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WTO meeting discusses post-Bali work

At the first informal meeting of the WTO's Trade Negotiations Committee after the Bali Ministerial Conference, WTO Director-General Roberto Azevedo called on member states to focus in 2014 on implementing the decisions reached at Bali and preparing a work programme on the remaining Doha Round issues. The 6 February meeting also saw developing-country members underline the need to conclude the Doha Round as a single undertaking with a development-centred outcome.

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Contents

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WTO DG highlights tasks for post-Bali work this year

The WTO Director-General has outlined the nature of the work awaiting member states after the conclusion of the Bali Ministerial Conference: implement the decisions taken at Bali and discuss how to address the remaining issues on the Doha Round negotiating agenda.

by Kanaga Raja

GENEVA: The Director-General of the World Trade Organization (WTO) on 6 February pointed to two significant tasks before the membership following the conclusion of the Bali Ministerial Conference last December.

At the first informal meeting of the WTO Trade Negotiations Committee (TNC) this year, DG Roberto Azevedo, in his capacity as TNC Chair, said that first and foremost is the need to implement the decisions and agreements reached in Bali, while the second is to prepare a clearly defined work programme on the remaining Doha Development Agenda (DDA) issues by the end of 2014.

"These two tasks will form the bulk of our work over the course of this year," he added. "And we should remember that the Bali Declaration instructs that those areas where decisions were non-binding in nature must be a priority in our post-Bali work. We must keep a relentless focus on these issues. So the real work starts now," said the DG.

Implementing actions

In his statement at the informal TNC meeting, Azevedo, focusing on the issue of implementation of the Bali package, said: "The true significance of the Bali results, and the tangible realization of their benefits, will only be achieved as a result of the actions that you, the Members, take over the coming months. This is an important test for the system – and one which we must pass if we want to move forward and see the benefits of Bali made real."

Noting that the Bali package consists of 10 ministerial decisions, the TNC Chair then proceeded to highlight the actions that would be needed to implement each of those decisions.

On trade facilitation, Azevedo noted that the first meeting of the Preparatory Committee was convened on 31 January, and that a chair has been elected. The Preparatory Committee will swiftly commence the execution of the tasks ministers gave it in Bali – specifically to ensure the entry into force of the Trade Facilitation Agreement and prepare for its efficient operation, he said.

He also noted that the agreement also calls on the Committee to carry out three immediate tasks: undertaking a legal review of the agreement; drafting a protocol of amendment to include the agreement in Annex 1A of the WTO Agreement; and receiving notifications of Category A commitments.

[Category A contains provisions that a developing country or a least developed country (LDC) designates for implementation upon entry into force of the Trade Facilitation Agreement, or, in the case of an LDC, within one year after entry into force.]

Azevedo said: "Our ability to move the whole of the WTO agenda forward hinges on our ability to fulfil the promises to provide timely and effective technical assistance and capacity building wherever it is demanded by developing and least-developed countries."

To help those countries make full use of the flexibilities set out in Section II (of the Trade Facilitation Agreement) and to facilitate preparations for the agreement's entry into force, the DG said, the WTO secretariat will continue its needs assessment programme.

"But in addition there is an imperative on developing members to identify what support they need as early as possible," he said.

The DG also pointed to the three Bali decisions on agriculture, namely, export competition, tariff rate quota (TRQ) administration, and public stockholding for food security purposes.

On public stockholding for food security purposes, Azevedo said that the monitoring activity of the WTO Committee on Agriculture will again depend on how members decide to push this monitoring agenda.

On the development and LDC issues, the DG said that the adoption of an LDC package was a key achievement of the Bali conference, representing a significant step forward towards better integration of LDCs into the multilateral trading system.

"But, here too, Bali represents a beginning, not an end. A significant amount of effort is needed to convert these decisions into concrete gains for the LDCs."

On the operationalization of the services waiver, he said that the LDCs will need to table their collective request as soon as possible. "This will kickstart the process, leading towards the high level meeting at which Members will indicate if, and in what areas, they are prepared to give preferential access to LDCs. In parallel, the Council for Trade in Services is convening an informal meeting to discuss the operationalization of the waiver."

On duty-free, quota-free market access for LDCs (DFQF), the DG said that members will need to notify their DFQF schemes and any other relevant changes they may have adopted.

"In my view, the LDCs should be pursuing this issue in the Committee on Trade and Development. Of course, all members have a responsibility here, and the Secretariat will be on hand to support the process, but the demandeurs must keep up the pressure," he said.

He added that the same goes for the last decision in the LDC package, which is on preferential rules of origin. "Members have concrete guidelines before them to make further improvements to their LDC preference schemes."

On the monitoring mechanism on special and differential treatment, the TNC Chair said that members will take this forward through a dedicated session of the Committee on Trade and Development.

The DG also highlighted those items that were held over from Bali – for example, the Cancun 28 proposals and the six agreement-specific proposals. He said that these items are under active consideration in the Special Session of the Committee on Trade and Development and this work will need to be picked up as soon as possible.

On the issue of cotton, Azevedo said he understands that informal consultations are underway to call a meeting of the Director-General's Consultative Mechanism. "And that meeting would likely be held back-to-back with a dedicated discussion on cotton in a meeting of the Committee on Agriculture in order that we can move this issue forward."

Work programme

With respect to the DDA work programme, the DG pointed to the need to get talks going again and prepare a clearly defined work programme on the remaining DDA issues by the end of 2014.

Noting that he has begun some early consultations on these issues, the DG said: "I think that in order to look forward, we must also look back. We must learn from the mistakes of the past – and also, now, from the success in Bali. Bali offered us a number of good lessons in how to be successful multilaterally."

"But I believe it will be very difficult to replicate the approach where we avoided the core issues – agriculture, industrial goods, services – and found harvests elsewhere. Most likely, any future multilateral engagement will require outcomes in agriculture. This was a central pillar of the DDA and, if agriculture comes into play, then so do the other two legs of the tripod: industrial goods and services," he added.

He further said: "We may even conclude that we're not yet ready to properly tackle these three areas, but we can't avoid the conversation. Even though we can't replicate Bali precisely, there are lessons learned that we must keep in mind. Our dialogue about the future is just beginning, but I believe that some parameters seem to be already framing this conversation."

He proceeded to lay out these parameters as he perceived them, the first being that "development has to be preserved as the central pillar of our efforts. Above all, we must have tangible results for the poorest members. This remains a development round."

Second, he said, "is that we must be realistic and focus on those things which are doable. Instead of abstract goals, let's look at what we can do and set goals that are reachable. Members have to be honest with each other and with their domestic constituencies about what can realistically be expected from the negotiations. We must find a balance between ambition and realism."

According to the DG, the third parameter is that the big issues in the DDA are interconnected, and therefore they must be tackled together. So, again, as it was in Bali, balance is key.

"We must find an approach in which all members contribute and all members benefit. And, again, where no one is faced with impossible demands. Bali worked because all members wanted it. Everyone has to see themselves in the issues on the table."

Fourth, in order to make headway in these areas, "we must be ready to be creative and keep an open mind to new ideas that may allow members to overcome the most critical and fundamental stumbling blocks. This creativity, however, has to be coherent with the DDA mandate, which is flexible enough to accommodate new paths. Let me [be] very clear about this: I am not proposing changing the DDA mandate – quite the opposite really."

Fifth, said the DG, the process must continue to be inclusive and transparent, engaging all members at all stages of the negotiations. This was a very important factor in Bali.

"Sixth, our efforts must have a sense of urgency. This was an essential element of the success in Bali. We must be careful, however, not to rush recklessly into another cycle of failures due to bad planning. We cannot afford to wait another 18 years for a result."

"Finally, I think that, as well as being open-minded to new ideas, we should also be open-minded about how far-reaching our next steps will be," said Azevedo.

"Of course what we want to do is to find a path towards conclusion of the round. It may be that it can be done in one step – or we may need more than one step. Again, that is something that we have to discuss. But whatever we do we will always be moving in one direction – and that is towards the conclusion of the Round," he added.

As time is of the essence, the DG said, he has asked the chairs of the negotiating groups to start a dialogue with members on issues that could be taken forward, using these parameters as a guide for discussions.

He said that he does not intend to impose any strict timeframe on this initial process, but that he has asked the negotiating chairs to feed back with some initial thoughts and findings from their consultations, if possible at the WTO General Council on 14 March.

"Bali represents not just a huge achievement for all of us – but also a huge opportunity. There is real political momentum and we must build on it. The work has only just begun. 2014 should be the year that we implement our first negotiated outcomes – and the year that the Doha round is put back on track. It will not be easy, but it is achievable," the DG concluded. *(SUNS7738)* ❒

WTO members voice a range of views on post-Bali work

Speaking at the 6 February TNC meeting, developing-country representatives emphasized the need to preserve the nature of the Doha Round negotiations as a "single undertaking" and to ensure that the talks yield an equitable, development-oriented outcome.

by Kanaga Raja

GENEVA: The importance of concluding the Doha Round as a single undertaking and the centrality of development were underscored by developing countries at the Trade Negotiations Committee meeting on 6 February.

The developing countries also stressed the importance of an inclusive and transparent process going forward, and of prioritization of the Bali package issues that did not have a legally binding outcome at Bali.

The least developed countries, for instance, called on WTO members to focus on the conclusion of the Doha Development Agenda and to avoid new issues, as well as to address the longstanding LDC issues.

These views came in their statements at the informal TNC meeting following the statement made by WTO Director-General Roberto Azevedo in his capacity as TNC Chair.

Identifying the doable

According to trade officials, Switzerland supported the DG's statement and recounted the Davos mini-ministerial meeting held earlier in January. There is a need for spending some time to identify the doable and, on development, to ensure that the LDCs get the priority, it said.

The issues of agriculture, industrial goods and services need to be taken up, it said, noting that some ministers in Davos had spoken of the importance of a plurilateral approach inside an MFN-WTO context.

Bali has put the WTO back in business, it further said, but the success (of Bali) will really be measured by whether members can implement the outcome and whether they can deliver on aspects that go beyond what they had in Bali.

Indonesia (on behalf of the developing-country G33 grouping) said that Bali is an important stepping stone and there is a need to establish a clearly defined work programme and to provide permanent solutions on the question of public stockholding for food security.

Lesotho (on behalf of the African Group) said that implementation (of the Bali package) and the Doha pathway are important parts of the work programme. It said that the principles that the DG had spelled out are tried and tested in the negotiations leading up to Bali and there should be no shadow of a doubt that they must be followed.

The African Group stressed that the outcome of the negotiations must be consistent with a positive development outcome, saying that participation is important but so is the share of the results that will emerge from a final agreement. Commercial benefits must be extended to all members, especially the most vulnerable, most of which are in Africa.

Equity in the outcome will be the gold standard, it said, adding that there is a need to respect red lines and the mandate, and to try to find within this context what is doable. There should be no *a priori* exclusions (in the negotiations).

Chinese Taipei (on behalf of the recently acceded members) said that Bali has shown the world that the multilateral trading system still works, and that a failure at Bali would have been particularly harmful for the recently acceded members on account of the extensive commitments that they had to make in order to join the WTO.

It stressed that the concerns of the recently acceded members must be taken into account during the ensuing discussions.

Kenya [on behalf of the African, Caribbean and Pacific (ACP) group] underscored the need for a transparent and inclusive process, and said that development must be central. The single undertaking should not be seen to be eroded.

Brazil (on behalf of the G20 grouping) said that it hoped to build on what was agreed at Bali, adding that it will be following very closely the agriculture issues that were agreed there, particularly TRQ administration and export competition.

Priority should also be given to those issues that did not have a legally binding outcome, and this is especially true of export competition, it said.

On behalf of itself, Brazil said that President Dilma Rousseff, at Bali, had called for a Doha Round agreement that has development at its core.

It is time now for members to be bolder in the way they approach what they do, and to take on the negotiating issues that are difficult, especially the issues of agriculture, industrial goods and services, which will allow for a meaningful contribution and outcome for everybody, it said.

Brazil said that it will keep an open mind and wants to see an outcome that has development at its core.

On the question of new issues, Brazil said that it would agree that the world has changed since the launch of the Doha Round (in 2001) but it has changed less than what many people think, and what is really important is that members focus their efforts on the unfulfilled agenda of the 20th century, especially in agriculture.

Priority for LDC issues

Uganda (on behalf of the LDCs) said that it wants a transparent and inclusive process, which was very much a part of the Bali Ministerial Conference preparation and the meeting itself. Lessons should be drawn from the Bali experience and this would help members in future negotiations.

Uganda said that it would like to see binding and time-bound outcomes for the LDCs, and there is a need to make sure that the Bali package issues that were not legally binding are a priority, and to move beyond the Bali outcome and onto other issues.

It was concerned about various pronouncements that came from different fora regarding the LDCs, but that the promises that came from these various fora have scarcely materialized.

It appealed to the WTO secretariat, the DG and the industrialized countries to prioritize LDC issues, adding that the credibility of the process will depend on how the developed countries fulfil Section II commitments (on special and differential treatment) in the Trade Facilitation Agreement.

There must not be onerous requirements made of LDCs in terms of distributing technical assistance funds for capacity-building, it said, adding that a very important part of technical assistance and aid for trade is the Enhanced Integrated Framework and the mandate for this should be extended beyond the 2015 deadline.

It also said that members should focus on the conclusion of the DDA and avoid new issues, and address the longstanding LDC issues, particularly development issues and agriculture.

Australia (on behalf of the Cairns Group) said that it wants a level playing field in agriculture in all three parts of the agriculture pillar – market access, curbing domestic support and eliminating trade-distorting export subsidies.

It is very important that the issue of domestic support be looked at closely. The debate on public stockholding for food security gave rise to a lot of different perspectives and going forward, a balance of interests will have to be considered in this discussion, it said.

On behalf of itself, Australia said it is very important that Bali has shown that the WTO can deliver negotiated outcomes, but there is a need to keep showing this, particularly the need to have outcomes that contribute to jobs and growth, and this needs to happen in the near future.

Egypt said that Bali has restored confidence. The single-undertaking principle must not be compromised and is the best tool for striking the right balance, it said.

The European Union said that the Bali Ministerial Conference was a landmark and that the Doha Round has been moved away from a dangerous cliff. Members must now move forward and the Bali Ministerial Declaration provides clear direction, it added.

This is about implementation and this is particularly important for trade facilitation, it said, adding that it will be a test of members' resolve if they can implement this along the timelines that have been mandated.

It urged developing countries to make clear to it as soon as possible what their technical assistance priorities are with respect to Section II (of the Trade Facilitation Agreement) because it is now in the process of organizing its aid programme for the future, so it needs to know how to target this aid.

On the Doha work programme, the EU said that this will be very challenging. It is important that members be realistic as to what and when results can be achieved. There is a need to avoid the mistakes of the past, and to avoid the same traps that members have encountered. There is a need to have a balanced outcome and to have the three issues of agriculture, industrial goods and services taken up together.

It noted that there have been changes to global trade since 2001 (when the Doha Round was launched). There is a need to focus on areas where negotiations can be achieved, and to have a right balance with these issues, while also ensuring that the interests of the poorest countries are taken into account.

Members should not go forward under the illusion that there is a common size that fits all. The first step is to ensure that there is a change in the landscape of the negotiating approach, said the EU, adding that this has been done already. There is a need to continue to work in this same way and to exercise self-restraint.

Modest outcome

Argentina supported the G20 and Cairns Group statements. In its view, the Bali outcome was a modest one, especially for developing countries. The Bali Ministerial Declaration gives priority to finding a binding outcome for agriculture and LDC issues, it added.

With respect to export competition in agriculture, it said that this must be a priority of the post-Bali work programme. There is a need to adopt the Rev.4 text (draft agriculture modalities text of December 2008), and this has been specifically recognized in the Bali Ministerial Declaration. The priority must be agriculture and the interests of the developing countries in the future work programme.

Canada said that the Bali Ministerial Conference was extremely important and it brought about a renewed confidence in the WTO system, but there is a need to begin to assemble a package which will enable members to have a market-access outcome in the areas of agriculture, industrial goods and services. All of these must be infused with a development dimension.

It noted that its minister had said in Davos that investment, competition, energy, environment and the digital economy are important to the entire business community and should be taken up.

Bangladesh said that it supported the Uganda statement on behalf of the LDCs. Members need to be faithful to the development dimension and there should be no *a priori* exclusions of the Doha issues, and new issues should not be taken up. There is a need for a decision on what members can do and how to prioritize issues of importance to the LDCs.

Colombia said that trade facilitation must move first and that work should be stepped up for this in the context of trade-related technical assistance and capacity-building. On agriculture, notification requirements must be updated. On development, it took note of the monitoring mechanism but there are other issues of importance as well.

It said that there is a need for an open and frank discussion with respect to the post-Bali work programme and agriculture will play a central role in this.

Japan said that steady implementation of the Bali package is of the utmost importance, adding that implementation of the Trade Facilitation Agreement is of particular priority. The post-Bali work programme needs to take into account the changes on the world trade scene. It is prepared to engage in discussions in all areas.

It called on those countries that are negotiating (the expansion of) the Information Technology Agreement (ITA II) to make every effort to further reduce the number of sensitive products that they have on their list.

Bolivia said it cannot say that the Bali result was a good result. No result can be called a good result if the majority of the countries did not get what they wanted. It did not think that the approach that was used in Bali is the approach that members should use going forward.

It said that the Rev.4 text should be the basis for the agriculture discussions, and paragraph 47 of the Doha Declaration on the single undertaking should also be included as this is central to the negotiating process. Small packages are of benefit only to a minority of countries, it added.

Korea said it agrees that Bali is only the beginning, and voiced agreement with the DG's principles, saying it wanted to focus on several of them. It also agreed with Japan that the ITA II is very important and members must do all they can to conclude this as soon as possible.

According to trade officials, the United States said the first thing that needs to be done is to implement the Trade Facilitation Agreement, and the (post-Bali) work programme is also important moving forward. It is open-minded on this and agreed that there is interconnectivity between the big issues.

It said that the DG's principles and approach would be a good way to guide members to a successful outcome. There is a need as well to ask where trade has changed and to update data on trade and subsidy patterns.

Peru highlighted the issues of implementation and a clearly defined work programme, saying that the work programme should include a reference to the protection of traditional knowledge, and the acknowledgment of the importance of the Convention on Biological Diversity in the context of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Building on Bali

China said that the traditional informal Davos ministerial meeting provided a group of ministers with an opportunity, for the first time since the Bali success, to exchange views on the key tasks in 2014.

It added that its take-away from the meeting was that everyone wants to build on the momentum generated in Bali and everyone believes that "we must faithfully implement the Bali results and conscientiously formulate a post-Bali work programme with joint efforts of all members."

On the first priority, China said it shared the view that the Trade Facilitation Agreement should be implemented according to the provided timelines so as to bring tangible benefits to all members.

"We also need to find ways to proceed on those issues that are not fully addressed or the results of which are not binding in Bali. Only with that could we set up a positive atmosphere and a sound basis for the discussion of the post-Bali work programme."

On the second priority, China highlighted some points of principles that the DG had shared with the membership: development dimension, realism, inclusiveness and sense of urgency.

China stressed that the development dimension should be the starting point, as well as the end point, of the post-Bali process.

On the issue of realism, it said that the level of ambition should be doable and the outcome should be meaningful and conducive to the eventual conclusion of the whole DDA. In order to do so, "we must listen carefully and broadly to members, the developing members in particular, before coming up with some proposed solutions in one way or the other."

On inclusiveness, China appreciated the fully transparent manner in which the DG had chaired the negotiation. "We share that it is a negotiation for all members and the ownership belongs to all members, be it developed or developing, big or small."

"For the sense of urgency, we have less than 12 months to go, so let's roll up our sleeves and get down to work. Let's start from something easier while deliberating on how to tackle the tough ones," said China.

According to trade officials, Saudi Arabia said that it is open to the DG's principles. It called for balance and said that the issues of the developing countries, the LDCs and the recently acceded members must be taken into consideration.

Cuba supported the G33, G20 and ACP statements. It said that the Bali Ministerial Conference results were modest in nature, with the Trade Facilitation Agreement being the only legally binding thing to come out of Bali. It added that the single undertaking needs to be the sole way of moving forward.

Norway said that members need to build on the momentum of Bali, and that in terms of implementing the Trade Facilitation Agreement, it is absolutely vital that members get right the trade-related technical assistance part of Section II. It is contributing $7 million to this end, it added.

Development must be at the heart of the DDA, it further said, but the rules also need to be modernized. There is a need for a transparent and inclusive approach going forward, it added.

New Zealand said that implementing the Bali accords and the work programme of the Doha negotiations are a priority. It should not be a sterile process-oriented discussion. There is enough flexibility in the mandate to explore new ways forward.

Nigeria said that there is a need to have a transparent and inclusive process, and agreed with the DG's principles.

Costa Rica said that members should be responsive to the needs of what businesses are doing, so there is a need to be open and have a discussion about issues such as investment and global value chains, to see how these issues might be better folded into the WTO.

Thailand called for a fully inclusive and transparent process.

Barbados said that the Bali outcome was important and there is a need to focus on implementing those (Bali) issues. There is also a need to move forward with a sense of urgency on the Doha package but members must take into account that developing countries are moving at a different pace – some are doing well but others face strong surges in imports that are not sustainable, it added.

Ecuador said that the post-Bali work programme should mean that members do not take up issues that are outside of the DDA mandate and that there must be a balanced outcome. Agriculture should be central and there is a need as well to focus on issues that are important to the LDCs.

Clear mandate

According to trade officials, India congratulated the DG on the success of Bali, but the question is "what do we do now?". Members must not stray from the mandate, it said, adding that the mandate is very clear. The Doha Round must be concluded as a priority.

It agreed that there is a need to implement the Trade Facilitation Agreement, but more important are all the other issues where a binding agreement could not be obtained in Bali – agriculture, LDC and development issues.

It also pointed to the need to have a very frank and open discussion among the members, and to have a very clear understanding of each other's expectations and demands.

No one is going to get everything it initially envisaged – no negotiation ever results in this – but they cannot keep breaking the single undertaking up into little pieces. The whole package has to be agreed upon. Members have to use the single undertaking and have to agree on it now. It has to be a give-and-take but much more emphasis needs to be put on "give", said India.

Honduras agreed with Indonesia (which spoke on behalf of the G33). It stressed the importance of the Rev.4 text on agriculture.

Singapore noted that everyone is talking about the need for open-mindedness, which it said is important, but that means that every individual country must itself be open-minded and not just assume that it will only be others.

Sierra Leone agreed with the LDC, African Group and ACP statements.

According to trade officials, Director-General Azevedo wrapped up the session by saying that it was a very helpful and useful meeting. He detected a good degree of commonality.

This was an exercise in "mutual listening" and that is what is going to have to be done a lot of. It's going to be the chairs (of the negotiating groups) who will lead this process now, and members will hear from them and see where they are on 14 March (at a General Council meeting), Azevedo concluded. *(SUNS7739)* ❒

Crunch time for the TPPA

It is time for countries negotiating the Trans-Pacific Partnership Agreement (TPPA) to assess the costs and benefits for them, says *Martin Khor* in this article written before the latest round of talks on the proposed regional trade pact.

This week may well be the "crunch time" for the Trans-Pacific Partnership Agreement. Trade ministers of the 12 countries negotiating the TPPA will meet in Singapore on 22-25 February, preceded by negotiators' meetings.

The last time they met was in December, also in Singapore. That was supposed to seal the TPPA deal but instead it revealed a lot of deep differences remaining on many issues.

This week's meetings aim to revive the lost momentum. But the TPPA is going through turbulence, and a 2014 deal is looking doubtful.

The first problem is the United States itself. Although its government is the TPPA's prime mover, its public and Congress are sceptical of or even downright opposed to trade deals like the TPPA.

Congress needs to give the President "fast-track authority" so that his team can negotiate with confidence that Congress will approve the final results of free trade agreements (FTAs) like the TPPA. However, Vice-President Joe Biden told a recent in-house Democratic Party retreat that obtaining the fast-track authority is not possible now. That was the administration admitting an embarrassing situation since the Democrats' leaders in the Senate (Harry Reid) and the House of Representatives (Nancy Pelosi) had both renounced the fast-track bill.

There is an American public groundswell against TPPA-type trade deals which they believe take away jobs and damage the environment and public health.

Another problem is Japan, which joined the TPPA talks late. Its Prime Minister promised to remove its high agricultural tariffs, but reality soon caught up and Japan is now seeking exemption for six products, a move rejected by the US and all other countries. This impasse has jammed up the talks.

Loss of policy space

Then there are several Asian developing countries which fear the TPPA will cause them the loss of policy space. Malaysia leads this category, as it has the most to lose.

The Malaysian public are now aware that the dominant TPPA proposals on state-owned enterprises and government procurement will strike against policies that give a boost to local business, including Bumiputera and small-medium enterprises, and that underlie the country's political economy.

The intellectual property proposals would drastically affect access to medicines as well as tobacco control measures.

UNITAID, a UN-related agency providing medicines to developing countries, recently published a detailed report criticizing the TPPA for undermining patients' access to cheap generic medicines.

Malaysia has announced that tobacco control must be excluded from all TPPA rules. However, it recently agreed that this exclusion does not apply to tariffs.

Malaysian Trade and Industry Minister Mustapa Mohamed has said the tobacco carve-out (though presumably allowing tariff elimination) is a "red line" set by the Cabinet, meaning that Malaysia cannot sign on to the TPPA unless such a carve-out is agreed to.

The Malaysian government has other "red lines" pertaining to state-owned enterprises, government procurement and intellectual property, according to press reports.

It also has major problems with the TPPA's investor-state dispute settlement (ISDS) system through which foreign investors can sue the government in an international tribunal even if the government policy or action is in line with national laws, thereby bypassing national legislation and courts.

Given all these problems caused by the TPPA, is it worthwhile to join? Presumably these negative aspects must be more than offset by positive elements, which could possibly come from higher exports due to the increased market access in goods.

The problem is that Malaysia must also open up its domestic market to imports, as TPPA countries have to bring all their tariffs down to zero, with the possible exception of one or two products.

Thus any benefits in increased exports have to be measured against increased imports and the harm caused to domestic industry and agriculture that may be displaced.

Much of Malaysia's exports are already entering the US at zero or low tariffs, while US exports to Malaysia face higher tariffs; thus Malaysia can expect more losses than gains through the TPPA's goods chapter.

A new study by the Consumers' Association of Penang, a Malaysian non-governmental organization, shows that in 2012 Malaysia's exports to the US ($26.7 billion) were higher than its imports from the US ($15.9 billion). So there is a healthy surplus even without the TPPA.

While the US imposed tariffs worth $207 million on Malaysian exports to the US in 2012, Malaysia imposed tariffs of $720 million on US products imported to Malaysia.

So if both sides remove all tariffs under the TPPA, the Malaysian government will lose much more revenue than the country's exporters will save. In fact, Malaysia would do 3.5 times more liberalization and lose 3.5 times more tariff revenue than the US.

Moreover, one of the TPPA demands is a ban on export taxes. Malaysia is opposing this provision, but it is a usual element in US FTAs. If there is an outright ban, it will cost Malaysia a lot as export duties fetched RM2.3 billion in 2007.

The aim of export duties is to enable raw materials to be retained in the country so that it can create jobs and earn more by processing and manufacturing based on the materials. A ban on export duties on crude palm oil, for instance, may deprive the local refining industry of its raw material, and thus affect both the industry and enhanced export earnings from palm oil.

Thus, loss of export duties could be added to the loss of import duties, with the loss of trade taxes to Malaysia totalling up to $1-1.4 billion annually.

As Malaysian exports face zero or low tariffs to the US, the TPPA will be of limited benefit in market access. The main potential beneficiary is the textiles sector, since US textile tariffs are high, but the gains are constrained by the "yarn forward" rule (to enjoy duty-free entry into the US and other TPPA countries, the yarn used has to be from TPPA countries) and the relative competitiveness of other countries like Vietnam.

US imports to Malaysia that are subject to high duties include tobacco (over 300%), alcohol (up to 250%), food preparations and various industrial products (many of them at 20-30%). It is often argued that Malaysian consumers will benefit from tariff elimination. But this has to be weighed against the loss of jobs or local business if imports displace local products. And, just as importantly, if it is felt that some import duties should be reduced to improve consumer welfare, this can be done unilaterally without having to join an FTA; thus the negative aspects of the TPPA can be avoided.

The disturbing conclusion is that the trade-in-goods aspect of the TPPA is required to be so beneficial that it can possibly offset the very high costs associated with the non-trade aspects (intellectual property, government procurement, state-owned enterprises, ISDS etc). But it looks as if the goods aspect may instead add on to the costs. ❐

Martin Khor is Executive Director of the South Centre, an intergovernmental policy think-tank of developing countries, and former Director of the Third World Network.

Economic turmoil continues

Several developing countries are facing the turmoil of currency decline and capital flight, and a relook into capital controls, Malaysian-style, may be worthwhile.

by Martin Khor

The turmoil of currency and stock market decline and capital outflows from several developing countries continued into the last week of January.

One contributing factor was the decision that week by the United States Federal Reserve to implement the second instalment of its "tapering", cutting its monthly bond purchase by another $10 billion to $65 billion.

The bond purchase is used to massively pump money into the US banking system and keep interest rates low. Some of that money has been used by investors to buy shares and bonds in developing countries. With the phasing out of this scheme, and expectations of higher returns in the US, money is flowing back to the US from the developing countries.

Particularly affected were Turkey and South Africa, whose currencies were dropping sharply. The two countries raised interest rates (Turkey by a large amount) in the week of 27 January as a response, but it did not sufficiently check the downward trend.

Currencies were also weakening in other countries, including Russia, Brazil and Argentina. India also raised interest rates, and its rupee stabilized.

In the past year, the currencies of major countries like Indonesia, India, Brazil, South Africa and Turkey have fallen by 15-20% against the US dollar, and the turmoil in the last two weeks of January added to this trend.

Policymakers face a dilemma or trade-off. To stave off further currency decline and capital outflows, they may decide to raise interest rates (hoping to retain the country's attractiveness to investors and local savers). The increase in rates serves another useful objective to reduce inflationary pressures.

However, the rise in interest rates has the negative effect of also putting a brake on economic growth, especially if the rate increase is significant. This is because it is more costly for businesses to borrow to invest and for consumers to borrow to spend.

The deterioration in the real economy (or expectation of this) can offset investors' incentive to retain their assets in the country. If so, the capital outflow and the fall in currency will continue.

Capital flight may come not only from foreigners but also from residents. How to maintain the confidence and funds of locals is equally important.

Capital-control option

A country facing currency fall and capital flight that drains its foreign exchange reserves to dangerously low levels can consider capital controls.

When too much hot money is flowing into a country, controls over capital inflows are quite commonly used. However, in the present situation when countries instead face excessive outflows, it is controls or restrictions over capital outflows which may be needed. These are more rarely used.

Malaysia provides a good example of selective capital controls over outflows that worked successfully during the 1997-99 crisis. An International Monetary Fund (IMF) working paper published in January cites the Malaysian case as an exception of capital controls on outflows that worked.

"Following a tightening of restrictions in September 1998, capital flight came to a halt, allowing reserves to rise back to pre-crisis levels, the exchange rate to stabilize, and interest rates to fall," according to the paper, "Effectiveness of Capital Outflow Restrictions".

The Malaysian policies should be studied by countries that today face a similar crisis. These are countries with significant current account deficits, thus making them dependent on large inflows of foreign capital to finance these deficits. When global conditions are favourable, the inflows continue and make the country more dependent. When conditions change (as is now happening), the country is vulnerable to a reduction or stoppage of inflows or, worse still, to large capital flight.

Interest rate hikes may not be enough and, in any case, could induce a recession. In such a situation, especially when reserves are running low, a resort to capital controls may be needed.

The restrictions must however be administered properly and selectively, with the right accompanying policies, and the country must be prepared for bad media coverage and a negative market response for some time.

The policies may then work, to stem capital flight, stabilize the currency exchange rate, save the country from the emptying of reserves that would necessitate an international bailout, and allow the country to set interest rates at a level that facilitates economic recovery and growth.

This, in any case, was the Malaysian policy and experience which is worthwhile for other countries, especially those facing financial turmoil or crisis, to reflect upon. ❐

UN: Global economy improving but faces headwinds

A UN economic outlook report predicts an upturn in the world economy in 2014 after last year's subdued growth, but cautions that this forecast is subject to a number of uncertainties and risks.

by Kanaga Raja

GENEVA: The global economy is forecast to grow at a pace of 3.0% and 3.3% in 2014 and 2015 respectively, up from an estimated growth of 2.1% in 2013, according to a United Nations report.

In its latest *World Economic Situation and Prospects 2014 (WESP 2014)* report, released on 20 January, the UN said that the world economy experienced subdued growth for another year in 2013, unable to meet even the modest projections many institutional forecasters made earlier. Under-performance in the world economy was observed across almost all regions and major economic groups.

Most developed economies continued struggling in an uphill battle against the lingering effects of the financial crisis, grappling in particular with the challenges of taking appropriate fiscal and monetary policy actions. A number of emerging economies, which had already experienced a notable slowdown in the past two years, encountered new headwinds during 2013 on both international and domestic fronts.

Some signs of improvements have shown up more recently: the euro area has finally come out of a protracted recession, with gross domestic product (GDP) for the region as a whole returning to growth; a few large emerging economies, including China, seem to have backstopped a further slowdown and are poised to strengthen.

Premised on a set of assumptions, the UN said that World Gross Product (WGP) is forecast to grow at a pace of 3.0% and 3.3% for 2014 and 2015 respectively. It however cautioned that this baseline forecast is made in the context of a number of uncertainties and risks emanating from possible policy missteps and factors beyond the economic domain.

Developed-country performance

Among developed countries, the United States is estimated to grow at a meagre pace of 1.6% in 2013, significantly lower than the 2.8% growth of the previous year. Fiscal tightening and a series of political gridlocks over budgetary issues during the year have weighed heavily on growth. Monetary policy has been extremely accommodative, but it has had greater effect on boosting equity prices than on stimulating the real economy.

"Expectations arising in mid-2013 about the possible tapering of the quantitative easing programme caused some jitters in financial markets, pushing up long-term interest rates. A moderate improvement earlier in 2013 in such areas as housing and employment lost momentum towards the end of the year."

According to the UN report, assuming that the future unwinding of the monetary easing will be smooth, GDP is expected to increase 2.5% and 3.2% for 2014 and 2015 respectively. Risks remain on the downside, however, particularly because political wrangling over the budget may linger for several years.

Western Europe emerged from recession in the second quarter of 2013, led by net exports and, to a lesser extent, private and public consumption, but investment remained weak and unemployment stood elevated. GDP is expected to grow by 1.5% and 1.9% in 2014 and 2015 respectively.

Growth remains weak due to a number of factors: fiscal austerity programmes, while reduced in intensity, remain a drag; intra-regional demand is still exceptionally low; and extra-regional demand has slowed. Lending conditions remain tight for some countries, particularly for small- and medium-sized enterprises (SMEs).

Many of the new European Union (EU) members in Eastern Europe remained in a sustained recession in the first half of 2013, but the situation improved in the second half of the year, with business sentiment and household confidence strengthening in response to the return to growth in Western Europe. The aggregate GDP growth for the region is estimated to be 0.5% in 2013, and is forecast to strengthen moderately to 2.1% in 2014 and further to 2.7% in 2015.

Japan is estimated to grow by 1.9% in 2013, boosted by a set of expansionary policy packages, including fiscal stimulus and large-scale purchases of assets by the central bank. Fixed investment has been a key driver of growth, as a number of public construction projects have been financed by the supplemental budget. The government is also expected to introduce soon another package targeting structural reforms, but the effects are not certain. Meanwhile, the anticipated increase in the consumption tax rate over the next two years is expected to curb growth. GDP is forecast to moderate to 1.5% in 2014.

Developing-country performance

Among developing countries, growth prospects in Africa remain relatively robust. After an estimated growth of 4.0% in 2013, GDP is projected to accelerate to 4.7% in 2014. Growth prospects are expected to be supported by improvements in the global economic and regional business environment, relatively high commodity prices, easing infrastructural constraints, and increasing trade and investment ties with emerging economies.

Other important factors for Africa's medium-term growth prospects include increasing domestic demand – especially from a growing class of new consumers associated with urbanization and rising incomes – and improvements in economic governance and management.

After a notable slowdown in 2011-12, economic growth in East Asia stabilized at a moderate level in 2013. The region continues to be adversely affected by relatively weak external demand from developed economies, as well as an adjustment to slower growth in China.

The growth of the region is estimated to average 6.0% in 2013, almost the same pace as in 2012. A moderate pickup to 6.1% is forecast for 2014 and 2015, mainly driven by a gradual recovery in export growth amid improving conditions in developed countries.

In most East Asian economies, private consumption and investment will continue to expand at a solid pace, supported by stable labour market conditions, low inflation and fairly accommodative monetary policies. Fiscal policies will remain moderately expansionary and continue to provide support for growth.

According to the report, growth in South Asia remains lacklustre as a combination of internal and external factors hamper activity, particularly in the region's largest economies, such as India, the Islamic Republic of Iran and Pakistan. Growth is estimated to be 3.9% in 2013, nearly the slowest pace in two decades. Growth is forecast to pick up moderately to 4.6% in 2014 and 5.1% in 2015, supported by a gradual recovery in domestic demand in India, an end to the recession in the Islamic Republic of Iran and an upturn in external demand.

Western Asia is estimated to grow by 3.6% in 2013, and will accelerate to 4.3% in 2014. While the member countries of the Gulf Cooperation Council (GCC) have been on a stable recovery path, continuing political instability, social unrest, security incidents and geopolitical tensions have hampered a number of other economies in the region. The Syrian crisis has been impacting the neighbouring countries in a multifaceted way.

Growth in Latin America and the Caribbean decelerated in 2013, to a pace of 2.6%, but is forecast to improve to 3.6% and 4.1% in 2014 and 2015 respectively. In South America, Brazil is still growing at a subdued pace, curbed by weak external demand, volatility in international capital flows and tightening monetary policy. The expected improvement in the outlook will depend on strengthening global demand.

Private consumption has been supportive of growth in many South American economies. Growth in Mexico and Central America is expected to accelerate in 2014-15, supported by better performance of manufacturing exports and stable domestic demand, as well as structural adjustment.

Growth in the Caribbean has been hampered by weak external demand – for the tourism sector in particular – and weaker commodity prices, but is expected to strengthen in the outlook.

Among economies in transition, growth in most economies of the Commonwealth of Independent States (CIS) decelerated in 2013, curbed by weak exports and external financing constraints, supply-side bottlenecks, and weak consumer and business confidence.

Growth in the Russian Federation weakened further in the first half of 2013, as industrial output remained weak and investment became a drag on growth. The economic slowdown eventually affected previously resilient consumer confidence and led to weakening retail sales growth.

The weakness in the Russian Federation has had a negative impact on its neighbours in the CIS through trade, investment and remittance channels. Structural problems such as sluggish energy sector expansion, capacity constraints and weak investment will prevent an acceleration of growth to pre-crisis levels.

Growth in South-Eastern Europe has improved in 2013, but is expected to remain marginal in the near term, fluctuating between 1% and 2%, which is insufficient to address the region's longstanding needs for re-industrialization, increased labour force participation and reduction of excessively high unemployment rates.

The report projected that the external environment for those countries is expected to improve, including the terms of access to external finance. With easing credit conditions, investment is set to recover gradually in 2014-15, along with strengthening private consumption. GDP growth is projected to accelerate to 2.6% in 2014 and 3.1% in 2015.

Capital flows to emerging economies

The report underlined that net private capital inflows to emerging markets, a subgroup of developing countries, and the economies in transition have shown a measurable decline during 2013.

At the same time, volatility in the financial markets of emerging economies has increased significantly, featuring equity market sell-offs and sharp depreciations of local currencies – both partly triggered by the US Federal Reserve announcement that it might taper the amount of its monthly purchases of long-term assets later in the year. Waning growth prospects for emerging economies have also played a role in triggering the decline of capital inflows.

The report stressed that the unconventional monetary policies, or so-called quantitative easing (QE), adopted by major central banks in the aftermath of the global financial crisis have had a significant influence on the net capital inflows to emerging economies. The QE programmes injected substantial liquidity into global financial markets and at the same time repressed long-term interest rates in developed countries.

As a result, in a search for higher yields, a significant amount of capital flows was driven to markets of primary commodities and markets of equities and bonds in emerging economies in the period 2009-12.

However, in late 2012 and early 2013, as systemic risks associated with the sovereign debt crisis in the euro area abated and the prospects for economic recovery in the United States and Japan improved, international capital flows started to move away from emerging markets back to developed markets, particularly developed equity markets.

More recently, on the expectation that major central banks will taper their purchases of long-term assets and eventually sell their assets back to the markets, international investors have ratcheted up the repricing of assets and rebalancing of portfolios. This has led to the latest wave of declines in capital inflows to emerging economies.

"Given the prodigious size of the assets accumulated by major central banks through QE in the past few years, and the challenges for determining the timing and magnitude for unwinding these assets, more volatile movements of capital inflows to emerging economies are expected to occur in the next few years," the UN cautioned.

Downside risks

The report went on to underscore that its baseline outlook is subject to a number of uncertainties and risks, mostly on the downside.

It said that in its report of last year (*WESP 2013*), three major downside risks were identified, namely, a much more detrimental adjustment in the euro area, a "fiscal cliff" in the United States, and a hard landing in some large emerging economies. All three risks manifested themselves to some extent during 2013 and entailed certain costs for the global economy, although not to the full scale that was presented in the downside scenarios.

In the outlook for 2014-15, the UN said, these risks remain relevant. While the systemic risks in the euro area abated, owing to a number of policy measures adopted over the past year, the real economy in the euro area, particularly in those member countries under debt distress, remains fragile. The United States averted a fiscal cliff in 2013, but fell into fiscal sequestration, and uncertainties remain high about the debt ceiling and the budget for 2014. The slowdown in a number of emerging economies in 2013 was "hard" enough, and many of these emerging economies remain vulnerable in the outlook.

In addition to these remaining risks, new risks are also emerging, the UN warned, noting that one of them is the risk associated with the unwinding of the unconventional monetary policies by the central banks of major developed countries over the course of 2014-15.

As indicated by the mini-financial crisis of mid-2013, sparked by the Fed simply mentioning the possibility of tapering its purchases of assets (tapering should have far less impact than unwinding, as the former continues to add liquidity while the latter withdraws liquidity), this risk could cause substantial instability for the world economy.

Moreover, beyond economic risks, geopolitical tensions in Western Asia and elsewhere in the world might spiral out of control. Such tension could lead to economic disruptions directly, or indirectly through rising oil prices.

"These and other risk factors, unfolding unexpectedly, could derail the world economy far away from the projections outlined in the baseline forecast."

Focusing on QE, the report said that great uncertainties and risks for global economic growth and the financial stability of the world in the coming years are inextricably associated with the unconventional monetary policies adopted in major developed countries, or, more precisely, with the process in which the central banks of these countries start to change their stances on these policies.

Both policymakers and financial markets are aware that, in the future, when the central banks start to taper the pace of their asset purchases and eventually unwind the process (by selling the assets back to markets), investors will inevitably have to re-price the assets and rebalance their portfolios. The hope is that, by then, banks, investors and the economy at large will be in a more robust position to endure such adjustments and the central banks will be able to engineer a smooth exit.

"However, the market reaction – or over-reaction – in the summer of 2013 to the mere possibility of tapering QE in the United States has dimmed this hope and provided a vivid and timely alert to the risks for a bumpy rather than smooth exit."

According to the report, a bumpy exit from QE programmes could lead to a number of problematic developments: a surge in long-term interest rates, not only in developed economies but also in developing countries; a sell-off in global equity markets; a sharp decline of capital inflows to emerging economies; and a spike in the risk premia for external financing in emerging economies.

"Managing a smooth tapering of the QE will be the key challenge for the monetary authorities in major developed countries, as the risks associated with this transition will pose a threat not only for developed economies, but also for the rest of the world," it said.

The report also highlighted some uncertainties and risks associated with lingering budget issues in the United States.

Over the course of 2013, it noted, the United States experienced a series of small-scale fiscal crises caused by political divides over budget issues in Congress.

At the beginning of the year, a full-scale fiscal cliff was averted when an agreement was reached to permanently maintain a large part of the temporary tax cuts after they were due to expire. But Congress failed to agree on a long-term deficit reduction plan, triggering automatic, across-the-board spending cuts (sequestration) worth $1.2 trillion over the next nine years, with a cut of $85 billion for 2013.

In early October, a failure in Congress to agree on the 2014 budget and to raise the debt ceiling led to a partial shutdown of the federal government and heightened the risk of a default on the United States debt. At the last minute, an agreement was reached to fund the government through 15 January 2014 and suspend the debt limit through 7 February 2014, merely postponing the issues.

The report pointed out that there are two different types of economic costs associated with these uncertainties and risks.

First, the recurrent uncertainties about the government budget, even if no large-scale crisis erupts, discourage business investment and hiring, thereby leading to lower growth and higher unemployment in the short run and damaging potential growth in the longer run.

Second, should a crisis occur if the debt ceiling were not raised, for example, the consequences would be devastating not only for the United States, but also for the world economy. With the federal government budget deficit at more than 4% of GDP, if no more net borrowing were allowed, the government would be forced to take actions which would entail a combination of defaulting on the debt and cutting expenditures.

"Given that the United States has never defaulted, that the dollar is the major international reserve currency, and that half of the United States government debt is held by foreigners, including foreign central banks, it is difficult to make a plausible estimate for the costs of such a default," the report concluded. *(SUNS7727)* ❐

A tale of two worlds

A report by the UN Development Programme (UNDP) stresses the need to combat inequality and shift to a more inclusive pattern of growth in the developing world.

by Joan Erakit

NEW YORK: As violence rips through South Sudan and ongoing conflict plagues the Central African Republic and Syria, developing countries stand at a difficult crossroads – struggling to grow economically and politically, yet fielding deep inequalities within their own borders.

The United Nations Development Programme (UNDP) on 29 January launched a report titled *Humanity Divided: Confronting Inequality in Developing Countries*.

It warns that "the world's population lives in societies that are more unequal today than 20 years ago", where despite impressive technological advancements, 1.2 billion people still live in poverty.

It says that income inequality increased by 11% in developing countries between 1990 and 2010. More than three-quarters of households in developing countries are living today in societies where income is more unequally distributed than it was in the 1990s.

UNDP Administrator Helen Clark notes that overall, the wealthiest 8% of the world's population earn half of the world's total income, while the remaining 92% must fend for themselves with whatever is left.

Basing its framework on the relationship between the inequality of outcomes and inequality of opportunities, the UNDP report stresses that the two perspectives are "interdependent" and that one cannot function without the other.

"The inequality of outcomes refers to inequalities in the material outcomes that matter for human well-being, such as a person or household's income or wealth status, health and nutritional status, and educational achievements," Anuradha Seth, a lead author of the report, told Inter Press Service (IPS).

The inequality of opportunity, she says, refers to the idea that specific groups within a population, such as women and racial and ethnic minorities, consistently face inferior economic, political and social opportunities than their fellow citizens due to circumstances of birth.

The report makes clear that though the two concepts are interdependent, they also have very different drivers, and only addressing inequality of opportunity will not suffice in moderating inequality of outcomes.

Are some of the worst conflicts we see today rooted in inequality? According to Seth, it's possible. "Indeed, there is substantial evidence that both economic inequalities but also horizontal inequalities have played an important and oftentimes key role in driving conflict. And conflict, in turn, can deepen existing inequalities."

Access to proper food and water, medical care in times of disease, or even quality education for children can also be a major factor in stirring tensions among local populations.

The "drivers" of inequality are complex and diverse and include social, economic and cultural barriers that do not allow for full political participation. Indeed, 1% of the world's population own over 40% of the world's assets, with the bottom half holding 1%.

According to a UNICEF (UN Children's Fund) study of 43 developing countries, 90% of children from wealthier backgrounds have the opportunity to attend school, compared to 64% from poorer backgrounds.

Women continue to lag behind men in nearly every indicator of well-being, an example of "horizontal inequality."

"Horizontal inequalities can undermine social cohesion and can increase political and social tensions – and in some circumstances can fuel instability and conflict," Seth told IPS.

These inequality gaps include maternal and newborn health. It is estimated that between 2006 and 2010, women in sub-Saharan Africa were 20 times more likely to die in childbirth than those in Central Asia or Eastern Europe.

"We know well that the biggest source of vulnerability which undermines individual, community and societal resilience is horizontal inequality, that is inequality between groups," Selim Jahan, director of the poverty practice group at UNDP's Bureau for Development Policy, told IPS.

Jahan added that a sustainable approach to crisis situations in developing countries would only prove successful if more "empowered and resilient women and women's organizations" were part of the conversation, both on a community and a household level.

"Increasing women's agency remains critical to ensuring gender parity in all dimensions of development," Jahan said. "There will not be much progress in advancing equality for women – and in fact the cause of social justice overall – unless women are enabled to participate in political and public life on an equal footing with men so that they can ensure that their voice and concerns are fully heard."

In order to allow all individuals to have a fair chance at developing both themselves and their families, the topic of inequality needs to move up the political agenda.

"Even as redistribution remains very important to inequality reduction, a shift is needed towards a more inclusive pattern of growth, one that raises the incomes of poor and low-income households faster than average in order to sustainably reduce inequality, key to the post-2015 development agenda," the report notes.

And finetuning that agenda is the job of more than just governments and development agencies, experts argue.

"The realization of inclusive society is very much a common interest, something from which we all stand to gain," Jahan said. "We need to make sure that it also becomes a joint endeavour. The report we are launching today is meant as a contribution to this process." *(IPS)*❐

Dazzled in Davos: What Bill Gates forgot to mention

At the recent World Economic Forum in Davos, Bill Gates predicted that "by 2035, there will be almost no poor countries left in the world". This rosy outlook, says *Edward B. Barbier*, masks some decidedly gloomier global poverty trends.

At the 2014 World Economic Forum in Davos, Switzerland, the founder of Microsoft and leading global philanthropist Bill Gates, along with his wife Melinda, released the 2014 Gates Annual Letter "3 Myths That Block Progress for the Poor". In the letter, Gates notes that, since 1960, more than a billion people have risen out of extreme poverty. He then goes on to make this bullish prediction:

"By 2035, there will be almost no poor countries left in the world … Every nation in South America, Asia, and Central America (with the possible exception of Haiti), and most in coastal Africa, will have joined the ranks of today's middle income nations."

Things left unsaid

I have no quarrel with such a prediction, optimistic though it might be. I also don't question the global poverty trends – they pretty much match what is stated in "The State of the Poor" of the World Bank's Poverty Reduction and Economic Management Network (PREM). According to the World Bank, extreme poverty has fallen by 25% in the past 30 years for the developing world.

However, what Bill Gates did not mention is the following.

First, the encouraging global poverty trends mask some important differences between and among developing countries.

The World Bank's "State of the Poor" estimates that, over the past 30 years in low-income countries, the number of extremely poor individuals actually increased by more than 100 million. What is more, the average income of the poor in these countries was stagnant, remaining almost as low in 2010 as it was in 1981.

In addition, the World Bank report points out that most of the 25% decline in extreme poverty across the developing world has occurred in China and India. But "for the rest of the developing world, individuals living in extreme poverty today appear to be as poor as those living in extreme poverty 30 years ago."

Second, with inequality worsening worldwide, average income per capita is an inaccurate indicator of the state of poverty within a country.

In the World Bank's World Development Indicators, low-income economies are those in which 2012 gross national income (GNI) per capita was $1,035 or less. Middle-income economies are those in which 2012 GNI per capita was between $1,036 and $12,615. Thus, if Bill Gates is correct, and nearly all developing countries achieve at least middle-income status by 2035, it will be a remarkable accomplishment.

However, the Oxfam report "Working for the Few", also released to coincide with Davos, finds that almost half of the world's wealth is now owned by just 1% of the population, and seven out of 10 people live in countries where economic inequality has increased in the last 30 years. The combined wealth of the world's richest 85 people is now equivalent to that owned by half of the world's population – or 3.5 billion of the poorest people.

Third, poverty is not evenly distributed within countries.

The World Bank's "State of the Poor" estimates that 78% of those living in extreme poverty in developing countries are in rural areas, and 63% of the extremely poor earn a living from agriculture. Since there are still around 1.2 billion poor people across the developing world, global poverty will remain largely a rural problem for the foreseeable future.

Around 1.3 billion people in developing countries live on marginal lands or fragile environments unsuitable for agriculture, and 430 million inhabit remote rural areas. At least half of the population in less favoured areas (631 million) is extremely poor. Thus, the rural poor are clustered largely on less favoured lands in remote locations – a trend that will continue with projected increases in rural populations and inequality in the developing world.

In a policy research paper for the World Bank, I have argued that alleviating poverty in developing economies will therefore require a much more robust strategy than current global economic development efforts. Specific policies need to be targeted at the poor where they live, especially the rural poor clustered in fragile environments and remote areas. This will require involving the poor in these areas in payment for ecosystem services, targeting investments directly to the rural poor, reducing their dependence on exploiting environmental resources, and tackling their lack of access to affordable credit, insurance, land and transport. Where possible, efforts should be made to boost rural employment opportunities, especially for those poor households dependent on outside labour employment.

Such a comprehensive development strategy for alleviating global poverty is urgently needed – something else that Bill Gates forgot to mention at Davos.❐

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South defends use of TRIPS flexibilities for public health

Developing-country delegates at a recent World Health Organization (WHO) meeting reiterated their countries' right to make full use of flexibilities enshrined in the WTO's intellectual property norms in order to support the availability of cheaper medicines.

by Alexandra Bhattacharya

GENEVA: Developing countries, at a session of the WHO Executive Board, defended their right to use flexibilities allowed by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization to promote access to affordable medicines.

The 134th session of the Executive Board (EB) met in Geneva from 20 to 25 January.

(The Executive Board is composed of 34 WHO member states and meets twice a year to facilitate the work of the World Health Assembly, WHO's governing body.)

A draft resolution titled "Access to essential medicines", discussed at the EB session, was proposed by China, Libya, Republic of Korea and South Africa. Amongst its elements, it encouraged the use of TRIPS flexibilities by member states particularly with regard to the promotion of access to essential medicines.

The draft resolution was adopted by the EB and will be forwarded to the next World Health Assembly this coming May.

South African reforms under threat

Plenary discussion on the draft resolution triggered a number of interventions by developing countries as the resolution comes at a time when multinational pharmaceutical companies are orchestrating a challenge to South Africa's legislative efforts to introduce intellectual property (IP) policy reforms which will promote access to medicines.

Namibia, on behalf of the African Region, called on WHO to support its member states in safeguarding the use of TRIPS flexibilities and stressed the need for strong technical support in this context at country level.

It also said that it "fully supported South Africa in its fight to increase access to medicines".

[Recently, various documents revealed that the Innovative Pharmaceuticals Association of South Africa (IPASA) – a front organization of multinationals in the pharmaceutical sector in South Africa – and the US-based industry body PhRMA (the Pharmaceutical Research and Manufacturers of America) have engaged a consultancy firm, Public Affairs Engagement (PAE), to apparently subvert the South African IP law reform process.

[In September 2013, South Africa had issued its draft national IP policy which proposes changing South Africa's IP law to include a number of health safeguards including vigorous examination of patent applications, patent oppositions, limiting the patent term to 20 years, and adopting easy-to-use parallel importation and compulsory licensing mechanisms.

[PAE prepared a strategy for IPASA and PhRMA titled "Campaign to Prevent Damage to Innovation from the Proposed Draft National IP Policy in South Africa". The *Mail and Guardian* reported on this strategy on 17 January.

[According to the *Mail and Guardian*, in response to this revelation, South African Health Minister Aaron Motsoaledi accused a group of multinational pharmaceutical companies active in South Africa "of conspiring against the state, the people of South Africa and the populations of developing countries – and of planning what amounts to mass murder".]

At the Executive Board session, South Africa, in an emotional intervention, called the strategy written by PAE to undermine South Africa's efforts to reform its intellectual property policies "unfortunate", adding that the policy aimed at contributing "towards the protection and promotion of public health, and access to medicines in particular".

This is not the first time that South Africa has been under such an attack, even in the face of the most devastating HIV/AIDS and tuberculosis co-morbidities, South Africa added.

[In 1998, 39 pharmaceutical companies filed a suit against the South African government over its Medicines and Related Substances Act. The main issue was Amendment 15(c) which would allow TRIPS-compliant compulsory licensing and parallel imports. In 2001, the pharmaceutical companies, under an extremely high amount of international pressure, dropped their case.]

South Africa recalled that in 2000, the cost of combination antiretroviral therapy (ART) per person per annum was $10,000, but in 2010, this had been reduced to $1,000 per person per annum. This would not have been possible without competition from generic medicines, South Africa said, adding that it has been able to put 2.4 million people on treatment.

Today, around 4% of South Africans are on second-line antiretroviral therapy but this number must be increased to 14% for those who have been on ART for more than five years, it said, stressing that this will not be possible at current costs which are 2.5 times the cost of first-line therapy. It emphasized: "We have to put people on treatment that is affordable."

There are still other barriers to access that require attention in South Africa, it further said, stressing that the new IP policy under discussion will promote competition and ensure the levelling of the playing field.

Patent examination is amongst these policy reforms, and has been an important measure, as reported in various reports by the World Intellectual Property Organization (WIPO) and WTO in partnership with WHO, South Africa further said. It stressed that it was common practice in Europe, the US, India and Brazil to reject poor-quality patents.

It also referred to WHO's comment to South Africa on its draft IP policy, which said: "WHO encourages and supports IP policies that maximize health-related innovations and promote access to medicines for all and commit to provide assistance consistent with GSPOA [Global Strategy and Plan of Action]."

Brazil said that "access to medicine" was "a key element in our country" and stressed on the importance of the use of TRIPS flexibilities.

India referred to the WTO's Doha Declaration on the TRIPS Agreement and Public Health, which it said was "very clear and unambiguous" on the right of WTO member states to use, to the full, the provisions in the TRIPS Agreement, which provide flexibilities for public health.

It added that the declaration also reaffirms that the TRIPS Agreement can and should be interpreted and implemented in a manner supportive of WTO members' right to protect public health and, in particular, to promote access to medicines for all.

India also noted that the declaration referred to all medicines and not just essential medicines and therefore it strongly supported South Africa "in its efforts to defend the spirit of the Doha Declaration on TRIPS and Public Health so that it can provide access to medicines at an affordable cost."

Cuba, Argentina, Nigeria, Zimbabwe and Bolivia also expressed support for South Africa.

WHO Director-General Margaret Chan said: "I have been following the event in South Africa and I was very struck by what is happening and I have said so in other contexts and I will repeat again: no government should be intimidated by interested parties for doing the right thing in public health."

Chan thanked governments for their solidarity with South Africa, stressing that "nobody should be denied access to life-saving intervention or medical products."

The South Centre, an intergovernmental think-tank for developing countries, expressed strong support for South Africa's efforts "to improve access to medicines, particularly to the ongoing work undertaken to review its intellectual property legislation in order to integrate public health concerns into pharmaceutical patent examination."

The South Centre also recalled that history was repeating itself as 14 years ago, in the Executive Board, developing countries and some developed countries supported South Africa when 39 pharmaceutical companies brought a court case against the South African government over the terms of its Medicines Act.

It welcomed a message of support from the Executive Board to the South African government on its ongoing reform to its Patents Act.

The South Centre added that it supports developing countries making use of their right to incorporate all the flexibilities contained in the TRIPS Agreement in their intellectual property legislation and implement them in order to ensure the access of all peoples to necessary medicines.

International humanitarian organization Medecins Sans Frontieres (MSF) said that the intersection between intellectual property, innovation and public health is recognized in a number of WHO resolutions and in the TRIPS Agreement and yet it remains a challenge for WHO member states, especially developing countries, to use these flexibilities when drafting intellectual property policies that aim to promote access to affordable essential medicines.

It added that the events in South Africa illustrated that multinational pharmaceutical companies will go to great lengths to protect profit margins, even when it comes at the expense of people's lives and involves the covert derailing of government policies aiming to balance intellectual property, public health and access to medicines.

It underlined that such attacks on urgently needed reform are unacceptable in a country facing one of the world's most acute HIV and tuberculosis epidemics, with medicine prices up to 35 times higher than in countries with more robust generic competition.

No developed country made an intervention in defence of South Africa's policies.

Draft resolution on access to essential medicines

After numerous informal meetings among member states, the draft resolution on access to essential medicines came up for consideration at the final plenary session of the Executive Board on 25 January.

In contention was operative paragraph 11 of the draft resolution which urged member states "to consider, as appropriate, adapting national legislation in order to make full use of the provisions contained in the TRIPS agreement, including the flexibilities recognized by the Doha Ministerial Declaration on the TRIPS agreement and Public Health and other WTO instruments related to TRIPS agreement, in order to promote access to essential medicines, as stated in the Global Strategy and Plan of Action on Public Health, Innovation and Intellectual Property".

The US, a non-EB member, objected to the use of the words "as stated in", adding that it preferred the use of the term "in accordance", which, in its opinion, "frames proceeding language in full context of the Global Strategy".

Egypt stated that the use of "in accordance with" placed limitations on the member states with regard to the interpretation of TRIPS Agreement flexibilities.

Brazil proposed "in line with" as alternative wording.

This was accepted by the EB members, with Australia commenting that it was under "some attack with regard to TRIPS flexibilities" (in reference to the ongoing challenges to its tobacco plain packaging legislation) and that it preferred the use of "in line with".

An NGO (non-governmental organization) observer noted, however, that operative paragraph 11 has limited utility as the scope of the resolution is limited to essential medicines and most of the medicines on WHO's Essential Medicines List (EML) are off-patent.

The observer also noted that several critical patented medical treatments do not make it to the EML due to the criteria of selection, which include "cost-effectiveness". Consequently, since cost continues to be a key criterion for the selection of essential medicines, patented medicines with a high price tag tend not to be included in the EML.

Recently, the observer said, civil society organizations criticized WHO for the exclusion of two critical cancer medications – trastuzumab for the treatment of breast cancer and imatinib mesylate for the treatment of chronic myeloid leukaemia – from the 18th edition of the EML.

Further, the resolution is silent on adequate resource allocation to WHO's essential medicines programme. The programme is under-funded and understaffed, the NGO observer added.

In a letter to *The Lancet* dated 18 January, the non-governmental charity Oxfam urged WHO member states to: "(1) prioritize and restore the full range of activities that are needed to support Member States to manage medical products; (2) support, with adequate finance from the central WHO budget, medicines-related functions that require independence from the interests of individual donors; and (3) maintain and increase technical expertise in countries through the National Pharmaceutical Officers scheme to build national pharmaceutical capacity for universal health coverage".

The resolution on "Access to essential medicines" will now be discussed during the World Health Assembly, which is expected to be held on 19-24 May. *(SUNS7732)* ❐

This article was written with inputs from Alice FabbSri and Chiara Di Girolamo from WHO Watchers.