



STATEMENT BY DR. CARLOS CORREA, EXECUTIVE DIRECTOR OF THE SOUTH CENTRE, TO THE MINISTERS AND GOVERNORS MEETING OF THE INTERGOVERNMENTAL GROUP OF TWENTY-FOUR (G24)

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This G24 meeting is being held at a very challenging time as the COVID-19 pandemic is scourging almost all countries and territories in the world. It is not only a major health calamity with mounting humanitarian costs but also the biggest economic crisis since the Second World War.

A couple of months ago, there were warnings about signals of a global recession. Currently, the discussion is about how deep and lasting the world economic recession triggered by the pandemic will be. With the spreading of the pandemic, many economic activities have come to a sudden stop and preventive measures for stamping the spread of the coronavirus have further slowed down the financial, productive and other economic activities and also the flow of international trade and investment. Output and income losses have been skyrocketing.

International trade suffered a very sharp fall. The international supply chain, already disrupted by the trade war launched against China, has been further affected by the pandemic. Trade and trade-related measures taken in the context of the COVID-19 crisis have been on the rise. Prices of some commodities including oil suffered a major collapse, Global demand has contracted severely. Foreign investment has suffered a dramatic decline. The spillover effect of tourism and services has negatively impacted on other sectors of the economy.

Much about the coronavirus, particularly how to go back to normal production and commercial activities, is still unknown. Therefore, how long this crisis will last and how severe this is are questions without an authoritative reply yet. The resultant economic uncertainty has further impaired confidence and exacerbated the severity of the crisis.

Before the onset of the pandemic, the world economy was on the road to a fragile recovery from the global financial crisis of 2008. The pandemic was a huge setback to the return of confidence in the economic recovery. Loose monetary system pursued since the global financial crisis had been losing steam before the pandemic and resulted in some problems like increasing debt burden and slow recovery. These pre-existing conditions have added to the complexity in coping with the pandemic.

As in all crises, the poor countries and people would fare worst; global asymmetries and inequalities will grow. Much of the progress made to achieve the Sustainable Development Goals will be lost. In developed and developing countries alike, pandemic-resulted unemployment is

highest for unskilled workers. For countries with large informal sectors where households live from hand to mouth, lockdowns mean these people would not be able to sustain their subsistent life; for many of them the option of confinement poses a dramatic dilemma: to face the risk of contagion or starvation. For many poor countries in Africa and some small island countries, it appears that the COVID-19 pandemic is still at the early stages. However, with their weak health care system, poor living conditions and weak fiscal position, the possible spread of the pandemic may have devastating effects on human lives and their economic situations. Many of these countries have already been in debt distress or high risks of debt distress. At a time when financial resources are needed most, many emerging and developing countries, at the beginning of the pandemic in January 2020, have been hit by an unprecedented flight of capital in stocks and bonds, with the size much larger than that during the global financial crisis of 2008. The drain of financial resources has made it even more difficult for the affected countries to adopt sufficiently large stimulus packages to match the size of the crisis. The loss of revenue from the sharp fall in international trade and collapse of commodity prices have further constrained their ability to fight the pandemic.

Debt problem is like a Damocles' Sword hanging over many developing countries. Over the years, this sword has been getting larger and sharper. By the end of 2019, 44 per cent of low-income and least developed countries were assessed to be at high risk of external debt distress or already in debt distress. Some emerging economies have been trying hard to cope with their mountains of public and private debt. With the reduction in tax and trade revenues, large currency depreciation against reserve currencies, reduced remittances, increasing cost of borrowing, flight of capital and, above all, high fiscal cost for supporting the health care system to combat coronavirus, where can these countries find resources to service their debt? Right now, there is little appetite for new debt instruments, thus raising new money to pay old debt is no longer an option. Should they use their limited resources to save lives or to pay back creditors? As they do not have large swaps to rely on, their only resort is to seek help from multilateral financial institutions and other solutions.

In this latest crisis, the importance of the role of nation states, like during war time and catastrophic natural disasters, has become more apparent. The state is the legitimate means which is tasked to deliver indispensable services and provide collective security and public health. The state is tasked to provide targeted support to the most affected households and firms (notably micro, small and medium enterprises) to assist them in the time of reductions of both supply and demand, increasing unemployment and cost of living, and urgent need for medical care. Different nations have adopted different policies to contain and fight against the pandemic and its socio-economic effects. How to make sure that the fiscal support to the most in-need would be channeled successfully and timely to their hands is an important challenge. It would be important for countries to learn from each other in order to achieve the most rapid and effective result.

However, the virus defies national borders and it has already spread to almost all the countries and territories in the globe. National actions, however effective they may be, cannot stop a global pandemic. There are already good examples of South-South Cooperation in fighting the pandemic. A broad and effective international cooperation and solidarity is required to solve a global crisis. Global united efforts and political will is needed to coordinate policies and trigger global initiatives.

In this challenging time when the lives of millions are at stake, it is only ethical and moral for the international community to assist the poor countries who have little means to fight the pandemic and its multiple distortive effects. This kind of assistance would in turn benefit the rest of the world as the virus could come in waves and circle from the poor countries back to the countries where it has already been brought under control.

Enormous amount of financial resources are needed to fight against the pandemic and address its vast socio-economic impact, yet the developing countries do not have them. Up to the present, an unprecedented number of 90 countries have requested for the International Monetary Fund (IMF) emergency financing, much more than that during the global financial crisis.

During a crisis of this magnitude, all kinds of support should be mobilized. Regional and plurilateral development banks like the Asian Infrastructure Investment Bank (AIIB), Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD) have already started to refocus their activities and lent billions of dollars to battle against the coronavirus crisis.

It is also encouraging that the IMF is doubling its emergency response capacity to \$ 1 trillion. But it is still far from sufficient. The US government alone approved a deal of \$ 2 trillion to fight against the pandemic, considered by many as not sufficient. The IMF and the World Bank's Catastrophe Containment Relief Trust is welcoming but the Trust needs to be replenished. To meet the financial gap, more and more institutions and economists have voiced support for a new allocation of the IMF's Special Drawing Rights in an amount much greater than that for the global financial crisis, the allocation of which is always difficult to agree upon, but it would be reasonable to request the high-income countries to donate their share to the poor developing countries.

For many debt-ridden developing countries, it would be essential to liberate them from their heavy debt servicing burden so that they can focus their limited financial resources on the containment of the coronavirus and its devastating effects. The United Nations Conference on Trade and Development (UNCTAD), other United Nations agencies and many economists have been advocating for a temporary standstill on debt service and creditor litigation as well as "debtor-in-possession financing" for poor countries suffering from unsustainable debt. This could start with official bilateral creditors. Debt relief would be necessary for poor countries in debt distress or high-risks of debt distress. Bearing in mind that an increasing amount of developing country debt are from non-official bilateral sources, this may not be sufficient. Comparable treatment of other types of debt should be considered.

International trade is not only needed to generate the needed foreign exchange for countries, it is also important for the fight against the current pandemic. It is of utmost urgency to minimize the disruption of cross-border trade in goods and services, especially on much needed medical supplies and food. No country is self-sufficient in all goods and services. Therefore, to restore the normal flow of international trade will be essential to overcome the pandemic. Tax policies also need to be rapidly adapted to the new emerging scenario, including measures on tax revenues generated by the operations of global digital companies.

International efforts should also be spent on laying the ground for a smooth and strong economic recovery from the current crisis. Enhanced international coordination will be key in this endeavour and also for boosting confidence and providing stability to the global economy.

In concluding, I wish the virtual G24 meeting a success.