negligible (Knebel and Peters, 2019). With this type of cooperation, countries can impose new quality and safety measures without disrupting trade.

Ideally, countries may rely on international standards as a baseline for regulatory cooperation, which provide appropriate quality and safety criteria without being "trade-restrictive". During the current pandemic, some countries that lack national regulations on medical products have adopted international standards into their own regulatory frameworks.[11]

[10] The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal was adopted on 22 March 1989. Its Plastic Waste Amendments are amendments to annexes II, VIII and IX to the Convention, with the objectives of enhancing the control of the transboundary movements of plastic waste and clarifying the scope of the Convention as it applies to such waste. They were adopted on 10 May 2019 and will enter into force as of 1 January 2021. See http://www.basel.int/.

[11] For example, the Uganda National Bureau of Standards issued a public notice on 28 May to enforce mandatory facemask and respiratory protective devices standards. Two of the standards are an adoption of ISO standards (Uganda National Bureau of Standards, 2020a, 2020b). Moreover, between 14 and 27 April, Kuwait Standard and Metrology Department of the Public Authority for Industry adopted 15 new standards. Six of them were adopted under licence from the International Organization for Standardization (Kuwait, 2020a, 2020b, 2020c, 2020d, 2020e, 2020f).

Others have allowed imports of goods compliant with international standards, even if they differ from their own national regulations.[12] UNCTAD–ESCAP analysis of international standards may assist such efforts to enhance regulatory cooperation (ESCAP and UNCTAD, 2019).

Mutual recognition of, or harmonization with, foreign countries' regulations could be another approach to regulatory cooperation. During the COVID-19 pandemic, some countries have decided to temporarily recognize standards and conformity assessment of their trading partners as equivalent to theirs in order to allow the timely supply of goods.[13] Countries could consider extending these temporary measures and ultimately making them permanent.

Make the best use of the multilateral trading system

Intersections of trade and COVID-19 have been widely discussed under WTO. Since March 2020, there have been 27 official proposals and statements on COVID-19 and world trade.[14] Many are declaratory in nature but some contain proposals of a specific action plan, such as the one tabled by the Group of 20 in the Trade and Investment Ministerial Statement of 14 May 2020. Many subsequent proposals support the Group's view that countries need to ensure that emergency trade measures designed to tackle COVID-19 are "… targeted, proportionate, transparent, temporary, reflect our interest in protecting the most vulnerable, do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules". Such declarations, though not binding, can set a common guiding principle for WTO members' application of such trade-restrictive measures.

As discussed above, WTO rules allow export restrictions to prevent or relieve critical shortages of essential products and foodstuffs under the General Agreement on Tariffs and Trade, but the rules are not accompanied by a provision to minimize any negative impact of such measures on vulnerable countries. A decision at the ministerial level that prevents restriction of exports to vulnerable and import-dependent developing countries could provide a useful safety net for countries that may be hardest hit by the COVID-19 crisis. The Uruguay Round Decisions Concerning the Possible Negative Effects of the Reform Programme on Least-developed Countries and Net Food-Importing Developing Countries could be taken as a precedent.

In addition to trade in goods, the multilateral trading framework can provide a platform for trade in services sectors of interest of developing countries, such as mode 4 for trade in services, which refers to the supply of services "by a service supplier of one Member, through presence of natural persons of a member in the territory of any other Member" (part I, article 1 of the General Agreement on Trade in Services). Migrant workers fall under this mode. Multilateral commitments in this regard have generally been qualified as limited, as they are conditioned by economic needs tests, quotas or pre-employment requirements. The assessment of mode 4 services providers is sometimes limited to formal qualifications, excluding skills and experience. Other barriers include residence requirements, non-portability of social security benefits and visa and work permits that can be cumbersome, costly and biased towards high-skilled professionals (Global Migration Group, 2017).

[12] For example, on 18 March 2020, Canada passed an interim order respecting the importation and sale of medical devices for use in relation to COVID-19. Imported ventilators must meet either Canadian standards or ISO or International Electrotechnical Commission standards (Canada, Ministry of Health, 2020a, 2020b)8,11]]}}},{"id":3072,"uris":["http://zotero.org/groups/2534274/items/BUDS5H97"],"uri":["http://zotero.org/groups/2534274/items/BUDS5H97"],"itemData":{"id":3072,"type":"article","title":"Notice: Importation or sale of ventilators - use of US FDA guidance and Canadian requirements for authorization under the Interim Order","publisher":"Ministry of Health, Canada","URL":"https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-devices/activities/announcements/covid19-notice-importation-sale-ventilators.html","language":"English","author":[{"literal":"Ministry of Health, Canada"}],"issued":{"date-parts":[["2020",4,21]]},"accessed":{"date-parts":[["2020",8,11]]}}}],"schema":"https://github.com/citation-style-language/schema/raw/master/csl-citation.json"} .

[13] For example, Brazil Resolution RDC Nº 346 of 12 March 2020, Resolution RDC Nº 349 of 19 March 2020 and RDC NO. 379, of 30 April 2020; and United States Coronavirus Disease 2019 (COVID-19) Emergency Use Authorizations for Medical Devices, Food and Drug Administration. The full list is available at https://www.fda.gov/medical-devices/emergency-use-authorizations-medical-devices/coronavirus-disease-2019-covid-19-emergency-use-authorizations-medical-device.

[14] The official proposals are available at https://www.wto.org/english/tratop_e/covid19_e/proposals_e.htm.

Some of these restrictions have been addressed, since 1998, in the WTO Working Party on domestic regulation disciplines which, inter alia, aims at developing necessary disciplines to ensure that measures relating to qualification requirements and procedures, among other issues, do not constitute unnecessary barriers to trade in services. Against the little progress achieved by the WTO Working Party, a group of over 30 WTO members declared, with the issuance of the Joint Initiative on Services Domestic Regulations at the Eleventh Ministerial Conference of WTO in Buenos Aires in 2017, that they would discuss domestic regulations in a track separate from the WTO Working Party.[15] The participants in this initiative aim at concluding negotiations before the Twelfth Ministerial Conference, planned for June 2021 in Nur-Sultan. Unlike some plurilateral negotiations, the outcome of the negotiations on domestic regulations in the form of new commitments are to be applicable to all WTO members based on the principle of most favoured nation.

The negotiations aim to facilitate, among other things, mobility through recognition of, for example, professional qualifications and searching for common international standards. Policies for the recognition of qualifications can improve both trade and mobility of people, confirming the mutual reinforcement potential of some trade and migration policies. For these policies, design is a critical step and requires a coherent coordination of a multilateral, regional and national approach to mutual recognition, including through national qualification frameworks. In a recent study, UNCTAD (2020b) addressed barriers to trade in services through the movement of natural persons, advocating solutions such as waiving qualification requirements in specific situations and facilitating regular migration and remittances. The study also proposed trade preferences that create opportunities in origin countries, promoting migration not as a survival strategy, but rather as a choice, in support of target 10.7 of the Sustainable Development Goals.

5.2.2 Competition policy and consumer protection policy for fairer and more inclusive recovery

Regardless of their level of development, countries will need to formulate an economic recovery strategy to support essential sectors and preserve jobs. In doing so, they need to consider the benefits of fairness in the market for enhancing productivity, innovation and the wellness of consumers. In this context, competition authorities and consumer protection agencies can play an important role when designing a financial stimulus package, to strike the right balance between the urgent need to revitalize businesses and the long-term goal of preserving a fairer and equitable market. This section discusses how such agencies can contribute to preventing market concentration, anticompetitive practices and protecting consumers (particularly in e-commerce) before and during the economic recovery.

Empower competition authorities to prevent market concentration

In the COVID-19 “new normal”, market concentration is likely to increase. This can be prevented by competition authorities through a robust merger control regime, including in reviews of failing firm merger cases. They should also conduct careful analysis of mergers and acquisitions between digital companies, especially those cases where dominant digital platforms seek to acquire start-up firms.

Abuse of dominance by large digital platforms may go beyond the reach of existing competition laws. To restore competition in digital markets, there may be the need for new competition

[15] The Joint Initiative on Services Domestic Regulations (WT/MIN(17)/61) was submitted by the following WTO members: Albania; Argentina; Australia; Brazil; Canada; Chile; China; Hong Kong, China; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (China); Colombia; Costa Rica; Iceland; Indonesia; Israel; Japan; Kazakhstan; Liechtenstein; Mexico; Montenegro; New Zealand; North Macedonia; Norway; Peru; Republic of Korea; Republic of Moldova; Russian Federation; Singapore; Switzerland; Turkey; Ukraine; Uruguay; and European Union.

tools and ex ante regulation of dominant platforms. Such new tools and regulations need to better address the challenges raised by new business models and gatekeeper platforms in the digital economy.

Enhance regional and international cooperation against anticompetitive practices

International cooperation is key in dealing with cross-border anticompetitive practices and global mergers and combating fraudulent and deceptive cross-border commercial practices, in a more efficient and effective way. Therefore, Governments need to facilitate international cooperation between competition and consumer protection authorities.

Competition and consumer protection authorities need to share their experiences and exchange information on similar competition and consumer protection cases. This can lead to more efficient use of resources at the national and global levels, eventually leading to joint case handling, conducting investigations more efficiently and obtaining more effective results.

To effectively address cross-border anticompetitive practices, as well as regional and global mergers, it is worthwhile to invest in, improve and implement regional competition frameworks and rules. A significant number of African regional economic communities already have regional competition rules.[16] The Competition Commission of the Common Market for Eastern and Southern Africa, for example, conducts cross-border merger reviews.

Regional frameworks could also be more effective in better protecting consumers by providing a common platform for consumer protection authorities to cooperate and exchange information and experience and, in this regard, the African Consumer Dialogue and the Ibero-American Forum of Consumer Protection Agencies are good examples. Therefore, Governments should engage in regional policy coordination and cooperation for a sustainable economic recovery.

Prevent market concentration in the digital economy

The key features of the digital economy, such as network effects and access to big data, have made digital markets prone to high concentration of market power (UNCTAD, 2019b). Dominant platforms have become inevitable for both consumers and traders, which in turn has allowed dominant platforms to become “gatekeepers”.[17] Whether the current competition regimes are fit to address competition issues in the digital economy has been debated prior to the COVID-19 period. This will remain on the agenda of competition authorities, as online platforms have grown even larger and more powerful during this crisis.

Levelling the playing field between dominant online platforms and others requires Governments to better equip their competition authorities and ensure that the digital economy works for all, consumers and businesses alike. Some countries have already started to set up a regulatory framework for such a purpose (box 5.1).

As consumers turned to digital platforms for shopping or other purposes, underlying shortcomings, such as insufficient legal and institutional frameworks, became more evident. These cause consumers to lack trust in online markets, especially for cross-border transactions. Shortfalls include limited coverage and efficacy of existing online dispute-resolution mechanisms, insufficient reach of national enforcement against businesses based in other countries and uncertainty over payment security and data protection.

[16] Such regional economic communities include the Common Market for Eastern and Southern Africa, East African Community, West African Economic and Monetary Union, Economic Community of West African States and Economic Community of Central African States.

[17] The concept of “gatekeeper” platforms refers to those platforms that set the rules of the game for market access or the interaction between consumers, business users and service providers. See https://www.slaughterandmay.com/media/2537538/competition-law-in-the-digital-age-july-2019.pdf.

To counter this, consumer protection authorities are ramping up public online dispute-resolution systems, to mirror face-to-face systems, and moving towards online complaint handling with increased international cooperation. For example, the Republic of Korea facilitated the lodging of complaints related to COVID-19 for consumers, through consumer counselling call centres, and established a consumer damage response task force in order to respond to consumer disputes. Likewise, Colombia launched an application for consumers to report, in real time, breaches of their rights in relation to COVID-19.

Finally, it should not be forgotten that not all global consumers have access to e-commerce. The digital divide between and within countries remains a major challenge to be tackled. In LDCs, for instance, only one in five persons uses the Internet and, in most developing countries, well below 5 per cent of the population currently buys services online. The quality and affordability of broadband connectivity – especially in rural areas – remain a priority.

Box 5.1
Competition in the digital economy

Germany, for instance, has initiated actions to address competition in the digital economy. In 2019, a German expert commission published the New Competition Framework for the Digital Economy, which recommends that a platform regulation be introduced to impose a code of conduct on dominant online platforms (based on a minimum level of sales or a minimum number of users).[a] On 9 September 2020, the Government approved a draft law, which has yet to be approved by the Parliament. The draft law provides more tools for the German Federal Cartel Office to address market abuse by big technology companies and attributes powers to the Federal Cartel Office to regulate dominant digital companies.[b]

Likewise, a new regulation entered into force in the European Union in July 2019 to promote fairness and transparency for business users of online platforms.[c] The European Commission is currently working on a new competition tool to address the gaps in the current European Union competition rules and to allow for timely and effective intervention against structural competition problems across markets.[d] These structural problems arise in winner-takes-all digital markets due to their specific characteristics, such as network effects, use of pricing algorithms and access to data (Gökçe Dessemond, 2019). The European Union is also developing an *ex ante* regulation for gatekeeper platforms.

[a] See https://www.bmwi.de/Redaktion/EN/Pressemitteilungen/2019/20190909-commission-of-experts-on-competition-law-40-presents-final-report-to-minister-altmaier.html.
[b] See https://www.bloomberg.com/amp/news/articles/2020-09-09/german-cabinet-backs-tougher-digital-anti-trust-legislation.
[c] See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R1150&from=EN.
[d] See https://ec.europa.eu/competition/consultations/2020_new_comp_tool/index_en.html.

Protect consumers in the rapidly expanding digital market

The COVID-19 pandemic has been leaving consumers more vulnerable than before to unfair and misleading practices. Consumer protection agencies need to advocate their Governments and sector regulators on how to better protect and empower consumers.

Governments and consumer protection agencies need to monitor business practices aiming to duly protect consumers' health and safety. The COVID-19 pandemic highlighted the importance of consumers' right to non-hazardous products. Good regulatory practices by Governments with the involvement of all stakeholders should protect the health and safety of consumers, while not adding unnecessary trade costs.

Governments should adopt or encourage the adoption of appropriate measures, including legal systems, safety regulations, national or international standards, voluntary standards and the maintenance of safety records to ensure that products are safe for either intended or normally foreseeable use.

The United Nations guidelines for consumer protection (1985; last revised in 2015) – which provide principles that set out the main elements of effective consumer protection legislation, enforcement institutions and redress systems – can serve as a useful reference for countries strengthening consumer protection in the digital economy, such as in the areas of e-commerce and financial services.

In the area of consumer protection in e-commerce, the United Nations guidelines for consumer protection specify that sustainable and inclusive growth of e-commerce requires a level of protection online, which is no less than that afforded in other forms of commerce. The United Nations guidelines further state that, to enhance consumer confidence in e-commerce, Governments should develop transparent and effective consumer protection policies. This may require the enactment or revision of laws and policies, with a renewed focus of enforcement against unfair and misleading business practices online and appropriate information and awareness-raising campaigns.

The safety of electronic payments is another important element for increasing consumer trust in e-commerce. The UNCTAD World Consumer Protection Map shows that 97 per cent of the 63 member States that responded to a related UNCTAD questionnaire have consumer protection laws, of which 62 per cent currently address issues related to e-commerce.[18]

Considering the increase in the use of online platforms and the fact that this trend is expected to continue, Governments should improve consumers' access to fair, effective, transparent and impartial dispute-resolution mechanisms, particularly through online means.[19] The United Nations guidelines for consumer protection (para. 11 (e)) suggest that businesses protect consumers' privacy through a combination of appropriate control, security, transparency and consent mechanisms relating to the collection and use of personal data.

In the area of financial services, the rising vulnerability of consumers using financial services requires that appropriate financial consumer protection regulatory and enforcement policies be adopted and oversight bodies with sufficient powers and resources be put in place. Massive layoffs and rising unemployment will inevitably lead to an increase in consumers' insolvency. The World Bank (2020) recommends that Governments review their consumer bankruptcy frameworks, allow for more flexible options for debt rescheduling and repayment plans and enable a debt forgiveness mechanism or discharge in order to facilitate a fresh start for overindebted consumers. Governments should therefore ensure that collective resolution procedures are expeditious, transparent, fair, inexpensive and accessible to both consumers and businesses, including those pertaining to overindebtedness and bankruptcy cases (see United Nations guidelines for consumer protection, para. 40).

Governments and consumer protection authorities should also aim at strengthening digital and financial consumer literacy to ensure all consumers can benefit from the new normal. The first stages of the crisis showed that adequate legal frameworks for consumer protection and competent and well-resourced institutions are key to effectively addressing emerging challenges. Governments could better resource and empower these institutions (both legally and financially) and engage more with their competition and consumer protection authorities.

Coordination among relevant authorities and stakeholders to respond to challenges emerging in times of crisis is needed to complement these frameworks. In this light, the United Nations guidelines remain a relevant tool for Governments aiming to improve consumer protection in the medium and long term. Governments therefore need to engage with businesses and consumer groups to encourage the adoption of the principles for good business practices as contained in the United Nations guidelines for consumer protection.

[18] See https://unctadwcpm.org/map.html and https://unctadwcpm.org/answers.html.

[19] For example, the legal project for international cooperation convention on the field of consumer access to justice currently in discussion at The Hague Conference on Private International Law, has recently become an online dispute-resolution project. See https://assets.hcch.net/docs/09c716a6-9073-4a41-aa71-9d7eb1ba8c4e.pdf.

5.2.3 Environmental focus for greener and bluer recovery

As countries move from the rescue to the recovery phase, policymakers have an opportunity to decouple growth from high CO_2 emissions and invest in green technologies and industries. Such investments can build on, if not embed, shifts in human habits and behaviour already under way.

Now is the time to capitalize on the many technological solutions that have been developed, such as green housing, complete with district energy systems; green public transport systems, rail upgrades, electric buses and electric vehicle charging networks; energy storage; and hydrogen etc. Fast-track green policies include residential and commercial energy efficiency retrofits, as well as natural capital spending through afforestation, expanding parkland and enhancing rural ecosystems.

The most difficult aspect of a green recovery is orchestrating a just transition. This implies that green products, technologies and services need to become affordable for large shares of the population, and that those working in sectors that will be phased out have prospects in others. Hence, as countries move from rescue to recovery, they can broaden the horizon and identify where the activities and jobs of the future may be, which can include renewable energy and nature-based solutions.

Increase incentives to renewable energy

There is clearly a risk that economies seeking to kick-start economic activity in a period of very cheap oil may be tempted to choose to revert from a green recovery and continue to rely on traditional technologies. However, today’s low oil prices provide Governments with opportunities for policies that are good for economic recovery and the climate.

What was once just a handful of cutting-edge ideas on more sustainable energy has developed into an ecosystem in itself, with a myriad of suppliers, competitors, customers, government agencies, investors and non-governmental organizations. This ecosystem will be the main facet of a green recovery.

Access to affordable and reliable electricity is essential for a green recovery.[20] This need is more acute than ever as millions work from home, e-commerce sites become the new shop front and streaming services take over from cinemas and theatres.

There are opportunities for the decarbonization of utilities, which are the “great enabler” to cleaner green energy use across transport, real estate and industry. Virtual power plants aggregate energy resources from a wide range of power sources owned by customers, including hospitals, universities, local authorities, district heating schemes, supermarkets and commercial growers. Electricity users of all types are also becoming suppliers. The price and efficiency of electricity storage are decreasing. In addition, linking electricity grids to enable trade of excess renewable power between countries may significantly enhance decarbonization. Boosting investments in renewable energy alone would add 42 million jobs globally, create health-care savings eight times the cost of the investment and prevent a future energy crisis (IRENA, 2020).

Countries can take advantage of low interest rates to boost innovation in hydrogen and carbon capture and storage technology. The economic conditions to support a hydrogen economy need to be created. Lifting taxes and levies on electricity used in hydrogen production will help drive real change, just as subsidies helped make renewables more economically viable.

[20] Electricity is not only critical for recovery from the pandemic, but also more generally, for structural transformation (see UNCTAD (2017)).

Importantly, a green recovery will capture complementary benefits. For instance, e-mobility reduces air pollution, which is especially important in urban areas. Support to energy efficiency retrofits could be directed towards lower-income households to decrease social and health inequality. In developing countries, renewable energy can be used to increase rural electrification and help alleviate poverty. Policymakers must identify and include potential co-benefits in the policy design stage and formulate implementation criteria accordingly.

Developing countries may leverage on cheap oil and generate fund from levying a small amount of excise tax on imported oil. India has, for instance, already raised excise taxes on transport fuels such as gasoline. The excise duties on these fuels have been increased by Rs3 per litre, which is estimated to give an additional revenue to the country of Rs400 billion (over $5 billion).

The pandemic has sent oil prices plummeting, leaving oil companies with portfolios of existing and prospective projects with more outgoing expenses than income generated. In quick succession, both BP and Shell announced plans for massive write downs on some of their fossil fuel assets. In the United States fracking industry, Chesapeake Energy has filed for bankruptcy protection. Dividends have been cut, job losses are expected, and a number of top energy companies have publicly announced plans to accelerate their clean energy transition. Economic recovery is never sustainable if it is built upon the economic hardship of certain groups. With a view to achieving recovery without leaving no one behind, international cooperation to alleviate short- to mid-term hardship faced by people working in oil-producing industries would be essential.

Promote nature-based solutions

Goods and services derived from biodiversity will have an important role to play in a green recovery. Diversifying export destinations for biotrade will be essential. Countries should avoid unnecessary non-trade barriers and design positive measures to enhance sustainability, traceability and transparency regarding processes and production methods that fulfil additional COVID-19 safety and sanitary requirements and market access procedures.

UNCTAD has recently proposed simple medium-term actions to reduce the use of plastics and curb current waste accumulation.[21] One type of action includes expanding production and making greater use of existing environmentally friendlier materials, where developing countries could have a comparative advantage, such as natural fibres, organic waste (e.g. rice and corn husks and bagasse), cardboard, paper, glass and ceramics. Another action is to create incentives and enable significant investments in waste management (including collection, transport, treatment, recycling and disposal of plastics), especially in developing countries.

There is also a need for a blue recovery and support mechanisms to sustain SIDS and LDCs. Urgent action is needed to improve the management of fisheries and to protect related ecosystems, while protecting labour and human rights of workers at sea and safeguarding well-being and food security for millions of people. Coastal and marine tourism will need innovative solutions to integrate health functions and ensure the safety of visitors and locals alike and to link ecotourism to heritage, restoration services and responsible fisheries.

A blue recovery should focus on policy and financial instruments that encourage stock and ecosystem management, improve traceability and compliance with sanitary measures for blue products, enhance safety and social protection of crews and coastal workers, enable sustainable coastal and marine ecotourism and support the alternative economic livelihood activities of small-scale fishers and coastal populations. Additional financial instruments that

[21] See https://unctad.org/system/files/information-document/wto_unctad_CTE2020_en.pdf.

could support the emergence of a post-COVID-19 blue economy could include blue bonds, crowd funding and blended funding.

5.2.4 Stimulus packages for fairer and greener recovery

State interventions in response to COVID-19 are unprecedented. Fiscal measures signed into law by Group of 20 nations in May 2020 totalled $9 trillion in government spending (Battersby et al., 2020). They are focused on preserving liquidity, solvency and livelihoods, which is understandable from a short-term perspective. But this would be a missed opportunity if a given stimulus package is not designed to support medium and long-term objective of achieving fairness, resilience and sustainability.

Ensure fairness and inclusiveness

The financial stimulus packages provided so far will change the competition landscape at all levels – national, regional and global. According to Jenny (2020), "the likely scenario is that 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' …". Jenny foresees that European companies in fiscally strong countries, such as Germany, will be able to use their advantage owing to State aid to compete more aggressively or take over weaker European competitors, disrupting competition in both product and capital markets in Europe. This scenario is relevant for global markets, as State aid has been provided not only by European countries but also by other developed countries and emerging economies.

The European Commission adopted the "Temporary Framework for State Aid Measures to Support the Economy in the Current COVID-19 Outbreak"[22] on 19 March 2020. The framework outlines the types of and conditions for state aid, which European Union member States can provide to firms undergoing financial distress since the beginning of the outbreak but not in financial difficulty on 31 December 2019. The Commission concluded that the State aid measures taken by its member States were "necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a member State, in line with article 107(3)(b) of the Treaty and the conditions set out in the Temporary Framework" (Jenny, 2020). The European Union Temporary Framework is a good example of showing the essential elements that need to be considered in the design of financial stimulus schemes. First, they need to be clear, transparent, proportionate to remedy the difficulty, limited in time and non-discriminatory. Second, they need to include information on the types and amounts of aid to be granted, eligibility criteria for the beneficiaries, conditions attached and the period in which aid can be granted. Third, they should be subject to monitoring by relevant government bodies.

Like the European Union, Russian competition law has provisions governing State aid.[23] The Fair Trade Commission of Japan published "Guidelines for Public Support for Revitalization in view of Competition Policy" in 2016.[24] Other competition authorities advise their Governments on competition, some without having direct regulatory regimes governing State aid.

Moreover, if used strategically and made conditional upon sustainable production and consumption, financial stimulus packages could not only help firms in financial difficulties survive the crisis but also contribute to more sustainable markets. Indeed, the contribution of competition law and policy to achieve sustainability objectives is increasingly under

[22] Available at https://ec.europa.eu/competition/state_aid/what_is_new/TF_consolidated_version_amended_3_april_8_may_and_29_june_2020_en.pdf.

[23] Chapter 5, Granting of State or Municipal Preferences, of Federal Law No. 135-FZ of 26 July 2006 on Protection of Competition of the Russian Federation, available at https://www.wipo.int/edocs/lexdocs/laws/en/ru/ru077en.pdf.

[24] See https://www.jftc.go.jp/en/legislation_gls/imonopoly_guidelines_files/160331.pdf.

consideration by competition authorities, as the recent guidelines on sustainability agreements from the Authority for Consumers and Markets of the Netherlands illustrate.[25]

Maintain green/blue growth aspirations

Vivid Economics compiles a *Greenness of Stimulus Index*,[26] which reflects the extent to which fiscal spending in response to COVID-19 is either a positive (green) or negative (brown) impact on the environment. According to this index, only 4 per cent of the measures proposed are "green", with a potential to reduce long-term CO_2 emissions, while 4 per cent are "brown" and likely to increase net CO_2 emissions beyond the baseline. The "colourless" 92 per cent are meant to maintain the status quo. It is not entirely clear how these funds will be used, which specific measures will be put into place and whether they are "green" or "brown". That is, most government responses have not attached sustainability performance requirements to assistance package recipients. This can be a missed opportunity to promote greener economic activity.

There are signs, however, that the objectives of the stimulus address, directly or indirectly, countries' aspirations to make a big stride towards achieving a greener and bluer economy in the coming decades. The package in Canada is greener, and the "Next Generation European Union" recovery stimulus is set to be the greenest package to date, with a range of targeted measures to reduce dependence on fossil fuels, enhance energy efficiency and restore and preserve natural capital. China is planning to phase out conventional gas-burning cars by 2035.[27] Japan aims to achieve a zero-emissions, carbon-neutral society by 2025.[28]

A review of the announcements made to date suggests that the proposed green measures fall under the following broad categories: corporate bailouts with green strings attached; investment in nature-based solutions and sustainable agriculture; loans, loan guarantees and grants for green investments; subsidies or tax reductions for green products and the removal of brown subsidies; green research and development subsidies; and reinforcing environmental regulation and avoiding deregulation.

Recovery packages are likely also to be scrutinized on their climate impact and contributions to the Paris Agreement in the lead up to the twenty-sixth session of the Conference of the Parties.

5.3 Concluding remarks

The scope of the 2030 Agenda for Sustainable Development is captured by the "five Ps" – people, planet, prosperity, partnership and peace. While trade is an important instrument for achieving prosperity through economic recovery, trade policy alone would not be able to ensure that the recovery would contribute concurrently to people and planet. A comprehensive recovery package for building a stronger, fairer, more inclusive, and greener (and bluer) economy would require cooperation-oriented trade policy and effective competition policy and consumer protection policy, with the aspiration of green growth at the centre of a long-term objective.

[25] See www.acm.nl/en/publications/draft-guidelines-sustainability-agreements.

[26] Constructed by combining the flow of stimulus into key sectors with an indicator of each sector's environmental impact. Key sources consulted include Climate Action Tracker, Yale's Environmental Performance Indicator, OECD Environmental Stringency Index, Sectoral emissions intensity (GHG/$) and EIU Agriculture Sustainability Index.

[27] Nikkei Asia, 27 October 2020, https://asia.nikkei.com/Business/Automobiles/China-plans-to-phase-out-conventional-gas-burning-cars-by-2035.

[28] Carbon Brief Daily Briefing, 26 October 2020, https://www.carbonbrief.org/daily-brief/japan-aims-for-zero-emissions-carbon-neutral-society-by-2050-pm.

The chapter has looked at "how" to design a comprehensive of policy mix for stronger, fairer and greener recovery through trade, rather than on identifying "what" individual policy measures should be selected. In this respect, trade policymaking should pay attention to maintaining transparency and to the fact that regulatory cooperation with trading partners can achieve a greater impact on reducing trade costs, which is absolutely necessary when recovering from a severe economic crisis.

While the focus in recent years has been more on the impasse in the multilateral trading system rather than on its usefulness, the system still provides members with common guiding principles for alleviating non-coordinated unilateral, trade-distorting measures. It is hoped that the upcoming Twelfth Ministerial Conference of WTO sees constructive and cooperative ministerial decisions that enhance partnership in overcoming the COVID-19 crisis.

Without empowering agencies that prevent anticompetitive practices and market concentration, and those that protect consumers in the new and changing market environment, trade-led economic recovery cannot be fair and inclusive in a way that leaves no one behind. As mentioned above, it is most vital that the long-term aspiration of green growth should remain the foundation for any economic recovery plan.

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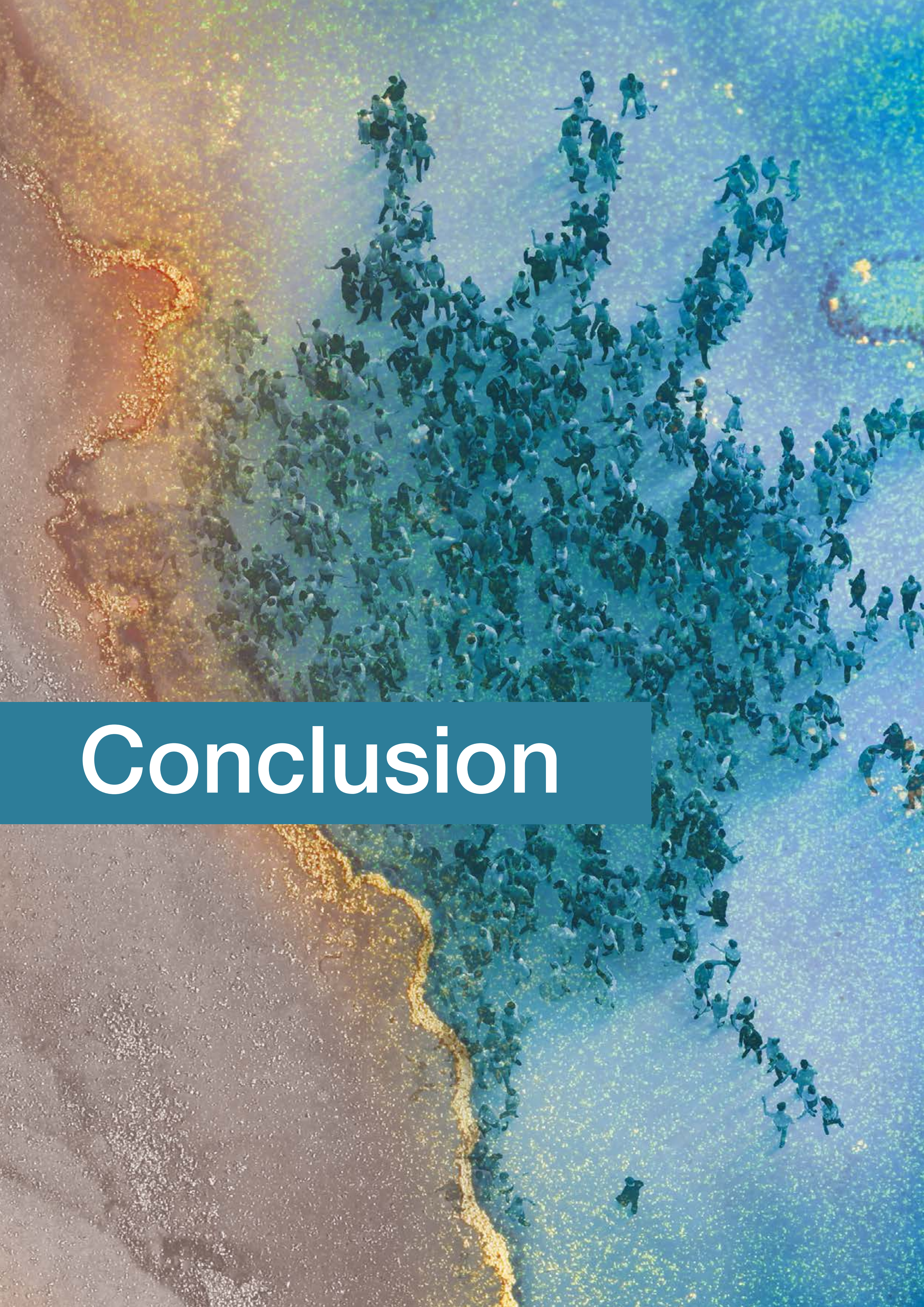
Conclusion



The world is in the midst of a global pandemic and a deep economic crisis that were unfathomable even just one year ago. Mourning every human loss, countries relentlessly continue their efforts to protect lives while preserving livelihoods. Never before has nearly half of the world population endured lockdown conditions, and never before have so many people been asked to change their daily activities and routines so quickly, with such consequences. Changes to ways of working, producing and consuming have been sudden and dramatic. All of this will make 2020 a year to be remembered for a long time to come.

Some changes that had already begun to take shape before 2020 now stand out starkly in light of the pandemic. For instance, trust in multilateralism had already been fading, international trade appeared to have reached a tipping point, climate change had become a more present and pervasive concern and digital transformation was already well under way. Then COVID-19 struck, originating in Asia and spreading first widely across Europe and the Americas, rapidly evolving into a worldwide pandemic.

The pandemic has reinforced some of the trends which preceded it but has also caused massive disruptions and reversed other trends. Global poverty is on the rise for the first time since the Asian financial crisis in 1998. With school closures, uneven access to home schooling and economic pressure on families, progress in education, especially for girls, may experience a setback of 20 years. This will have strong negative impacts on the productive capacity of countries well into the future. This is also an enormous setback for development aspirations and for the Sustainable Development Goals, which had already been challenging to achieve before COVID-19 entered the picture.

With restrictions on the movement of people, the massive decline in air travel, the contraction of foreign direct investment and the reconfiguration of supply chains to reduce risk, the world also appears to be becoming less globalized as the pandemic persists. Indeed – whether for better or for worse – the degree to which some of these changes will become lasting will depend on the policy choices made and actions taken going forward.

The health and economic crisis calls for new responses and new directions to change course from the world's pre-existing vulnerabilities that have aggravated the pandemic's effects. This report is an attempt to contribute to this understanding. The impact of COVID-19 across trade and development has been described with an eye to making this "new normal" a fertile ground for more resilient, inclusive and sustainable development. The report's aim is to support countries and the international community in dealing with the trade and development challenges and opportunities that have emerged from this crisis.

The pandemic has spread across the world, as shown in chapter 1 of this report, with the health crisis unleashing a global economic shock that has seen international trade plunge, foreign direct investment inflows fall dramatically and global production and employment slashed. But the impacts are not even. Within and between countries, there are large differences. As described in chapter 2, the most vulnerable have been hit the hardest, particularly those in informal employment and in small – and often – informal businesses. Importantly, women and other marginalized groups in many countries are disproportionately bearing the brunt of the economic pain inflicted by the virus.

Rich countries have reacted with enormous rescue and stimulus packages, while for poorer nations these possibilities are severely constrained and would put additional strains on mounting debt. As detailed in chapter 3, for developing countries – especially for the poorest and most vulnerable among them – new international consensus on financing must be reached in order to extend to all countries the fiscal breathing room and liquidity needed to meet the extraordinary outlay of resources required to tackle the health and economic crisis head on.

As outlined in chapter 4, the reconfiguration of international production networks, the deepening of digital divides and the growing recognition of sustainability considerations that were already under way prior to the crisis will take on even greater importance in the recovery. In order to recover better, these ongoing trends will require concerted policy attention and closer international collaboration to adapt investment policies, science, technology and innovation policies, digitalization strategies and trade facilitation for identifying and integrating into the more sustainable global and regional value chains of the future.

Similarly, as has been shown in chapter 5, international trade has been an important vector by which the pandemic was transmitted, creating a global economic shock that has reverberated around the world. Yet policies for fairer and greener trade must be part of the recovery in order to address some of the fragilities that allowed globalization to magnify the pandemic's impacts on the weakest and most vulnerable.

Even if tomorrow's world is likely less globalized than today's, economies and societies remain strongly interlinked. COVID-19 has demonstrated this interconnectedness in a unique way. Closer international cooperation, including both North–South and South–South cooperation, will be needed to overcome the pandemic's impacts and adapt to the new normal described in this report.

As this report has attempted to show, some changes that have characterized this new normal – such as accelerated digitalization – likely will be sustained and can be built on to chart new ways forward. Still, other changes may only be temporary as societies may not be ready yet to embrace them. For example, lasting changes in behaviour related to more climate-friendly production and consumption may have not yet reached the critical mass needed to reverse course on the impending climate emergency.

It is only through cooperation that a better future can be built that is more resilient, inclusive and sustainable. In order for the international community to remain committed to its collective development aspirations of leaving no one behind, there is no better time than now to demonstrate renewed global solidarity. Let 2020 be remembered not only for the pandemic, but also as the year when a better, fairer and greener future began to take shape for all humanity.

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