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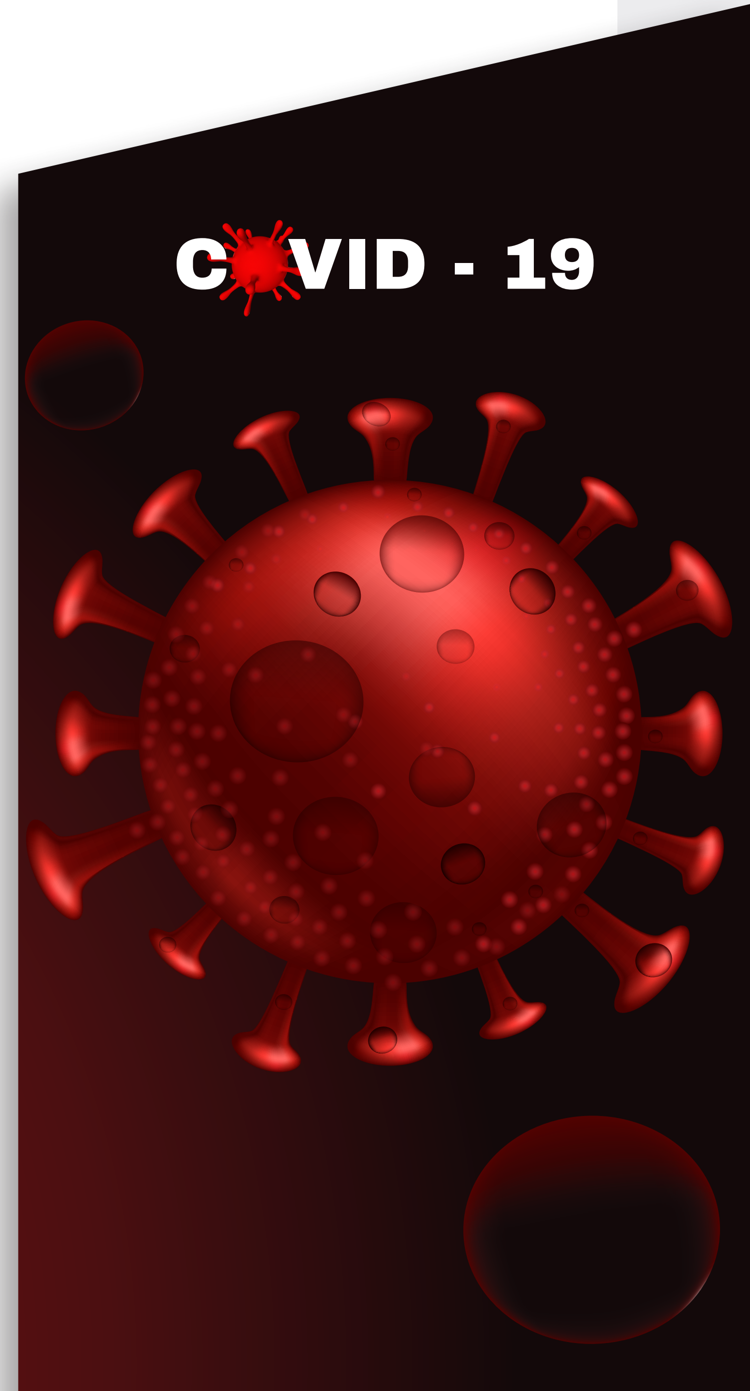
South-South Cooperation at the time of COVID-19:

Building Solidarity Among Developing countries



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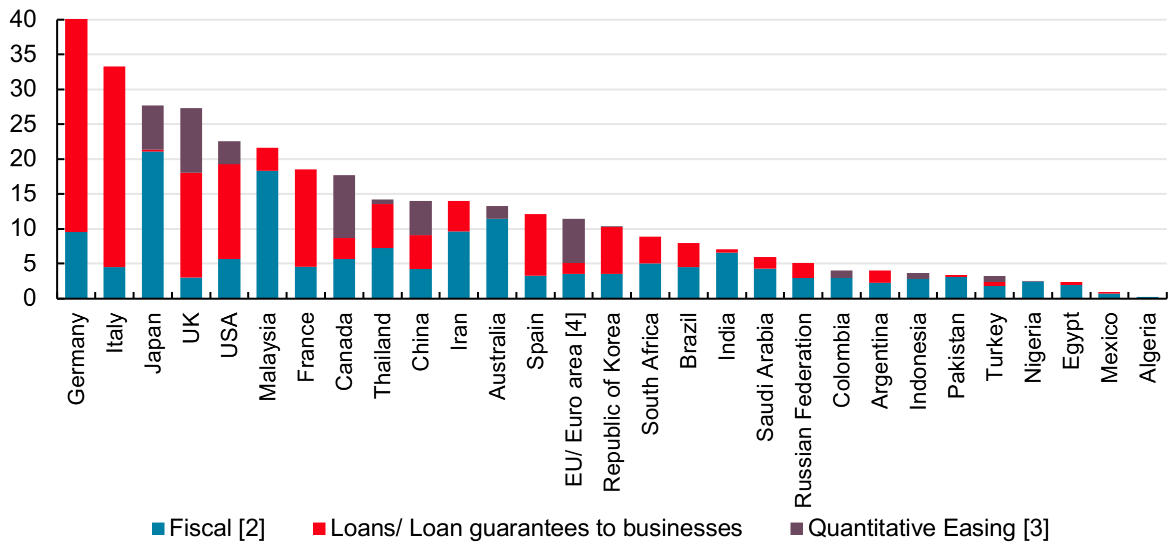
1. North-South Divergence in the fight against the COVID-19 crisis

The world economy is reeling from the Covid-19 pandemic and most governments have no choice but to lock down social and economic activity – a decision that comes at the cost of a global recession. Global output is estimated to contract by at least 3 per cent, with up to half the global workforce at risk of losing their jobs and billions of people, especially in the South, pushed back into poverty and hunger (UNCTAD, 2020a; IMF, 2020; ILO, 2020).

While developed countries are providing trillions of dollars in relief, support and bailouts, developing countries are more constrained on the fiscal, monetary and external payments fronts, making it difficult for many of them to respond to the multiple shocks triggered by the crisis (UNCTAD, 2020b). Nevertheless, some larger developing countries have provided immediate relief through financial bailouts and income support.

In China, the first country affected by the outbreak, an estimated RMB 13 trillion (over the 10 per cent of the GDP) of fiscal measures and financing plans have been announced. Right after the outbreak, Brazil's government announced emergency measures to inject nearly 575 billion reais (106 USD billion) into the economy to soften the blow from the coronavirus pandemic, while India's overall disbursement to date amounts to around 9 per cent of its GDP. In most other developing economies, however, the allocated funds are minimal. Figure 1 illustrates this huge variance in the volume of resources employed to respond to the pandemic by comparing the magnitude of the policy stimulus in 28 countries operating at different levels of development.

Figure 1 **COVID-19 rescue measures as a percentage of GDP in different countries**

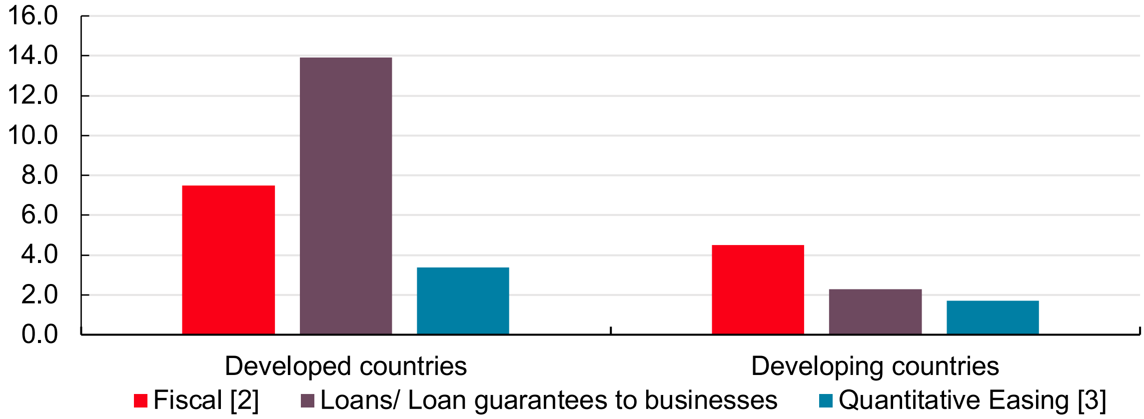


Source: UNCTAD estimates[1].
Note: [1] As of May 25th 2020. [2] Short-term deferral measures, i.e. tax payments deferred from one quarter or month to the next, are not included. [3] Estimate of additional asset purchases by Central Bank in response to the Coronavirus outbreak. In the case of China, the figure includes also and other monetary stimulus measures such as reductions in lending facility rate and lowered banks' Required Reserve Ratio. [4] As % of EU-27 GDP.

[1] Fiscal estimates are based on fiscal spending and tax stimulus measures announced by relevant government authorities in reaction to COVID-19 outbreak. Loans/loan guarantees to businesses estimates are based on loan/loan guarantee programs announced by relevant government authorities in reaction to COVID-19 outbreak. Quantitative Easing estimates were calculated on the basis of asset-purchase programs announced by central bank authorities in reaction to COVID-19 outbreak. When provided, the magnitude of the stimulus measures is based on the official estimates from the relevant government authorities. Otherwise, magnitudes are estimated based on UNCTAD's calculations.

The asymmetry in mobilising public resources emerges even more clearly in Figure 2, which compares the average magnitude of the policy stimulus in selected developed and developing economies.[2] The figure shows that developed economies have so far committed on average almost 30 per cent of their GDPs to fight the pandemic, while the average size of relief packages in developing countries does not even reach 5 per cent (as of May 25th 2020). The figure also highlights the existence of significant differences in the composition of these packages – while, in advanced economies, over forty per cent of the total resources are employed to facilitate access to credit for firms operating in the non-financial sector, this component is much lower in the developing economies. This can put at risk many small and medium-sized enterprises which operate in the non-financial sectors in these countries.

Figure 2 **COVID-19 rescue measures as a percentage of GDP in different groups of countries**



Source: UNCTAD estimates.
Note: [1] As of May 25th 2020. [2] Short-term deferral measures, i.e. tax payments deferred from one quarter or month to the next, are not included. [3] Estimate of additional asset purchases by Central Bank in response to the Coronavirus outbreak.

Overall, this crisis is serving as an important reminder of the significant differences in the underlying economic conditions of developed and developing countries which determine their respective vulnerabilities to external shocks and capacity to respond. In particular, the much higher levels of informality, the lack of diversity in the formal economy and the heavy reliance on external markets and sources of finance, all of which are, moreover, closely interlinked, not only make developing countries much more exposed to the adverse economic impacts of the pandemic but also put them in a weaker position to respond with active policy measures.

2. The South is more vulnerable and will take more time to recover from the COVID-19

The crisis is demonstrating, once again, that having in place state institutions and agencies for rapid response matters a great deal. Administrative capacity has over decades in many developing countries been hollowed out by repeated adjustment programs which are designed to downsize the public sector, erode the regulatory capacities of the state and generally extend the reach of markets and private firms

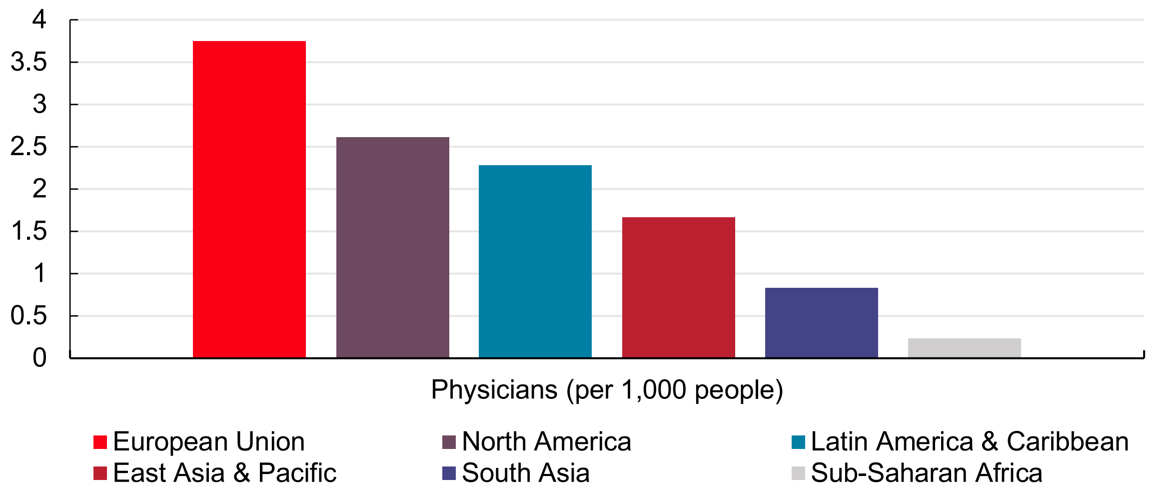
[2] The countries included in the sample are: Algeria, Argentina, Australia, Brazil, Canada, China, Colombia, Egypt, France, Germany, India, Indonesia, Iran, Italy, Japan, the Republic of Korea, Malaysia, Mexico, Nigeria, Pakistan, the Russian Federation, Saudi Arabia, South Africa, Spain, Thailand, Turkey, UK, USA.

into the public realm. At the same time, a weakened fiscal base in most developing countries has not only acted as a direct constraint on government spending but also restricted the room for a more active monetary response, given that the effectiveness and legitimacy of the Central Bank to manage credit expansion also depends on reliable fiscal revenues. As a result, developing countries have in recent years become more and more dependent on external private finance as a source of resource mobilization.

After the global financial crisis, a growing number of developing countries were able to raise finance in the international capital markets as foreign investors sought out higher yielding financial instruments and were willing to assume more of the risk from doing so. The resulting piling up of debt, much of it in dollars or other reserve currencies, but also including increased foreign ownership of domestic debt instruments, is now posing a huge obstacle to effective crisis responses and sustained recoveries in many of these countries. Moreover, and while the current global recession is likely to cause an impact in developing countries harder than the global financial crisis, for reasons discussed in previous reports (UNCTAD, 2020b), the recovery is likely to be slower and more protracted.

Least developed countries are the most exposed to Covid-19 because of their higher capacity constraints in providing even the basic health facilities, due in part to the large percentage of government revenues absorbed by debt servicing. General government health expenditure in low- and middle-income countries amounts to only 3 per cent of GDP and in the group of least developed countries (LDCs) just 1 per cent, against 10 per cent in high-income countries. While the European Union has four physicians per 1000 people, low- and middle-income countries have one physician per 1000 people and low-income countries have one physician per 2000 people (Figure 3). Developing countries are especially exposed to the Covid-19 outbreak given their limited ICU capacity. In China and India, for example, the number of critical care beds per 100,000 people stands at just 3.6 and 2.3 respectively, compared with 29.2 registered in Germany.

Figure 3 **Number of Physicians per 1,000 people**



Source: World Development Indicators, World Bank.

Beyond the threat to health services, in the absence of effective international support, developing countries will inevitably suffer lasting economic damage from the pandemic, including lower rates of capital formation, persistent debt stress, trade disruption, etc., all of which will severely constrain their recovery as well as halting progress towards meeting the 2030 Agenda. If downside risks push global growth below negative 3 per cent this year and the anticipated rebound in 2021 fails to materialize – both plausible outcomes – the recession that will ripple across the South could turn in to a more prolonged depression and in some regions another lost decade.

3. International Responses have been inadequate for recovery of the South

Given their limited room to respond to a major shock, developing countries, at all levels, will need massive international support to avoid the worst-case economic and health scenarios. However, the response to date has been wholly inadequate (UNCTAD, 2020a, b). The G20 has agreed to suspend official debt service payments for the poorest countries until the end of the year, the IMF has cancelled $215m of debt payments due over a six month period for some of its poorest members and has expanded credit lines for crisis-hit countries and the World Bank has put together a crisis response package of over $160 billion to be disbursed over the next 15 months. There has also been a series of parallel initiatives undertaken by the regional development banks, albeit on a smaller scale (AfDB, 2020; ADB, 2020). However, not only have these emergency packages fallen well short of what might be expected given the scale of the challenges posed by the Covid-19 crisis, but also have lacked effective coordination which further dissipates their impact.

There is undoubtedly much greater room for bolder and more comprehensive action. First and foremost, in the face of tightening payments and fiscal constraints caused by the current shock, developing countries need large-scale external financial support to help mitigate the economic and social damage they are enduring. UNCTAD (2020a,b) has laid out a menu of possible options for the international financial system involving the scaling up of liquidity provision (through a massive injection of Special Drawing Rights by the IMF) and long-term financing (through grants and concessional lending by the World Bank and increased ODA flows) as well as substantial debt relief. The three regionally based multilateral development banks (MDBs), which have a high equity-to-loan ratio, also have considerable headroom to scale up lending without hurting their triple-A ratings with the international credit rating agencies. Indeed, some calculations point to additional lending capacity by these MDBs of over $340 billion, equivalent to almost 150 per cent their current loan levels (Humphrey, 2020).

Second, while the packages announced so far have rightly focused on strengthening national health systems, and to a lesser extent helping smaller businesses, much more needs to be done to effectively protect countries' productive capacities, employment, and inter-sectoral linkages within and across borders and enhance social protection systems. At the national level, effectively using fiscal tools (including subsidies) and strengthening public institutions to help guide recovery and expand fiscal space would be important but needs to be accompanied by strategic trade and industrial policy measures where south-south cooperation has a crucial role to play through sharing lessons and expertise. And at the regional and international levels, south-south cooperation could facilitate the scaling-up of available finance, for the better integration of developing countries into the existing trading system, as well as supporting new regional/global value chains and forging more coordinated positions in trade negotiations for preserving adequate policy space.

4. South-South Solidarity essential for a sustainable recovery in the South

The Covid-19 shock has not only exposed the fragile health systems and economic vulnerabilities of the South but has also revealed the lack of a strong vision that unites developing countries, at all levels, around a shared international agenda. Since the outbreak of the pandemic, although cooperation and coordination among the advanced economies has been disappointing, the leading G20 members have organized a series of meetings and dialogues to discuss their actions. However, among developing countries, only some general statements (from the G77 and China and the BRICS countries) have emerged backing the common fight against Covid-19, but without any systematic and concrete action plans.

Given the urgency of multiples challenges, it is essential that the Southern countries build a strategic partnership and take coordinated actions without further delay. Going beyond the immediate relief packages, there is a need to have in place a plan for recovery and resilience in the South. Any such initiative cannot substitute for effective multilateral action to ease the pressure on developing countries and drive a resilient recovery for all countries. But the multilateral system is currently weak and rudderless and cooperation measures within the South should not only be reactive and palliative in nature but designed in a way that can advance needed reform of the wider multilateral system.

With this in mind, cooperation should build around three basic principles: scaling-up resources; enhancing policy space; and building resilience. Accordingly, a solidarity plan could come in the form of enhanced south-south financial cooperation encompassing initiatives covering mechanisms for both short- and long-term finance; joint action by developing countries for reviving trade and industry; and strengthened south-south cooperation for mitigating the health and food crises.

4.1. Scaling up South-South Finance

Most developing countries do not have large national development banks with access to significant funding at short notice (be it from markets or in the form of treasury transfers) to support emergency programs on a scale required to protect a country's productive capacity, jobs and the most vulnerable[3]. Given that the financial packages launched by multinational and regional development banks are narrowly focused, the two newly created southern banks, plus the Islamic Development Bank (IsDB), could have a significant role to play.

All three banks have already announced programmes in response to the crisis. The Asian Infrastructure Investment Bank (AIIB) is making available up to $10 billion to help member states alleviate health pressures and is planning to scale up investment in social infrastructure, as well as boosting liquidity and budgetary support, the latter in partnership with other MDBs. The BRICS New Development Bank (NDB) has approved a $1 billion emergency loan to help Chinese provinces to cover public health expenditures including the purchase of health supplies and the construction of hospitals[4] and is negotiating allocations of equivalent amounts to India, Brazil and South Africa each. BRICS countries have reportedly also agreed that the NDB should allocate up to $15 billion to member countries to help them rebuild their economies (New York Times, 2020). The IsDB, in turn, has prepared what it calls a 'comprehensive integrated response package' worth $2billion aimed at strengthening health systems,

[3] see UNCTAD 2016 for a brief history of national development banks in the South
[4] NDB, 2020; Xinhuanet, 2020.

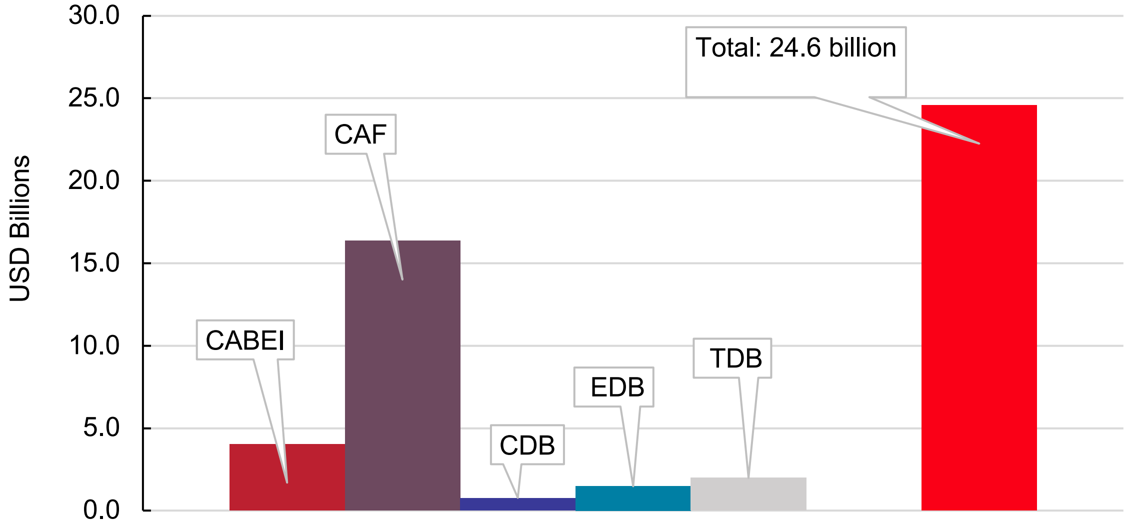
financing trade and SMEs in core strategic value chains, supporting recovery and countercyclical spending more broadly[5].

However, like the regional MDBs, these three southern banks have further space to scale up lending. The BRICS, for example, could consider mobilizing the NDB to allocate loans not just to the BRICS themselves but also to other countries, and create a fund, to be hosted at the NDB, to provide finance at subsidized rates to poorer nations, especially in Africa. They could also deploy their bank to coordinate in partnership with national development banks, a medium-term strategy focused on infrastructure investment in different sectors, needed for the recovery phase and to ensure the developing world's commitment to the SDG goals is not derailed.

Among sub-regional development banks, those from Latin America and the Caribbean region have adopted a proactive response to the crisis. The Central American Bank for Economic Integration (CABEI) has approved a broad program totalling $1.96 billion, which includes emergency aid, regional purchase and supply of medicines and medical equipment, finance to public sector operations, support to the financial sector with a focus on MSMEs and credit lines to support liquidity management of the central banks of member states, the latter involving up to $1billion. On 25th April 2020, it had already agreed a $200 million credit line to the Central Bank of Honduras. The Development Bank of Latin America (CAF) has announced contingent credit lines of $300million to member states for their health systems and emergency credit lines of rapid disbursement of up to $2.5 billion for crisis response and support to business operations. And the Caribbean Development Bank (CDB) has approved $140 million to help countries fight the epidemic and an additional $3 million for medical equipment. In Africa, the Trade and Development Bank (TDB) has shown a commitment to targeted support with a focus on emergency medical supply and has already provided relief support in grants to Eswatini. However, these banks as well others in these regions and in Asia, could do even more by expanding their assistance in terms of both scale and scope. In 2019, CABEI and CAF had equity-to-loan ratios close to 50 per cent and the CDB above 80 per cent, all quite high and above the also high ratios currently observed among the MDBs.[6] In Africa, the Trade and Development Bank (TDB) had an equity-to-loan ratio at nearly 30 per cent – lower than other sub-regional banks but still considerably high. In addition, in Asia, the Eurasian Development Bank (EDB) also had a very high equity-to-loan ratio, of above 80 per cent. These banks' equity levels, therefore, permit them to lend above the current loan levels. Unlike the MDBs, whose main funding source is the international capital markets, their funding sources are in some cases more varied and include resources from MDBs. They thus are less dependent on international markets to raise resources to be able to expand lending. That said, even the international capital markets remain a viable funding option for SRDBs despite the crisis. CABEI has successfully raised $750 million from a diverse base of international investors to fund its crisis response strategy.[7] If CDB and EDB lowered their equity-to-loan ratios to 50 per cent, CABEI and CAF to 30 per cent and TDB to 20 per cent, these five development banks could together expand their portfolio of loans by nearly $25 billion (see figure 4).[8]

[5] Hajjar, 2020
[6] According to Humphrey (2020), the equity-to-loan ratios among MDBs range between 20-60 per cent.
[7] The basic information source for all these banks has been their websites.
[8] Calculated based on information obtained from these banks' Financial Statements, end December 2019; for CDB, end-September 2019.

Figure 4 **Selected Sub-regional Development Banks: Potential Additional Loans**



Source: Banks' Financial Statements, Dec 2019. CDB: end-Sep 2019.
Note: Central American Bank for Economic Integration (CABEI); Development Bank of Latin America (CAF); Caribbean Development Bank (CDB); Eurasian Development Bank (EDB); Trade and Development Bank (TDB). These are additional loans under the scenario that CDB and EDB equity-to-loan ratios are brought to 50%; CABEI and CAF to 30%; and TDB, 20%. Equity includes paid-in-capital, reserves and retained earnings.

In addition, although every country is under financial pressure, where possible, ***new capital injections by the stronger shareholders would be a wise way to deploy scarce resources*** since these institutions are well positioned to support cross-border initiatives necessary to build regional resilience to crises. That is, once steps are undertaken to address the most immediate needs, such banks could gear up their plans to support building for preparedness. This would imply focusing on medium-term projects such as strengthening health systems to address existing shortages in health care provisions but also to enable countries to better cope with future health crises arising from infectious and other diseases. Furthermore, the fact that these banks already have close links, on the one hand, with multilateral institutions, and with national commercial and development banks on the other, puts them in a strong position to absorb funds from the larger institutions for managing regional health initiatives and use a capillarity already in place to distribute resources across their member states.

Another area for urgent south-south cooperation action is on the liquidity front. Despite promising $1 trillion for crisis countries, the IMF has still to spell out how it will proceed and under what conditions countries may have access to it. It recently created a short-term liquidity line to help countries address emergency balance of payments needs but has yet to roll it out. The Federal Reserve dollar liquidity swap lines have been restricted to advanced economies and a few large emerging economies (UNCTAD, 2020b).[9] Therefore, ***southern countries should act together to use existing southern-based liquidity funds to assign much-needed liquidity at this critical juncture***. Doing so may, in addition, strengthen the hand of southern countries in future discussions of reforming the global financial architecture and rules-making.

In this respect, the BRICS can show the kind of leadership demonstrated after the global financial crisis, by extending their $100 billion Contingent Reserve Arrangement (CRA) to other developing countries

[9] These are Brazil, Mexico, Republic of Korea and Singapore.

facing acute liquidity shortages,[10] and, ideally, to use their large foreign reserves to expand the CRA substantially. Although not, in itself, sufficient to deal with the liquidity shortage facing developing countries, such leadership by the BRICS could give a push to the wider international community to make the necessary expansion of SDRs which is being blocked by resistance from the United States (UNCTAD, 2020b).

Long-established regional liquidity funds could be another important source of scaled-up liquidity, especially for smaller countries with limited (or no) access to alternative liquidity sources. These funds include the Arab Monetary Fund, the Latin American Reserve Fund (FLAR), the Eurasian Fund for Stabilization and Development (EFSD) and the Chiang-Mai Initiative Multilateralization (CMIM), the latter with a pool of $240 billion serving the ASEAN+3 countries. The total value of these four funds is $254.2 billion.[11] This value may not look significant, especially compared with recent estimates for the financial needs of developing countries (UNCTAD, 2020b; Georgieva, 2020b). Still, these funds can be significant for small and poorer countries for which access to other official liquidity sources is rather limited, slow and burdened with taxing negotiations.

FLAR has been known for its speedy responses and easy (low conditionality) access. Nonetheless, the fund has at present only eight member countries and is rather small, with a total subscribed capital of just $3.9 billion. The ongoing crisis could be an opportunity to bring on board larger countries from the region, particularly Brazil and Mexico. These two countries, with foreign reserves over $350 billion and $180 billion respectively, could strengthen the fund, so that more resources could be made available to other member countries, while Brazil and Mexico themselves could still tap into alternative reserve arrangements such as the US Federal Reserve swap lines and, in the case of Brazil, also the BRICS, CRA.

In addition to southern liquidity funds, ***regional payments systems could bring further relief to countries facing severe balance of payments' restrictions***. In the past, some of these arrangements have proved extremely useful, for example, the Latin American reciprocal credit and payment agreement (CPCR) during the 1980s when external finance was scarce, which permitted countries to engage in intra-regional trade while benefiting from the short-term credit mechanism this arrangement provided (TDR, 2015: 72). Other payments systems, particularly in Latin America such as the Unitary System of Local Payments Compensation (SUCRE) permitting payments in virtual currency and the Local Currency Payment System (SML) permitting payments in domestic currency, can be used this time for regional payments to help alleviate country needs for foreign exchange to finance their current accounts.

Finally, other regional financial institutions that could be engaged in this crisis are ***EXIM Banks, to provide much-needed trade finance*** for scaling up imports of medical products and other essential needs. In this regard, it is encouraging that the African Export-Import Bank, for instance, with a tradition of providing emergency relief credit and donations, has risen to the challenge by creating a $3billion credit facility to help African countries to meet trade and other foreign currency payments (Reuters, 2020c). Other EXIM banks could follow suit.

[10] This would require that the CRA Governing Council modified its rules to permit countries other than the BRICS to have access to the resources available.
[11] The individual values, taken from Mühlich et al. (2020), are: $1.8 billion from AMF, $ 8.5 billion from EFSD and $3.9 billion from FLAR.

4.2 Building South-South Cooperation for Trade and Industrial Recovery

By applying sudden brakes to international trade, COVID-19 has challenged the simple connection between openness (to both trade and capital flows) and development. Even before the crisis, developing countries had differed significantly in their ability to manage integration into a hyperglobalized international division of labour in ways that could enhance their mobilization of domestic resources in support of sustained and inclusive growth. The picture was one of uneven interdependence; diversification in some countries coexisted with deindustrialization in many, trade surpluses in some with persistent trade deficits in others, and sustained growth with fitful episodes of boom and bust.

As discussed extensively by UNCTAD, the decoupling narrative which emerged after the global financial crisis, suggesting that growth in the South no longer depended on what was happening in the advanced economies, was, in a world dominated by footloose capital and global value chains, a misleading take on the economic dynamics of the 21st century (UNCTAD, 2011, 2016, 2017). Trade liberalization has been pushed hard over the past three decades, through a variety of negotiating fora and crystalized in a myriad free trade agreements and bilateral investment treaties, severely limiting the policy space needed by the developing world. The justification has, invariably, pitted the efficiency-enhancing properties of market prices and competition (most widely celebrated in Ricardian trade models) against the resource distorting actions of politicians and public officials. This aggressive agenda of ‘deep’ integration has gone well beyond the elimination of barriers to trade to include regulatory obstacles to capital flows (and profit remittances), and state oversight of the restrictive business practices employed by large international corporations, as well as tighter intellectual property laws. Doing so has further reduced the policy space needed in the South to manage the industrialization and structural transformation required for its sustainable growth. The consequences have been exposed by the pandemic and will, if left intact, slow down any subsequent recovery and make future resilience more difficult to achieve.

While (contrary to their four-decade-long ideological drive) massive financial subsidies are being rolled out in the North to sustain businesses during the pandemic, developing countries, who cannot afford comparable bailouts, will, at all levels, need to revive the use of strategic trade and industrial policies. Learning how to successfully implement these policies can begin through closer south-south arrangements.

The importance of providing subsidies as an additional support for industrial recovery during a crisis has been widely recognized. Industrial subsidies including financial support to specific industries, tax credits, rent rebates to small and medium enterprises, export subsidies, debt forgiveness etc., are important policy instruments which will be needed by developing countries to provide additional support to their domestic producers during and post pandemic. These various subsidies can enable the rebuilding of labour intensive and export-oriented industries like textiles and clothing, footwear etc., which are expected to take the hardest hit and lead to massive unemployment in the South.

However, developing countries do not have enough policy space to support their economic recovery given the existing multilateral trade agreements, especially with respect to industrial subsidies. A sensible place to explore the judicious mix of liberalizing and subsidizing measures in support of economic diversification would be through south-south agreements which could be subsequently used as a model for reform of the multilateral rules in this area. Meanwhile, ***a temporary WTO Peace Clause on the use of industrial subsidies*** for reviving their industrial growth and subsequently their exports is desirable to ensure sufficient policy space is available to developing countries during the crisis and in to recovery.

Apart from industrial subsidies, industrial tariffs are one of the most effective tools in the hands of the governments in the South for protecting their infant industries, regulating imports of luxury items and providing a level playing field to their domestic producers. They are also an important source of revenue for many governments, especially small developing countries. In some countries, custom duties as a share of tax revenue of the government is higher than 25 per cent e.g., Central African Republic (41 per cent), Bangladesh (29 per cent), Namibia (30 per cent), St Kitts and Nevis (30 per cent), etc.[12] There is a need for developing countries to ***reassess and judiciously use their existing agricultural and industrial tariffs*** to help mitigate the damage from the crisis and build future resilience.

With the threat of food shortages and rising levels of hunger caused by the crisis, strong public distribution systems are needed for procuring food and keeping billions of people alive. While this is a national priority for all countries, the policy space available to governments has been severely constrained even in this area. The pandemic has brought to the forefront the flexibility needed by countries in procuring and distributing food, especially at times of crisis; but it also provides an opportunity for developing countries to share lessons and experiences of food management and beyond and to establish south-south distribution mechanisms that could be activated in response to the kind of emergency conditions currently being experienced.

Across all these challenges, simplistic pronouncements on free trade (which fail to recognize the dominant role of very large, and often oligopolistic, firms in shaping trade outcomes) should be avoided in favor of selective trade integration for which special and differential treatment to developing countries was enshrined into the Doha Development Agenda. However, there are some divisive proposals by the developed countries to tighten the criterion for countries availing SDT and question the principle of self-declaration. This pandemic has exposed the lack of capacity of all developing countries to recover on their own and ***the need for the South to show solidarity in preserving the special and differential status*** for all developing countries in the WTO as a means to "harnessing the developmental benefit of international trade". in line with G77 principles on south-south cooperation[13].

Further, strategic and selective trade integration in the digital era will depend to a large extent on the digital capabilities of developing countries. Given the growing digital divide, there is an urgent need for developing countries to pool human and financial resources at the regional level to build their digital infrastructure and skills. UNCTAD (2018) has proposed a ten-point ***south-south digital cooperation agenda*** which can be implemented at the regional level for boosting industrialization and integration among countries in the South. This agenda includes south-south cooperation on a data economy; building cloud computing infrastructure; strengthening broadband infrastructure; promoting e-commerce in the region; promoting regional digital payments; progressing on single digital markets in the region; sharing experiences on e-government; forging partnerships for building smart cities; promoting digital innovations and technologies; and building statistics for measuring digitization.

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[12] It is often claimed that lower tariffs generate economic activities which can increase tax revenues of the government, and in some cases these can more than compensate for the lost tariff revenues. However, recent studies, see Devika et al (2020), show that while it may be possible for developed countries to be able to recover their lost tariff revenues in course of trade liberalization, this is not possible for the developing countries because of the presence of a large informal sector which remains outside the tax net. According to the study, a 1% decline in effective tariff rate is associated with a 1.98%-3.22 % decline in total tax revenue and a 0.91 per cent increase in government debt.

[13] G77, Statement on Behalf of the Group 77 and China by H.E. Minister Dr Riyad Mansour (State of Palestine), Chair of the Group of 77, at the 2019 ECOSOC Forum on Financing for Development Follow-up (New York, 15 April 2019), https://www.g77.org/statement/getstatement.php?id=190415c

4.3 Strengthening regional integration and regional value chains in food, health and related products

The above policies are not only important for recovering from the crisis but are also needed for building resilience going forward. There are ways to integrate into the global economy without necessarily sacrificing the policy autonomy of the states which enable them to respond to the developmental and social needs of its citizens by putting people before profits (UNCTAD, 2014). While the European Union is in the process of putting in place a new industrial strategy that would increase state powers to scrutinize and potentially block takeover bids in strategic sectors of the economy, the South also needs to protect its vulnerable industries and firms from unfair foreign competition in order to speed its industrial recovery and build a more diversified economy which is a prerequisite for resilience to future shocks.

There is a high probability that the Covid-19 will have a lasting impact on the shape of existing global value chains. To recover quickly from the pandemic, developed countries are bound to readjust some of their supply chains bringing links closer to home for shorter delivery time as well as to lower further risk of disruption due to the threat of a prolonged pandemic in the South. The announced desire of the European Union to achieve "strategic autonomy"[14] in certain areas is indicative of a wider move to forge new supply relations in the North. Furthermore, automation and digitalization will in all likelihood assist the developed countries in this regard and will further reduce the (labour) cost advantage still enjoyed by countries of the South (UNCTAD, 2017, 2018).

In this changing landscape, developing countries will need to re-engineer their existing production and distribution systems, which will be more challenging if the ongoing economic slump persists for some time. In the face of falling exports, increasing domestic consumption using expansionary policies to boost domestic demand will be urgently required by developing countries. However, given the constraints that many, particularly smaller economies in the South face, regional integration, and more generally South-South trade, can be an important complement to domestic-demand-led growth strategies providing new markets, encouraging complementary investment flows and technological upgrading and, with appropriate financial arrangements, reducing pressure on the balance of payments.[15] As such, strengthening intra-regional trade and regional value chains for diversifying export markets needs to be prioritized in the South.

The unprecedented challenges posed by COVID-19, and the urgent need for solutions is also opening an important window of opportunity for a ***South-South cooperation initiative in health, health research and related areas*** through multiple actions that can help build resilience to future pandemics. There is a need for developing countries to urgently develop a regional response to the current as well as future health emergencies along the lines already being proposed by some advanced countries. Accordingly, the South needs to have a strategic vision in terms of strengthening its regional value chains as well as intra-regional trade and investments in order to become self-reliant including in food, health and related products.

The regional secretariats in the South like COMESA, SADC, and other regional economic communities (RECs) in Africa, along with the newly formed AfCFTA Secretariat; SAARC and ASEAN secretariats in Asia and regional secretariats in Latin America and Caribbean states like OAS, CELAC, CARICOM,

[14] https://ec.europa.eu/commission/commissioners/2019-2024/hogan/announcements/introductory-statement-commissioner-phil-hogan-informal-meeting-eu-trade-ministers_en.
[15] See Trade and Development Report 2014.

etc. will need to be strengthened to be able to play a bigger role. The pooling of financial resources at the regional level is also needed to produce, access and distribute medicines, personal protective equipment, ventilators, and other medical devices and equipment to the people in the region.

Pandemics like Covid-19 have also revealed to the world the importance of scientific discoveries and medical research for human welfare. Any medicines or medical discoveries which are important for the survival of people need to be shared widely and its access made available to all, especially to the most vulnerable countries and communities. This highlights the importance of ***making the TRIPS moratorium permanent,*** prohibiting non-violation complaints on IP rights (Article 64.2 of the TRIPS Agreement).[16]

Within a regional health initiative, ***collective R&D efforts in medical research*** should be the top priority in the coming years. It should involve sharing results, methodologies and testing best practices that can prepare countries in the South to fight pandemics like Covid-19 and similar events in the future. It should also aim at viral strain identification and creation of the basis to build further medical and vaccine research. Emerging economies with more advanced medical research capabilities, as India, could take the lead and make a strong call for common action and resource pooling.

Another line of action could involve ***strengthening of regional value chains in health-related products and services.*** As the events of these weeks are indicating, self-sufficiency in medical equipment and health-related products is extremely important in the times of crises. Only a few developing economies have currently the capacity to lead on these value chains and operate the most complex activities. After having identified the leading medical device manufacturers headquartered in developing countries, regional pacts could be envisaged to facilitate the development of complete value chains at the regional level that would guarantee a constant provision of needed equipment especially in cases of emergency. Regional Emergency Funds could be established to provide countries with financial resources both to save their small and medium-sized enterprises and strengthen regional supply chains. India has set an example for others by proposing a Coronavirus Emergency Fund for South Asia, based on voluntary contributions, and making an initial contribution of $10 million.

Building food supply independence is another source of resilience. Most developing countries are well placed to develop regional collaboration in agricultural value chains as their economies present significant complementarities in this respect. Transport costs and regulatory inefficiencies, along with coordination problems, however, often prevent the development of these chains. Recognizing the importance of deepening cooperation in this area with the aim of overcoming existing constraints and building regional food independence should, therefore represent an additional priority of a new south-south cooperation agenda.

Finally, ***regional trade pacts for emergencies should be forged***. Regional trade pacts can be used to avoid trade bans on certain key product categories in times of global and regional shortages, as is the case in the ongoing health emergency. According to the Global Trade Alert, as of March 21st, 54 governments had introduced export curbs on key medical supplies since the beginning of the year. The new EU export controls on several medical items, such as gloves and protective garments, for example, might create significant disruptions in many economies in the South. Regional trade pacts among developing countries for emergencies with complementary production structures may serve as a cushion

[16] "Non-violation" complaints refer to cases where a WTO member believes that the actions of another member deprived it of an expected benefit, even if no WTO agreement was violated.

and guarantee uninterrupted access to key products, such as medical supplies, especially in the times of crises.

5. Way Forward: From Strategic Partnerships to Global Reform

As in all dramatic moments in history, despite its enormous cost in terms of human lives and the inevitable economic and social damage generated, the Covid-19 crisis can also present a unique opportunity for change. This is especially true for developing economies and their mutual relationships. Despite the urgency and sudden nature of the shock, the Covid-19 crisis will inevitably leave a deep and lasting scar on the global economy and its governance. Due to the inadequate international response, chaotic preparedness, disruption of travel and trade flows, capital flight and rising geopolitical tension, hyper-globalization, with its hallmarks of financial insecurity, economic polarization and environmental degradation (TDR, 2019), is not the basis for recovery and resilience in the post-pandemic period (Rodrik, 2020). In combating Covid-19 and addressing both existing and new challenges, strengthening South-South cooperation and solidarity can offer a positive route forward for the developing countries.

In recent years south-south cooperation has gradually gone beyond the traditional aid agenda and integrated a variety of cooperation modes in finance, investment, trade and infrastructure construction. Big emerging economies from the South, such as China, Brazil and India have taken the lead and paved the way for the construction of new and tighter ties among developing countries e.g., through China's Belt and Road Initiative. But to date, most South-South initiatives still have a short-term planning horizon and aim at mutual learning and capacity building rather than targeting directly attributable results. Given the high vulnerability of the South to the on-going Covid-19 pandemic and low capacity and preparedness of the developing countries at the national level, there is an urgent need to strengthen south-south solidarity, involving new financial relations, rebuilding trade competitiveness by reviving industrial growth and strengthening south-south cooperation for taking bold initiatives in health and health-related areas. Further, south-south solidarity is needed for carving out policy space in multilateral trade agreements for sustainable recovery of the South. Based on results-oriented actions, the countries of the South can cultivate the ambition among themselves to build a strategic partnership, not only to promote cooperation and peer learning, but to translate their commitment to solidarity into common positions in international affairs aiming for a more inclusive architecture of global governance.

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