THIRD WORLD Economics

TRENDS & ANALYSIS

Published by the Third World Network KDN: PP 6946/07/2013(032707) ISSN: 0128-4134 Issue No 632 1 – 15 January 2017

WTO DG's non-response to Trump threat raises concern

Several trade envoys have voiced concern over WTO Director-General Roberto Azevedo's lack of response to the prospect of disruptions to the multilateral trading system by the Donald Trump administration in Washington. Azevedo is even seen by some as promoting instead the agendas of the US and other industrial countries in WTO negotiations while developing-country interests are sidelined.

Also in this issue:

THIRD WORLD
Economics
Trends & Analysis

131 Jalan Macalister
10400 Penang, Malaysia
Tel: (60-4) 2266728/2266159
Fax: (60-4) 2264505
Email: twn@twnetwork.org
Website: www.twn.my

Contents

THIRD WORLD ECONOMICS
is published fortnightly by the Third World Network, a grouping of organisations and individuals involved in Third World and development issues.

Publisher: S.M. Mohamed Idris; **Editor:** Chakravarthi Raghavan; **Editorial Assistants:** Lean Ka-Min, T. Rajamoorthy; **Contributing Editors:** Roberto Bissio, Charles Abugre; **Staff:** Linda Ooi (Administration), Susila Vangar (Design), Evelyne Hong & Lim Jee Yuan (Advisors).

• **Annual subscription rates:** Third World countries US$75 (airmail) or US$55 (surface mail); India Rs900 (airmail) or Rs500 (surface mail); Malaysia RM110; Others US$95 (airmail) or US$75 (surface mail).

• **Subscribers in India:** Payments and enquiries can be sent to: The Other India Bookstore, Above Mapusa Clinic, Mapusa 403 507, Goa, India.

• **Subscribers in Malaysia:** Please pay by credit card / crossed cheque / postal order.

• **Orders from Australia, Brunei, Indonesia, Philippines, Singapore, Thailand, UK, USA:** Please pay by credit card / cheque / bank draft / international money order in own currency, US$ or euro. If paying in own currency or euro, please calculate equivalent of US$ rate. If paying in US$, please ensure that the agent bank is located in the USA.

• **Rest of the world:** Please pay by credit card / cheque / bank draft / international money order in US$ or euro. If paying in euro, please calculate equivalent of US$ rate. If paying in US$, please ensure that the agent bank is located in the USA.

Visit our web site at http://www.twn.my.

Printed by Jutaprint, No. 2, Solok Sungei Pinang 3, Sungai Pinang, 11600 Penang, Malaysia.

WTO DG's silence on Trump assault on multilateral trade system causing concern

The lack of response by the WTO head to the new US government's apparent turn away from multilateral trade liberalization has sparked concern among some trade envoys.

by D. Ravi Kanth

GENEVA: In the face of a sustained assault on multilateral trade rules, including the WTO, by the Donald Trump administration, the continued deafening silence of the WTO Director-General Roberto Azevedo is a serious cause for concern, several trade envoys told the *South-North Development Monitor (SUNS)*.

At a time when he is seeking a second term as DG and is also the only candidate in the race, WTO members are puzzled as to why Azevedo is choosing to remain silent to defend the organization which he wants to lead for another four years from a steady barrage of tirades from the Trump administration denouncing multilateral trade liberalization and the WTO, said a trade envoy who asked not to be quoted.

"It is unusual for the WTO's DG, who is also known as the 'custodian' of global trade rules, to remain silent when the multilateral trade order is being torn apart and turned upside down by the Trump administration," the envoy said.

During a press conference in November, Azevedo was asked whether he would comment about the protectionist threat posed by Trump after the latter was inaugurated as US President. The Director-General said he would make his assessment based on "facts" and that he would not like to comment on what was going to happen.

But since coming into power, the Trump administration has wasted no time in turning to trade matters. On his first full day in office, President Trump signed an executive order pulling the US out of the 12-country Trans-Pacific Partnership (TPP) agreement. He said his trade deals would be "one-on-one" accords and "that will be better" as they would be easier to enforce. Trump also said that he would punish companies that shut down factories in the US and move jobs abroad by imposing a "very major" border tax.

Explaining Trump's decisions, White House spokesperson Sean Spicer said they "usher in a new era in US trade policy", based on bilateral deals that would take precedence over multilateral agreements. He argued that multilateral deals are not beneficial to US interests because they end up catering to the "lowest common denominator", as was the case with the TPP that put small countries on the same footing as the US. Bilateral deals, on the other hand, offer a stronger bargaining position to the world's largest economy and could be more easily updated or renegotiated, he said.

Subsequently, the decisions announced by the Trump administration have become much shriller in tone and tenor, and risk vitiating an orderly conduct of global trade relations.

Decisions such as the building of a wall on the Mexican border, the threat to impose 20% customs duty on all Mexican products if Mexico refused to finance the wall's construction, the decision to renegotiate the North American Free Trade Agreement (NAFTA), the proposed aggressive reform on H-1B visas to ensure that outsourcing of IT services is increasingly discontinued, and other measures in the offing point towards a grave quake on the trade Richter scale.

"These decisions," said the trade envoy, "would be tantamount to a definite retreat from multilateral trade liberalization."

During his keynote speech at the National Press Club in Washington on 7 October 2016, Azevedo was asked for his view on the TPP and whether it was justified to dismantle the agreement as called for by the then candidate Trump on the election campaign trail. The Director-General said that he would welcome any agreement – whether the TPP or other regional agreements – that would contribute to trade liberalization.

Azevedo was consistently supported by the previous Barack Obama administration and was praised for his leadership role in delivering the Trade Facilitation Agreement as well as the outcomes at the WTO's 2015 Ministerial Conference in Nairobi, Kenya. Immediately after the Bali Ministerial Conference in December 2013, Azevedo had called on President Obama in the Oval Office, according to people familiar with the development.

The former US Trade Representative Michael Froman had, in his lecture at Geneva's Graduate Institute on 17 October 2016, praised Azevedo and Kenya's Foreign Affairs Cabinet Secretary Amina Mohamed for "shepherding [the] process" at the Nairobi conference, which he said "represented a critical turning point in the history of the WTO".

In a similar vein, Azevedo had warned the British electorate that Brexit was a bad idea. He had also consistently advised the African countries on what they must do to accelerate trade reform and liberalization. Azevedo never minced his words in speaking out against threats posed by "protectionism" and tectonic events such as Brexit.

The WTO issues timely reports on the state of play in global trade as well as on trade restrictions (including legitimate safeguard measures) imposed by governments. Commenting on the last trade monitoring report, issued on 10 November 2016, two days after Trump was elected, Azevedo said "the continued introduction of trade-restrictive measures is a real and persistent concern."

"Tangible evidence of G20 [grouping of the world's major economies] progress in eliminating existing measures remains elusive," he added. "It is clear that the financial crisis has had a long tail and that the world economy remains in a precarious state. Many people are struggling with unemployment or low paying jobs and are concerned about broader changes in the economy. These concerns demand a concerted response from governments and the international community. One step will be for G20 members to deliver on their commitment to refrain from imposing new trade-restrictive measures and roll back existing ones."

During his address at an informal trade ministerial meeting hosted by Switzerland on 20 January this year, hours before the Trump inauguration in Washington, Azevedo had said: "Clearly trade is very high on the political agenda at the moment. I recognize the concerns about globalization – and the need to respond. The net positive effect of trade means nothing if you've lost your job. So we need better domestic policies to support people and get them back to work. But attacking trade won't help here. I have heard a lot of talk about protectionism and trade wars this week. That would destroy jobs, not create them. I am urging everyone to show caution and leadership. We must avoid talking ourselves into a crisis.

"Of course there is a lot of uncertainty ahead of us. But my message is: don't be paralyzed by that uncertainty. Instead we need to work even harder. Ministers agreed today to increase their engagement throughout 2017. This will be essential to keep strengthening and improving the trading system."

Attacks

But these remarks from Azevedo are neither here nor there, as they fail to send a message to the country that is unleashing attacks against the WTO.

In an interview with the *Financial Times*, Peter Navarro, the head of a new White House National Trade Council, said unambiguously that the Trump administration wants to unwind and repatriate the international supply chains that are critical for the day-to-day business of US multinational companies. "It does the American economy no long-term good to only keep the big box factories where we are now assembling 'American' products that are composed primarily of foreign components," he told the *FT*.

"The unequal treatment of the US income tax system under biased WTO rules is a grossly unfair subsidy to foreigners exporting to the US and a backdoor tariff on American exports to the world that kills American jobs and drives American factories offshore," Navarro said.

Even in the face of such mounting attacks against the WTO from the world's largest economy, the DG prefers to turn a deaf ear, according to an industrialized-country trade envoy who asked not to be cited.

"[W]hen the boss of the global hegemon attacks the institution he [Azevedo] is responsible for upholding, he has nothing to say," the trade envoy said. *(SUNS8393)* ❒

Azevedo rebuked by India over "value-loaded" statements

The WTO Director-General has come under fire from India for making "value-loaded" statements claiming "wide divergences" among the WTO membership over the setting up of a special safeguard mechanism to protect developing-country farmers.

by D. Ravi Kanth

GENEVA: India sharply rebuked the WTO Director-General Roberto Azevedo on 6 February over his assessment that there were "wide divergences" on the special safeguard mechanism (SSM) in the run-up to the WTO's tenth Ministerial Conference in Nairobi in December 2015, trade envoys told the *South-North Development Monitor (SUNS)*.

The DG, India said, must resist making "value-loaded" statements even before starting the negotiations for the eleventh Ministerial Conference, which is to be held in Buenos Aires this December.

During a closed-door meeting with over two dozen trade envoys, held at India's insistence, on agriculture-related issues for the Buenos Aires meeting, the DG mentioned that the permanent solution for public stockholding programmes for food security and domestic support are among the issues for Buenos Aires.

On the SSM, he said, there had been "wide divergences" in the run-up to the Nairobi meeting.

Azevedo also claimed there was a "lot of interest" in export restrictions, a proposal that was floated time and again by Japan but that has failed to garner any support, according to trade envoys present at the meeting.

India, which spoke at the end of the meeting, raised both process-related and substantive concerns.

On the process side, India said, it would urge the Trade Negotiations Committee chair "not to make value-loaded statements on issues such as about having divergent views and lot of interest." (Azevedo also serves as chair of the Trade Negotiations Committee.)

India said it is much too early to

make such statements when the negotiations for the Buenos Aires meeting are yet to start in full earnest.

Such statements, said India's trade envoy Ambassador Anjali Prasad, "would poison the discussions, as we all know how things would work and in which way they will go when chairs make pronouncements," according to a trade envoy who was present at the meeting.

India demanded clear and unambiguous outcomes on public stockholding programmes for food security and the SSM as mandated in the Bali and Nairobi ministerial declarations.

The Nairobi ministerial declaration on the SSM, which referred to the 2004 July framework agreement and the 2005 Hong Kong ministerial declaration, had emphasized the "critical importance of instituting an accessible and effective trade remedy tool i.e. the SSM, that is responsive to the needs and conditions of developing countries which, if not immediately and effectively addressed as they occur, undermine poverty reduction efforts, livelihood and food security, and rural development in developing country members."

It further said "members shall engage constructively to negotiate in order to ensure adoption of the Special Safeguard Mechanism by the eleventh ministerial conference [Buenos Aires]."

Blocked

As regards substantive concerns, India said it is common knowledge that negotiations on the SSM were blocked and stonewalled by key members in the run-up to the Nairobi ministerial meeting.

Several countries such as the United States, Australia, the European Union and Brazil had simply refused to engage in any negotiations on the SSM, saying that they would not discuss the issue without discussing all other issues in the market access pillar.

In the run-up to the Nairobi meeting, the US had rejected a demand for an SSM that aims to protect resource-poor farmers in developing countries from unforeseen surges of agricultural imports.

Indonesia, India, China, the Philippines, Turkey, Barbados on behalf of the African, Caribbean and Pacific (ACP) coalition, and Lesotho on behalf of the African Group of countries, maintained that the SSM is crucial for concluding the WTO's Doha Development Agenda (DDA) negotiations.

The US had vehemently stated before Nairobi that the demand for the SSM will not fly because of the attempts to lower the level of ambition in market access for agricultural products. It also suggested that the SSM can only be discussed as part of market access negotiations, implying that there is no need for the SSM when the level of market access in the DDA negotiations is being recalibrated.

Since the launch of the DDA negotiations in 2001, a large majority of developing countries have consistently demanded the SSM on grounds that it is vital for resource-poor farmers to counter unforeseen import surges.

In the failed 2008 ministerial meeting, India's then Commerce Minister Kamal Nath maintained that without a credible SSM, India will never sacrifice the interests of its poor farmers.

On behalf of the 47-member G33 developing-country coalition, Indonesia led the charge for a "simple, operable, and effective safeguard mechanism" to ensure that farmers in developing countries are not undermined by volatile supplies from countries that provide billions of dollars in trade-distorting domestic agricultural subsidies.

The SSM, the G33 argued, is meant "to respond to import surges and price declines that threaten small, subsistence farmers who overwhelmingly reside in the rural areas, and food security."

The SSM would enable special safeguard measures to be imposed when imports cross agreed benchmarks in terms of either volume or price.

Indonesia and Turkey had said it is wrong to link the SSM with market access, saying that regardless of the level of ambition, farmers in developing countries need a mechanism to face harmful surges of imports of agricultural products.

Indonesia said the mechanism will only be triggered based on current market realities involving a sudden drop in prices or a precipitous increase in volumes of imports over a three-year rolling average.

During the 6 February closed-door meeting, Indonesia on behalf of the G33 and Turkey supported India's demand for the SSM.

India, Indonesia, Turkey and Kenya also strongly demanded a clear outcome on the permanent solution for public stockholding programmes at the Buenos Aires meeting.

India cautioned against attempts to shift the goalposts in the domestic support negotiations in light of calls by some countries for disciplining *de minimis* support. India said both *de minimis* and Article 6.2 of the WTO Agreement on Agriculture are red lines for New Delhi.

India also subtly conveyed to the DG that there was not a "lot of interest" for export restrictions except from one member.

In the face of India's rebuke, the DG said "it is my duty to give an assessment and I will keep doing my duty."

In a nutshell, the DG is already setting the markers for the Buenos Aires meeting in which issues raised by developing countries, particularly the G33, are given short shrift, while items of interest to the US and other industrial nations are being pushed and promoted by him, said a trade envoy. *(SUNS8397)* ❐

Differentiation among developing countries on the cards for WTO?

The WTO Director-General has reportedly signalled future differentiation among developing countries in the application of flexibilities enshrined in the rules of the trade body.

by D. Ravi Kanth

GENEVA: WTO Director-General Roberto Azevedo has told several trade envoys that differentiation among developing countries would happen in the development dossier of the unfinished Doha negotiations, trade envoys told the *South-North Development Monitor (SUNS)*.

During a meeting on 3 February with proponents seeking changes in the special and differential treatment (S&DT) flexibilities in the Doha Development Agenda negotiations, the DG is reported to have said that two things are going to happen in the run-up to the WTO's eleventh Ministerial Conference in Buenos

Aires later this year.

Firstly, differentiation among developing countries for availing of S&DT flexibilities would happen as demanded by major developed countries such as the United States, the European Union, Japan, Canada and Australia, Azevedo suggested, according to a trade envoy from a least-developed country, who asked not to be quoted.

Secondly, improvements in S&DT or broad exemptions covered in the S&DT flexibilities will only be available for limited periods of time and not permanently, Azevedo maintained, the envoy said.

Fiji, on behalf of the small and vulnerable economies (SVEs), demanded outcomes for improving 25 issues that fall under the monitoring mechanism. The SVEs drew attention to the Bali ministerial decision under which members had agreed to ensure that the monitoring mechanism acts as a focal point within the WTO to analyze and review the implementation of S&DT provisions.

The developing countries sought improvements in S&DT provisions aimed at increasing their trade opportunities; provisions under which WTO members should safeguard the interests of developing countries; flexibility of commitments, action and use of policy instruments; and transitional time periods.

Over the last decade and more, the developed countries have strongly opposed clarifying and improving the S&DT provisions in various WTO agreements, according to several developing-country trade envoys.

In the lead-up to the 2015 WTO Ministerial Conference in Nairobi, those same developed countries disengaged on the proposals by the developing-country G90 grouping, citing "ideological concerns" about developing and least-developed countries industrializing their economies and protecting their infant industries.

With "differentiation" brought into these negotiations, developing countries will be further divided, a developing-country trade envoy said after the DG's meeting.

"It is shocking that the DG is negotiating on behalf of the major developed countries even before commencing the negotiating work for the Buenos Aires meeting," the envoy said.

E-commerce

Meanwhile, the DG also held a meeting with the proponents of electronic commerce on 6 February to discuss how they can move the issue forward during the next six months, said a trade envoy from a proponent country who asked not to be quoted.

During the closed-door meeting, the proponents such as the US, the EU, China, Australia, Canada, Colombia, Hong Kong, Israel, Korea, Mexico, Panama, Paraguay, Qatar, Singapore, Chinese Taipei, Brazil, Argentina, El Salvador and Nigeria pressed for an outcome at the Buenos Aires meeting on two issues: a permanent moratorium on customs duties on electronically traded products and services, and a clear and well-defined future work plan.

The proponents said the Buenos Aires meeting must provide a clearly defined and coherent work programme on e-commerce, which must be "a concrete step forward" in proceeding on the e-commerce agenda.

Several participants maintained that there are many issues that need to be sorted out in the e-commerce work programme, which could prove unwieldy to manage in the next six months. Therefore, the participants said, efforts should be focused on transparency, trade facilitation in e-commerce, and consumer protection.

The South American proponents – Brazil, Argentina and Paraguay – called for addressing issues surrounding trade facilitation of e-commerce such as electronic signatures, electronic payment, electronic document, certification of services, liability, and protection of personal data.

But many proponents acknowledged that it would be difficult to make progress in e-commerce because of continued opposition from many developing and least-developed countries.

The 1998 WTO Work Programme on Electronic Commerce is comprehensive insofar as the examination of "all trade-related issues relating to global electronic commerce" is concerned.

It is unclear how proponents intend to deal with their demands when several developing countries, including India, Bolivia, Cuba, Venezuela, the African Group, the African, Caribbean and Pacific (ACP) Group and the least-developed countries, expressed their concerns over the strong push to negotiate rules on e-commerce in the absence of a negotiating mandate in the WTO.

The African Group, in particular South Africa, Rwanda, Egypt, Tanzania, Uganda and Zimbabwe, which have been championing the development issues that still need to be addressed, have sensitized members to the alarming digital divide that has plagued the African continent and placed their consumers and producers alike at a competitive disadvantage when industrialized countries have had decades to develop their e-commerce competencies.

"WTO rules in this area will lock in the existing imbalances we see in e-commerce," said an African trade envoy who asked not to be quoted.

Nigeria, on the other hand, has eagerly joined the e-commerce bandwagon, and is now calling for deliverables at the Buenos Aires meeting.

"It is hard to reconcile how Nigeria is e-commerce-ready when the biggest economy in Africa is constantly faced with electricity shortages and blackouts and is currently experiencing an economic recession."

The WTO and other international organizations have rolled out a coordinated plan to negotiate new issues like e-commerce in the WTO to the exclusion of all the other priority negotiating issues emanating from the Doha Development Round, according to several trade envoys.

Even as proponents seek to make a strong pitch for e-commerce negotiations, India is experiencing an existential crisis in regard to its IT exports to the US.

The US Congress and President Donald Trump did not mince words in curbing the H-1B programme by imposing the most stringent conditions for H-1B visas for skilled workers. Legislation being considered by Congress would force Indian companies to pay H-1B immigrants at least $130,000, which is almost twice their current salary. According to the *Financial Times*, Trump is expected to issue an executive order on H-1B visas akin to a ban on travellers from seven Muslim-majority countries.

Against this backdrop, the WTO DG, in his eagerness to secure a second term, has not only remained silent on the US actions but is actively navigating the negotiations for the Buenos Aires meeting to please the US and its new administration, several trade envoys maintained. *(SUNS8398)* ❐

TRIPS amendment on access to cheaper drugs comes into force

The first ever amendment to a multilateral WTO agreement enables affordable versions of patented medicines to be exported to countries lacking the capacity to produce them.

by Kanaga Raja

GENEVA: A protocol amending the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) that would enable developing countries with insufficient or no manufacturing capacities in the pharmaceutical sector to import cheaper generic medicines produced under compulsory licensing finally came into force on 23 January.

In a press release, the WTO secretariat reported that Burkina Faso, Nigeria, Liechtenstein, the United Arab Emirates and Vietnam had notified in recent days that they had ratified the protocol, thus reaching the two-thirds threshold needed to formally amend the TRIPS Agreement.

Under paragraph 6 of the 2001 Doha Declaration on the TRIPS Agreement and Public Health, trade ministers recognized that "WTO Members with insufficient or no manufacturing capacities in the pharmaceutical sector could face difficulties in making effective use of compulsory licensing under the TRIPS Agreement." They instructed the WTO's TRIPS Council to "find an expeditious solution to this problem and to report to the General Council before the end of 2002."

Under Article 31 of the TRIPS Agreement on "other use without authorization of the [patent] right holder", paragraph (f) states that any such use "shall be authorized predominantly for the supply of the *domestic* market of the Member authorizing such use [emphasis added]."

On 30 August 2003, WTO members agreed to waive the limitation under Article 31(f), and further agreed that the waiver will last until the article is amended.

Paragraph 2 of the 30 August 2003 WTO General Council decision states: "The obligations of an exporting Member under Article 31(f) of the TRIPS Agreement shall be waived with respect to the grant by it of a compulsory licence to the extent necessary for the purposes of production of a pharmaceutical product(s) and its export to an eligible importing Member(s)" in accordance with the terms set out in the paragraph.

On 6 December 2005, WTO members agreed to make permanent the August 2003 waiver by incorporating it into the TRIPS Agreement after two-thirds of the members have ratified the protocol of amendment.

The December 2005 General Council decision contains the protocol of amendment, which includes an annex amending the TRIPS Agreement, a new annex to the TRIPS Agreement and an appendix to the annex to the TRIPS Agreement (on assessment of manufacturing capacities in the pharmaceutical sector).

The amendment incorporates a new Article 31*bis* which contains five paragraphs:

"1. The obligations of an exporting Member under Article 31(f) shall not apply with respect to the grant by it of a compulsory licence to the extent necessary for the purposes of production of a pharmaceutical product(s) and its export to an eligible importing Member(s) in accordance with the terms set out in paragraph 2 of the Annex to this Agreement.

"2. Where a compulsory licence is granted by an exporting Member under the system set out in this Article and the Annex to this Agreement, adequate remuneration pursuant to Article 31(h) shall be paid in that Member taking into account the economic value to the importing Member of the use that has been authorized in the exporting Member. Where a compulsory licence is granted for the same products in the eligible importing Member, the obligation of that Member under Article 31(h) shall not apply in respect of those products for which remuneration in accordance with the first sentence of this paragraph is paid in the exporting Member.

"3. With a view to harnessing economies of scale for the purposes of enhancing purchasing power for, and facilitating the local production of, pharmaceutical products: where a developing or least developed country WTO Member is a party to a regional trade agreement within the meaning of Article XXIV of the GATT 1994 and the Decision of 28 November 1979 on Differential and More Favourable Treatment Reciprocity and Fuller Participation of Developing Countries (L / 4903), at least half of the current membership of which is made up of countries presently on the United Nations list of least developed countries, the obligation of that Member under Article 31(f) shall not apply to the extent necessary to enable a pharmaceutical product produced or imported under a compulsory licence in that Member to be exported to the markets of those other developing or least developed country parties to the regional trade agreement that share the health problem in question. It is understood that this will not prejudice the territorial nature of the patent rights in question.

"4. Members shall not challenge any measures taken in conformity with the provisions of this Article and the Annex to this Agreement under subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994.

"5. This Article and the Annex to this Agreement are without prejudice to the rights, obligations and flexibilities that Members have under the provisions of this Agreement other than paragraphs (f) and (h) of Article 31, including those reaffirmed by the Declaration on the TRIPS Agreement and Public Health (WT / MIN(01) / DEC / 2), and to their interpretation. They are also without prejudice to the extent to which pharmaceutical products produced under a compulsory licence can be exported under the provisions of Article 31(f)."

Statements on TRIPS amendment

Commenting on the amendment, WTO Director-General Roberto Azevedo said: "This is an extremely important amendment. It gives legal certainty that generic medicines can be exported at reasonable prices to satisfy the needs of countries with no pharmaceutical production capacity, or those with limited capacity.

"By doing so, it helps the most vulnerable access the drugs that meet their needs, helping to deal with diseases such as HIV / AIDS, tuberculosis or malaria, as well as other epidemics. I am delighted that WTO members have now followed through on their commitment and brought this important measure into force."

In a video statement posted on the

WTO website, Amina Mohamed, Foreign Minister of Kenya, who was chair of the WTO General Council during the period when the amendment was adopted in December 2005, said: "As important as trade policy is, health and well-being must take precedence."

"WTO Members recognize this and have proven how seriously they take health issues by ratifying and putting into force an amendment to WTO rules which will facilitate access to essential medicines in low-income countries," she added.

"This is the first-ever amendment to WTO agreements and now that two-thirds of members of the WTO have ratified it, it will come into force. It has been a long time coming," she said.

Mohamed added that the concerns held by developing countries were based on their need to ensure adequate flexibility to obtain affordable medicines. She noted that in 2001 WTO members struck a deal which clarified the accords and provided governments in the developing world greater clarity and certainty. But one more element was needed – how to guarantee that countries lacking the capacity to produce generic drugs could still procure them affordably.

In 2003, WTO members agreed that if the importing country could not negotiate the acquisition of patented medicines at affordable prices, these medicines could be produced under licence by drug makers in third countries. "This was a major step and I am proud to say that African countries played a major role in bringing about this agreement," she said.

"It has taken some time to implement this agreement but now that it is in place, developing country governments have an important tool for obtaining affordable medicines."

Also in a video statement, Ambassador Modest Mero of Tanzania, Chair of the TRIPS Council, underlined the importance of the entry into force of what is not only the first ever amendment of the multilateral agreements administered by the WTO but also a concrete response by trade ministers to address concerns in the area of public health.

"Given the importance of the TRIPS amendment of the protocol, I call upon countries to turn the page now and to look into ways and means to make this new procurement tool work effectively in practice," he added.

(continued on page 12)

LDC graduation the "first milestone", not the "winning post"

The least developed countries should not just look to meet the criteria for graduating from LDC status but also establish the foundations for development beyond graduation, states a report recently discussed at a meeting of a UN economic body.

by Kanaga Raja

GENEVA: The Trade and Development Board of the UN Conference on Trade and Development (UNCTAD) held a discussion on 6 February on UNCTAD's *Least Developed Countries Report 2016*, which amongst others had argued that graduation of the least developed countries (LDCs) is "not the winning post of a race to cease being an LDC, but rather the first milestone in the marathon of development."

The report, released around mid-December last year, had pointed out that the progressive nature of development means that graduation – and still more the achievement of the statistical criteria for graduation – is not an end in itself. It marks the end of a political and administrative process, but not the completion of an economic or developmental process.

According to the report, it is not enough simply to target achievement of the criteria needed for graduation; it is also necessary to establish the foundations needed to maintain development progress beyond graduation.

"Focusing exclusively on the graduation indicators risks diverting attention and resources from other aspects of development that will be critical long after graduation has been achieved," it said.

Policy approaches to graduation need to go beyond the need to escape from the traps particular to the earliest stages of development, and take fully into account the need to prepare for the challenges of development beyond graduation.

"In other words, it is not sufficient merely to fulfil the criteria and complete the processes of graduation itself. The aim should rather be to achieve graduation with the momentum required to maintain development progress in the post-graduation period."

The report had also noted that the number of LDCs doubled from the original list of 25 in 1971 to a peak of 50 between 2003 and 2007, declining only to 48 since 2014.

As well as the number of new countries becoming LDCs, the near-doubling of the size of the group in the last 45 years in part reflects the small number of countries graduating out of the category – just four in the 25 years since the principle of graduation was established (Botswana in 1994, Cabo Verde in 2007, Maldives in 2011 and Samoa in 2014).

The report had called for improvements to international support measures to address the developmental needs of the LDCs. According to UNCTAD, these include donors fulfilling their long-standing commitments to provide 0.15-0.20% of their national income for assistance to LDCs, to make aid more stable and predictable and to align it more closely with national development strategies; faster progress towards 100% duty-free and quota-free access for LDC exports to developed-country markets; renewed efforts to break the stalemate on special and differential treatment for LDCs in the WTO negotiations; improved monitoring of technology transfer to the LDCs; and a more systematic, smooth transition process for graduating countries, to limit the impact of losing access to international support measures when they graduate.

In addition, among the key priorities for LDCs in moving from graduation strategies to graduation-plus strategies are: transforming rural economies by developing rural non-farm activities in parallel with upgrading agriculture; combining economy-wide industrial policies directed towards market failures with policies aimed at promoting productive activities; building capacities in science, technology and innovation; strengthening tax systems, improving financial systems and addressing financial inclusion; and strengthening efforts to address gender inequality across all policy areas.

The UNCTAD report went on to emphasize that the economic outlook for LDCs as a group for the next two years remains uncertain and will be driven by unfolding conditions at the global level. It said the current international economic scenario remains lacklustre due to a combination of weak demand in developed countries as a result of stagnant real wages, the continuing slowdown of international trade, a sharp decline in growth or even recession in many developing countries, high or rising debt in both developed and developing countries, and depressed commodity prices.

"This international environment will continue to weigh down on the outlook for economic growth in LDCs and, hence, on their prospects for graduation and sustainable development."

Nevertheless, the collective GDP growth of the LDCs is forecast to strengthen somewhat to 4.5% in 2016 and 5.7% in 2017, it said.

The road to graduation and beyond

The presentation of the report was one of the agenda items of the 64th executive session of the UNCTAD Trade and Development Board, held from 6-8 February.

In opening remarks at the session, Joakim Reiter, the Deputy Secretary-General of UNCTAD, said that the complex challenges and vulnerabilities of LDCs do not come to an end with graduation. After graduation, much more work remains to be done to face the daunting task of achieving the Sustainable Development Goals (SDGs).

The road to graduation and beyond is the focus of the 2016 LDC report, he said. The report provides advice to all LDCs, including those that are close to graduation, on how to achieve graduation, how to make the most of the process to graduation while setting the course for sustainable development beyond graduation itself.

Graduation is only a milestone in the development process. "It is a signpost, not the winning post of the long marathon of development. And how a country graduates is at least as important as when graduation is achieved," said Reiter.

He pointed out that the report advises LDCs on graduation-plus strategies. Those are supposed to be game-changing strategies and should be an indispensable feature of every LDC's sustainable development policy toolkit. Such strategies are centred on structural transformation and action to mitigate the loss of access to LDC-specific international support measures following graduation. The strategies are also in line with the Istanbul Programme of Action principle of ownership, leadership and primary responsibility of LDCs for their own development.

Technology has in many cases been the missing link in the international support to the LDCs, he said, adding that the report highlights how the international community can match LDCs' self-initiative with constructive targeted and expanded support especially technology fusion and transfer and technology capacity building.

Finally, Reiter said, the report recalls the importance of donor countries' fulfilment of their longstanding official development assistance (ODA) commitments to LDCs, which have recently been reaffirmed in the 2030 Agenda for Sustainable Development. He highlighted that in 2015-16, ODA to LDCs amounted to around $26 billion, while LDCs are missing or losing an equivalent of $23 billion in exports because of G20 protectionist measures.

"So you will understand that for many LDCs, what is given with one hand, although still inadequate compared to the ODA commitments, is also taken by the other hand through the various market distortions and protectionist measures that more powerful countries are imposing on LDC exports."

Left behind

Also speaking on 6 February was the new Director of the UNCTAD Division on Africa, Least Developed Countries and Special Programmes, Paul Akiwumi.

Akiwumi said that the 2030 Agenda is a universal agenda. The increased emphasis on social goals, and the aim of leaving no one behind, has shifted the world's attention towards a category of countries that are the epitome of those left behind by the global economy and socially.

This universal agenda and integrated approach now has critical implications for global and national approaches to development. It clearly calls for a stronger focus on those countries where poverty reduction is most difficult, i.e., the LDCs. "As you are also aware, the LDCs are intrinsically linked to the 17 goals and 169 targets that make up the SDGs," he told the meeting.

Nearly half of the population of the 48 LDCs – approximately 400 million people – remain in extreme poverty, compared to less than a quarter in any other developing country.

The proportion of poverty in LDCs has doubled from less than 20% in the 1990s to nearly 40% in 2014. And the latest growth rates of between 4.5% and 5% expected by the LDCs on average fall well short of the target growth rate of 7%.

What this means is that under the current trajectory, some 35% of the population will remain below the extreme poverty line by 2030, said Akiwumi.

He noted that UNCTAD has repeatedly argued – and will continue to argue – that the LDCs are the battleground on which the 2030 Agenda will be won or lost. This is where the shortfalls for the SDG targets are greatest, where the improvements have been the slowest and where the barriers to further progress are highest.

Closing the existing gaps and achieving the SDG targets will require not only specific focus on the LDCs but also political commitment from member states and continued coordination and enhanced international support.

In this regard, Akiwumi encouraged member states to participate at the next High Level Political Forum on Sustainable Development under the auspices of the UN Economic and Social Council (ECOSOC), which will take place from 10-19 July in New York, and called for them to be represented at the highest level. The theme of the forum will be "Eradicating poverty and promoting prosperity in a changing world." *(SUNS8397)* ❐

Global FDI flows fell 13% last year, bumpy recovery ahead

Global flows of foreign direct investment dropped in 2016, while a projected recovery this year could be affected by significant policy uncertainties, according to UNCTAD.

by Kanaga Raja

GENEVA: Global foreign direct investment (FDI) flows declined by 13% in 2016, to reach an estimated $1.52 trillion, the United Nations Conference on Trade and Development (UNCTAD) has said.

In its latest *Global Investment Trends Monitor* (No. 25, 2 February 2017), UNCTAD attributed the fall to weak world economic growth and a lacklustre increase in the volume of world trade.

"FDI recovery continues along a bumpy road. Particularly of concern is the sharp drop-off in manufacturing investment projects, which play such an important role in generating badly needed productivity improvements in developing economies," UNCTAD Secretary-General Mukhisa Kituyi said in a press release.

"Looking ahead, economic fundamentals point to a potential increase in FDI flows by around 10% in 2017," Kituyi further said. "However, significant uncertainties about the shape of future economic policy developments could hamper FDI in the short term."

The UNCTAD report said that economic fundamentals are supportive of a potential rebound in FDI flows in 2017. World economic growth is projected to accelerate in the coming year, reaching 3.4% compared to the post-crisis low of 3.1% in 2016.

Growth in developed countries is expected to improve, including in the United States through fiscal stimulus. Emerging and developing economies are also forecast to rebound significantly in 2017, led by a sharp rise in growth in natural-resource-exporting countries as commodity prices are expected to increase, especially for crude oil.

Moreover, greater economic activity will help boost world trade volumes, which are forecast to expand by 3.8% in 2017 compared with just 2.3% in 2016. In this context, investment activity may also quicken.

UNCTAD has projected that global FDI flows will increase by around 10% over the year.

"Nevertheless, there are significant uncertainties that could have a material impact on the scale and contours of any FDI recovery in 2017," UNCTAD cautioned.

The "normalization" of monetary policy in the United States – after nearly a decade of historically low interest rates – could result in a significant shift in composition of capital flows, with implications for exchange rates and financial systems throughout the world and especially for developing economies.

UNCTAD said that rising cost of capital may hinder investment by multinational enterprises (MNEs) which have taken on significant levels of corporate debt in recent years.

There is also substantial uncertainty

about the shape of economic policies in the near-future, especially in developed economies, which may serve to dampen FDI.

"Political developments such as the decision by the United Kingdom to exit the European Union (Brexit), announcements by the incoming administration in the United States to renegotiate key trade agreements such as NAFTA and to leave the TPP, as well as recent and upcoming elections in Europe have all heightened these uncertainties," said UNCTAD.

Uncertainties and risks

Asked to elaborate on these uncertainties at a media briefing on 1 February, James Zhan, Director of the UNCTAD Division on Investment and Enterprise, pointed to policy uncertainties, noting that this year is an election year for some major European countries. This creates uncertainty over future policies regarding trade and investment, tax policies and competition policies.

Zhan also pointed to the new administration in place in the United States, where the "policies are unfolding. For the time being, we still do not know what will happen with regard to some aspect of the policies."

He further pointed to the great uncertainty due to Brexit. The prospects for investment in Europe and the UK are very much dependent on the result of the deal, he said, so that creates a kind of uncertainty to business.

Zhan also highlighted geopolitical risks in some areas which will affect FDI flows as well.

Asked about President Donald Trump's call for US companies to invest in the country and whether this will lead to a rise in FDI in that country this year, Zhan referred to such policy measures as being "investment retention" measures trying to keep investment at home. Besides the US, some other countries also have different types of measures that aim to retain investment domestically, which may to a certain extent affect the outward investment of some major source countries.

Apart from measures which seek to discourage local firms from going outward, there are measures geared towards encouraging companies to repatriate earnings that are parked outside the country, said Zhan. He said the reduction of tax on the repatriation of profits will have a positive impact in encouraging firms to remit their earnings, but making sure that these remittances are reinvested in the country remains challenging.

Asked if he sees "investment retention" as "investment protectionism" conceptually, Zhan declined to comment, saying that there is no agreed definition of protectionism in the area of investment.

As regards a multilateral investment approach, Zhan noted that there was a breakthrough towards multilateral cooperation last year, when the G20 grouping of major economies adopted guiding principles for global investment policymaking. They built what was basically a consensus on the core elements of any possible future investment framework, whether it is at multilateral, regional or bilateral level. "In the current context, in the current situation, further efforts [in] this direction will be extremely difficult," he said, adding that a multilateral system for investment is "highly unlikely".

Asked about the retreat of multinational companies, as argued in a recent issue of *The Economist*, Zhan, who said that he is exchanging letters with the magazine on this subject, pointed out that there are different indicators to assess whether multinationals are retreating or not.

He referred to two "tendencies". One is shifting from internalization to externalization. In a sense, there is a tendency of manufacturing and even services companies trying to do outsourcing, engaging in contract manufacturing and contract farming. The other trend involves transforming the business model by greater recourse to cross-border e-commerce or e-trade.

While this brings about a change in mode of operation, the multinational companies are still coordinating the global value chains, said Zhan.

Regional trends

According to the UNCTAD report, the decline in FDI flows in 2016 was not equally shared across regions, reflecting the heterogeneous impact of the current economic environment on countries worldwide.

Equity investments at the global level were boosted by a 13% increase in the value of cross-border mergers and acquisitions (M&As), which rose to their highest level since 2007, reaching $831 billion.

The value of announced greenfield projects reached an estimated $810 billion – a 5% rise from the previous year, although this was largely due to a number of very large projects announced in a handful of countries.

At the regional level, falling flows to Europe (-29%), Developing Asia and Oceania (-22%), Latin America and the Caribbean (-19%) and Africa (-5%) reduced the global total.

In contrast, FDI flows rebounded among transition economies (38%) and more than doubled in other developed economies, thanks to a strong recovery of investment in Australia and Japan. There was also continued growth – if less dynamic than in the previous year – of inflows in North America.

As a result of these regional differences, the share of developed economies in world FDI flows as a whole is estimated to have risen further, reaching 57% of the total. Nevertheless, developing economies continue to comprise half of the top 10 host economies.

The United States remained the largest recipient of FDI, attracting an estimated $385 billion in inflows, followed by the United Kingdom with flows of $179 billion, vaulting up from 12th position in 2015. China remained in third position with a record inflow of $139 billion.

The overall trend for developed economies was conditioned by FDI dynamics in Europe, where inflows experienced a significant fall of 29% to an estimated $385 billion. During 2016, a number of European countries experienced strong volatility in FDI flows compared with the previous year, said UNCTAD.

FDI flows to North America increased modestly (6% to $414 billion), despite a 15% increase in the value of cross-border M&As in the region. Inflows in Canada retreated (from $43 billion to an estimated $29 billion), as M&A sales and greenfield projects in the country tumbled. Flows to the United States grew by 11% (from $348 billion to an estimated $385 billion), bolstered by strong equity investment inflows as cross-border M&As in the country rose 17% in value, led by a number of mega-deals.

According to UNCTAD, slowing economic growth and falling commodity prices weighed on FDI flows to developing economies in 2016. Inflows to these economies fell 20% (to an estimated $600 billion) in the year, because of significant falls in Developing Asia and in Latin America and the Caribbean.

There was a widespread downturn

in cross-border M&A activity across developing sub-regions during the year, which fell 44% in terms of aggregate value. In contrast, the value of announced greenfield projects rose 19% to reach $540 billion, but this was largely due to the announcement of a few very large investments in a small number of countries, as the majority of countries recorded falls.

In Developing Asia, the decline in inflows (-22% to an estimated $413 billion) was relatively widespread, with every major sub-region registering double-digit reductions. In absolute terms, the majority of the decline in flows to the region was centred in Hong Kong (China) – down from $175 billion to an estimated $92 billion – returning to the levels prevailing before the spike in 2015. In contrast, foreign investment in mainland China remained robust, rising by 2.3% to a new record of about $139 billion.

Economic recession in Latin America and the Caribbean, coupled with weak commodity prices for the region's principal exports, factored heavily in the decline in FDI flows to the region (down 19% to $135 billion). In South America, there were sizable falls in Brazil (from $65 billion to an estimated $50 billion) and Chile (from $16 billion to an estimated $11 billion). In Central America, despite its relatively stronger economic performance, flows also fell, led by a 20% reduction in Mexico (from $33 billion to $26 billion).

FDI flows to Africa also registered a decline (-5% to $51 billion), with the region sharing similar external vulnerabilities with Latin America. The low level of commodity prices continues to have an impact on resource-seeking FDI.

FDI flows to transition economies rose by 38% to an estimated $52 billion. This largely reflected a doubling of inflows in Kazakhstan (from $4 billion to $8.1 billion) as well as a 62% uptick in flows to the Russian Federation (from $12 billion to an estimated $19 billion), said UNCTAD. *(SUNS8395)* ❐

Ecuador revives campaign for UN tax body

As the new chair of the largest developing-country bloc in the UN, Ecuador is pushing for action against tax havens and for the establishment of a UN body to promote international tax justice.

by Thalif Deen

NEW YORK: The Republic of Ecuador, currently chair of the largest single coalition of developing countries at the United Nations, is reviving a longstanding campaign for the creation of an intergovernmental UN tax body and the elimination of tax havens and illicit financial flows.

Practising what it preaches, Ecuador says it is the world's first country to hold a nationwide referendum on tax havens, scheduled to take place on 19 February.

Addressing a meeting of the 134-member Group of 77 (G77) on 13 January, Ecuadorean President Rafael Correa, who was anointed the new G77 chair for 2017, said "illegitimate wealth mostly affected the world's poorer nations".

"There should be more knowledge havens and less tax havens," he said, at a formal handover ceremony of the chairmanship from Thailand to Ecuador.

Meanwhile, speaking at a civil society panel discussion in Washington on 12 January, Guillaume Long, Ecuador's Minister of Foreign Affairs, said the country, in an unprecedented move, will let the people decide, pointing out that "the struggle against tax havens is a global struggle."

"We need a UN tax body to ensure tax justice. Ecuador will unite with all those fighting this battle – states and civil society."

The Ecuadorean referendum, known as the "ethical pact", will ask: "Do you agree that, for those holding a popularly elected office or for public servants, there should be a prohibition on holding assets or capital, of any nature, in tax havens?"

Public servants and elected officials will be given a year to repatriate their capital or be removed from office or their post.

Initiative for a UN tax body

At the panel discussion, several US-based non-governmental organizations (NGOs) commended the new G77 chair for leading a campaign both for the elimination of tax havens and for the creation of a UN tax body.

The proposal for a UN tax body has already been shot down twice by Western nations, first at the Financing for Development (FfD) conference in Addis Ababa in July 2015, and also at the 14th session of the UN Conference on Trade and Development (UNCTAD 14) in Nairobi in July last year.

Asked about the feasibility of the proposal in the face of Western opposition, Eric LeCompte, Executive Director of the Jubilee USA Network, one of the NGOs backing the proposal, told Inter Press Service (IPS): "In just a few years we've seen almost universal acknowledgment of the problems of tax avoidance, tax evasion and corruption. At the same time we do see clear opposition from many wealthy countries on the idea of a global tax body as part of a solution."

For this to be successful, he pointed out, there needs to be some re-envisioning of the proposal from the Addis Ababa conference. He said the G77 could also engage in bilateral agreements to move this forward.

"While the United Nations tries to operate by consensus, we could also see countries force a vote at the United Nations. While a vote would likely be successful under this method, without some re-envisioning of the concept, we'd likely see many wealthy countries refuse to participate in the process," he warned.

Asked if Ecuador will be able to pull it off, LeCompte told IPS: "Ecuador seems to be operating out of a G77 consensus on these issues. Since the Financing for Development meetings in Addis Ababa, we've seen G77 countries like Ecuador strengthen their support for these efforts."

The original proposal by the G77 called for the establishment of a standing intergovernmental group of experts to address tax issues, including international tax issues, and to help countries better mobilize and employ fiscal revenues.

This includes international initiatives to counter tax avoidance and tax evasion, as well as strengthening the capabilities of developing countries to address tax avoidance and tax evasion practices. In Africa alone, the estimated resources leaving the continent in the form of illicit financial transfers amounted to nearly $530 billion between 2002 and

2012, according to UNCTAD.

The three key causes of illicit financial outflows are largely commercial tax evasion, government corruption and criminal activity, including money laundering.

Addressing the NGOs, the Ecuadorean Foreign Minister said: "Our government has introduced very redistributive policies in the most unequal continent on earth. Our priority is to fight inequality, which is the cause of most of the problems we face."

He pointed out that Ecuador has seen big improvements in living standards over the last decade due to major economic reforms, including a tripling of tax takes achieved overwhelmingly by collecting taxes, not by raising them.

"This has become an important source of investment in public services. The next stage in this battle for a fair economy is against tax havens."

"Tax havens are a real ethical problem. For example, while Ecuadorean migrants loyally work long hours to send remittances to Ecuador, an elite section of the population siphons billions of dollars back out of the country to tax havens," he noted.

Global problem

The Washington panel discussion was co-sponsored by several NGOs, including Jubilee USA, Center for Economic and Policy Research, Center of Concern, FACT Coalition, Financial Transparency Coalition, Latindadd, Global Alliance for Tax Justice, Public Citizen, and the Latin American and Caribbean Tax Justice Network. The topic under discussion was "Tax Avoidance, Illicit Financial Flows and Global Development: A Call for a United Nations Tax Body".

The event moderator, LeCompte of Jubilee USA, told the panel discussion: "This conversation today comes at a critical moment. Due to tax evasion and corruption the developing world loses more than a trillion dollars a year."

"These tax issues are a global problem and require a global solution. Addressing tax havens is like a carnival game of whack-a-mole. You deal with the problem in one place and it pops up in another."

Economist Mark Weisbrot, Co-Director of the Center for Economic and Policy Research, said: "Latin America did go through a decade where poverty was reduced from 44% to 28% in the region as a whole. The standard narrative is that this was just a commodities boom.

"Ecuador is probably the best example of why that is really not true. They had to do a whole set of institutional, policy and financial reforms in order to achieve the success that they did, and they did achieve success. They have reduced poverty by 30% by 2014. They reduced inequality. They increased access to healthcare. They tripled the amount of GDP that went to public investment."

He also said that "Ecuador was able to build the institutions and do enormous financial and regulatory reforms that we could use here in the United States. They took control of the financial system and regulated it really for the first time in the way it should be regulated. I think the referendum on tax havens is very creative and innovative."

Aldo Caliari, Director of the Rethinking Bretton Woods Project at the Center of Concern, said: "The battle for an intergovernmental body was not won in Addis Ababa. We need to keep struggling. A UN intergovernmental body is about who defines the rules of the game."

Caliari said he "saluted" the efforts of Ecuador to raise awareness and pressure against tax havens. "I like the significance of the fact that Ecuador, with this mindset of achieving progress, is taking over the G77 presidency, because it is critical."

Elise Bean, former Staff Director and Chief Counsel of the US Senate Permanent Subcommittee on Investigations, welcomed Ecuador's work against tax havens. She said "Ecuador is giving us an example about how if you strengthen the capacity to collect taxes it really contributes to stability, to the ability to fight poverty. This culture of paying taxes is a remarkable achievement and is something that should be studied and I think we should try to replicate it elsewhere."

"I have tremendous admiration for Ecuador, to show that it is possible to build a culture of paying taxes. I congratulate you on your country's progress."

Clark Gascoigne, Deputy Director of the FACT Coalition, said that illicit financial flows have a devastating impact on developing countries, wringing tens of billions of dollars out of the developing world, but that they also have a major effect on developed countries – $150 billion is the most recent estimate of the cost to the US from tax haven abuse annually. "This of course exacerbates inequality, leads to austerity and undermines our ability to act collectively and solve problems."

Porter McConnell, Director of the Financial Transparency Coalition, said after the meeting: "I have been very impressed by the leadership that Ecuador has demonstrated on this issue of tax havens and on the issue of illicit financial flows more widely."

"We have been working with the government of Ecuador for some months to draw attention to the issue and to support the leadership role of Ecuador in the G77. We are very excited to see what comes next and are very supportive of the efforts of Ecuador," McConnell said. *(IPS)* ❒

(continued from page 7)

Margaret Chan, Director-General of the World Health Organization (WHO), welcomed the entry into force of the TRIPS amendment as an additional legal pathway for access to medicines, specifically in countries that have no domestic pharmaceutical manufacturing capacity.

"This entry into force marks the first amendment to any of the WTO multilateral trade agreements since their adoption in 1994. As such, it reinforces the importance of health in the formulation of international trade policies," she said.

"We are a long way from reaching global equity in access to essential medicines especially at a time when the costs of some new treatments are unsustainable even in the richest countries in the world."

According to Chan, the factors that stand in the way of universal access to affordable patent and off-patent medicines are multiple and inter-related in complex ways. "Taking full advantage of TRIPS flexibilities is important but not enough to address these complexities. In this era of sustainable development, WHO and its partners are working to improve manufacturing capacity for pharmaceuticals in the developing world especially in sub-Saharan Africa."

"We are also deeply engaged in finding a model for the fair pricing of pharmaceuticals," she added. *(SUNS8387)* ❒

Beware the new US "border tax" plan

US leaders are hatching a new protectionist instrument that may even be worse than tariffs, with potentially devastating effects on developing countries.

by Martin Khor

A new and dangerous form of protectionism is being considered by US leaders that could have devastating effects on the exports and investments of developing countries as well as destabilize the world economy.

The plan, known as a border adjustment tax, would have the effect of taxing imports of goods and services that enter the US, while also providing a subsidy for US exports which would be exempted from the tax.

The proponents' aim is to drastically reduce imports while promoting exports and thus cut the huge trade deficit in the US. It fits in with US President Donald Trump's goals to "make America great again", to buy American and hire Americans.

On the other hand, if adopted, the plan would depress the competitiveness or viability of other countries' goods. Their exports to the US will rise in price due to the tax effect, depressing the demand for them and, in the worst case, making them unsaleable.

Companies from the US that invested in developing countries because of lower costs and then exported to the US may find their business affected because their products will cost more. Some will think of relocating back to the US, and investors will be discouraged from opening new factories in developing countries.

The border adjustment tax is part of a tax reform bill being drafted by the ruling Republican Party in the US, with Paul Ryan, the Speaker of the House of Representatives, being the chief advocate.

Trump originally criticized the plan for being "too complicated" but is reportedly now seriously considering it. The proposal has generated a tremendous controversy in the US but also enjoys strong support, and some version is expected to be tabled.

Originally, Trump favoured the simple imposition of a tariff on products from selected countries, especially China and Mexico. But this would be too blatantly protectionist and surely trigger swift retaliation.

The tax adjustment plan would have a similar effect in discouraging imports and moreover would promote exports, but is quite complex.

The tax works like this. Firstly, as part of an overhaul of the corporate tax system, the expenses of a company on imported goods and services can no longer be deducted from a company's taxable income. The corporate tax rate would be reduced from the present 35% to 20%. The effect is that a 20% tax would be applied to companies' imports.

Take the case of a company with a revenue of $10,000, with $7,000 in imports, $2,000 local costs and $1,000 profit. Under the present system, the $7,000 imports plus the $2,000 wages can be deducted. At a 35% tax rate, the company's taxable total would be $1,000, tax would be $350 and after-tax profit would be $650.

Under the new plan, the $7,000 imports cannot be deducted and would form part of the new taxable total of $8,000. At a 20% tax rate, the tax would be $1,600, so after tax the firm has a loss of $600.

The company, to stay afloat, would have to raise its prices sufficiently, but that might price the product out of the market. Some firms may close down and the imports would cease.

The new plan would also allow a firm to deduct export revenue from its taxable income. This would allow the firm to increase its after-tax profit.

An article in the *Wall Street Journal* gives the example of a firm which presently has export sales of $10,000, cost of inputs $5,000, wages $2,000 and profit $3,000. At the 35% corporate tax rate, the tax is $1,050 and after-tax profit is $1,950.

Under the new plan, the export sales of $10,000 would be exempt from tax, so the company has zero tax. Its profit after tax is thus $3,000. This would enable the company to cut its export prices, resulting in increased demand for its product and expanded sales and export revenues.

At the macro level, with imports reduced and exports increased, the US can cut its trade deficit, which is a major aim of the plan.

Adverse effects

The US is a major export market for many developing countries, so the tax plan, if implemented, will have serious adverse effects on them. An equivalent of 20% tax on their exports may render some firms that use or sell these products less profitable; and if the prices are forced upwards, they may become less competitive against substitute products or similar locally made products.

US industrial companies are also investors in many developing countries. If implemented, the tax plan would reduce the incentives for some of these companies to invest abroad, as the parent company can no longer claim tax deductions for the goods imported from its subsidiaries abroad.

The plan is bound to generate outrage from the US' trading partners, in both South and North. They may lodge cases against the US at the WTO, which is likely to rule against the US. The new tax deduction system discriminates against imports, thus violating the WTO rules of non-discrimination. The exemption of income tax for export sales would most likely be assessed as an export subsidy prohibited by the WTO subsidies agreement.

While countries can challenge the US at the WTO, it can take three to four years for a case in the WTO to be finally settled. Meanwhile the US can continue with its laws and practices and reap the benefits.

Another possibility is that Trump may make good his threat to leave the WTO if important cases go against the US. That would cause a major crisis for multilateral trade.

There are many critics of the tax plan. Larry Summers, a former US Treasury Secretary, warns that the tax change will worsen inequality, place punitive burdens on import-intensive sectors and companies, and harm the global economy.

The tax plan is expected to cause a 15-20% rise in the US dollar. "This would do huge damage to dollar debtors all over the world and provoke financial crises in some emerging markets," according to Summers.

US retail companies like Walmart are strongly against the plan, and an influential Republican, Steve Forbes, owner of *Forbes* magazine, has called it "insane."

It is not yet clear what Trump's final position will be. If he finds the plan too difficult to implement because of the effect on some US companies and sectors, he might opt for the simpler use of tariffs.

In any case, whether tariffs or border taxes, policymakers, companies and workers in developing countries should pay attention to the trade policies being cooked up in Washington and voice their opinions.

Otherwise they may wake up to a world where their products are blocked from the US, the world's largest market, and where the companies that were once so happy to make money in their countries suddenly pack up and return home. ❐

Martin Khor is Executive Director of the South Centre, an intergovernmental think-tank of developing countries, and former Director of the Third World Network. This is an edited and expanded version of an article which first appeared in The Star *(Malaysia) (13 February 2017).*

US trade hawks and the China bogey

A US strategy targeting China's "trade cheating" would be misguided and risk triggering a damaging economic conflict, cautions *Jomo Kwame Sundaram.*

New US President Donald Trump has long insisted that the country's major trading partners have been taking advantage of it. Changing trade terms and conditions will thus be top priority for his administration, and central to the overall Trump economic strategy to "make America great again".

As presidential candidate, Trump's trade policy paper was written by Peter Navarro and Wilbur Ross. Ross will now be US Commerce Secretary while Navarro will head the National Trade Council. They view economic policy as integrated, including tax cuts, reduced regulations as well as policies to lower energy costs and cut the chronic US trade deficit.

In just 21 pages, they suggest how US growth will increase during a Trump administration, with millions of new jobs and trillions in additional income and tax revenues.

One view is that President Trump can implement most of the policies advocated without obstruction by either the US Congress or the court system.

Internationally, no country will take on the US for a "very simple reason: America's major trading partners are far more dependent on American markets than America is on their markets".

Navarro and Ross argue that the US has already lost out, mainly due to badly negotiated trade deals and poor enforcement resulting in trade deficits.

They claim that because the US does not use a value-added tax (VAT) system, everyone else has an unfair trade advantage, which they believe the World Trade Organization (WTO) should have rectified.

As the world's largest economy, consumer and importer, the US has the leverage to correct this by pulling out of the WTO, goes the argument. As the WTO would become irrelevant without the US, the damage would be minor.

According to the plan, reducing the US trade deficit will put more money in the hands of American workers, who will then be able to afford higher prices for US-made products. As American products become more competitive over time, prices will fall, raising consumer welfare.

China myths

Defensive tariffs are proposed to deal effectively with "trade cheats". With China identified as the "biggest trade cheater" in the world, it gets special attention.

In the US public mind, China remains "the world's workshop" where hundreds of millions of lowly paid workers mass-produce consumer goods while its artificially low exchange rate and production subsidies ensure their goods remain competitive internationally.

While this might have been true over a decade ago, the situation has changed radically since.

At the height of global trade imbalances over a decade ago, China's trade surplus was more than 10% of GDP. However, with the sudden slowing of world trade growth during the 2008-09 Great Recession, growth of the US trade deficit with China slowed significantly.

While the US still has a large trade deficit with China, China is also among its largest export markets.

In 2014, services overtook manufacturing as the biggest component of China's economy. Net exports were equivalent to 1.7% of growth, tiny compared to domestic consumption and investment.

China will want to continue exporting to the US, but the structural transformation of its economy and greater demand for various services now generate more new jobs, not only in China but also elsewhere, including the US.

On the campaign trail, Trump had threatened to declare China a currency manipulator and to impose tariffs of up to 45% on Chinese imports during his first 100 days in office. Under US law, Trump can easily cite currency manipulation to impose defensive and countervailing tariffs against others as well.

Navarro and Ross point not only at China but also at Japan and the euro, with the Germans getting special mention.

Washington has long claimed that China artificially depresses the value of its currency to benefit exporters. While a plausible case could have been made to this effect a dozen years ago, the renminbi has greatly appreciated since then, following tremendous US pressure, much amplified by the International Monetary Fund (IMF).

Most serious economists today doubt the renminbi remains undervalued. While stable for about a decade before 2005, and arguably undervalued for some of that period, the renminbi has risen by 30-40% since, prompting the IMF to repeatedly declare that it is no longer undervalued.

Indeed, weakening export demand and strong capital outflows have put tremendous downward pressure on the Chinese currency, forcing its central bank to use its US dollar reserves to artificially support the currency. Thus, recent Chinese currency manipulation has kept the renminbi overvalued rather than undervalued.

All this suggests that the Trump

team is proposing remedies that, at best, rely on a long-outdated diagnosis. The current situation is very different.

Failure to make progress with wrongly prescribed measures may lead to even more aggressive efforts, which risk leading to an economic war in which most, even spectators, will become victims. *(IPS)* ❒

Jomo Kwame Sundaram was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

How UK foreign aid benefits the 1%

The missteps of the UK's development finance institution lay bare the serious shortcomings of a private-sector-driven model of development assistance.

by Theo Morrissey

The UK government is moving to increase the share of public money spent on development going to the private sector. Plans for an eight-fold increase in the funding cap for the government's development finance institution are currently rushing through parliament. This may seem like quite a technical detail but, make no mistake, therein lies the devil.

The Commonwealth Development Corporation – or CDC, formerly the Colonial Development Corporation – aims to "support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places."

The CDC, a public company 100% owned by the UK's Department for International Development, is expected to make a profit. Between 2004 and 2007, the agency most certainly did, reaping annual returns on investment as high as 40%.

Some of these returns went to underwrite the astronomical salaries of the agency's top executives, over £1 million in the case of one former chief exec.

And what sort of investments did the CDC make to forge "a lasting difference to people's lives in some of the world's poorest places"? The agency turned out to be funding luxury hotels, gated communities, shopping malls, schools with expensive fees, private hospitals, restaurant chains and advertising companies.

If spending public money on luxury hotels to help the developing world's poor strikes you as a suspect development strategy, congratulations – your moral compass is working. But simple morality aside, this approach makes no sense. We have next to no practical proof that investing in gated communities and private hospitals alleviates poverty in the world's poorest countries.

Defenders of the CDC these days assure us that the agency has become a reformed beast no longer prone to these sorts of past excesses. Indeed, some reform did take place in 2010, after the CDC found itself caught in compromising positions a few too many times. These reforms refocused investments on countries that have the most poverty, cut agency executive pay, and better prioritized job creation. But the reforms have not changed the CDC's general culture. Some 35 employees, for instance, still take home more than the UK prime minister.

Make no mistake, though: These people rate among Britain's best and brightest, fighting poverty in ways we can only attempt to understand ... or so they would want us to believe.

The CDC claims to benefit developing countries by creating jobs. The agency, the argument goes, has created over a million new jobs in the past year alone. An impressive figure. Also quite misleading, as a recent briefing by Global Justice Now highlights. Indirect jobs, calculated based on estimates of the possible impact of investments, account for 97% of the CDC million-jobs figure.

We need, warns a recent study by the Trade Union Development Cooperation Network, to beware the CDC's over-reliance on self-reporting. The employment figures the agency cites come from the agency's investment partners and have not been independently audited or even verified by the CDC itself.

So much for the quantity of jobs created. On the quality of jobs created, the CDC abandons even the manufacturing of homemade figures. The agency makes not a single provision for the monitoring of the quality of new jobs created.

To raise the profile of job quality and other employment issues, best practice should include having worker representatives on the board of directors of the CDC and other development finance institutions. Needless to say, CDC efforts fall well below best practice.

Neither in the host countries where the CDC operates nor in the UK itself do worker organizations get consulted at any point in the process. In fact, evidence suggests that the agency at times undermines the ability of workers to organize into unions, collectively bargain, or even raise complaints. This contempt for worker rights makes for a blatant contradiction. How can creating jobs "alleviate poverty" when workers can't organize to fight poverty wages?

The Trade Union Development Cooperation Network's 2016 study, "The Development Effectiveness of Supporting the Private Sector with ODA Funds", highlights shortcomings of the CDC in other key areas. The agency keeps governments of developing countries out of the loop on decision making and legitimizes tax havens – a disaster for developing countries – by channelling 75% of its investments through notoriously secretive jurisdictions like the Cayman Islands and Guernsey.

The CDC's poor reporting standards, the 2016 study notes, add to the transparency problems stakeholders in developing countries face. The CDC has also failed to set up independent complaint mechanisms for those the agency claims to be helping.

Deeply flawed model

These shortcomings all help reveal a deeply flawed model of development aid, a model that avoids coming to grips with a basic reality: Profit-driven investors have little incentive to invest in contexts of crushing poverty, even when shored up by public money.

Developing countries, one recent report shows, remain net creditors to the developed world to this day. The UK has laudably declared that it will continue to dedicate 0.7% of its national income to development assistance, but this effort may become meaningless without a true commitment to an effective use of these funds.

We are seeing instead additional prominence being given to the role of the private sector in development internationally. The mantra of trade liberalization is encouraging countries to pick private sector champions and promote their interests at home and abroad. Stripped of the ability to build any such champions on internal markets, developing countries are destined to remain confined to the lower echelons of value chains.

Tax avoidance and austerity measures mean that cash-strapped governments are looking to the private sector to invest in the development effort. But the revenues of multinational enterprises dwarf the GDP of developing countries. This power imbalance bears witness to an instrumentalization of public policymaking by private interests – the exact opposite of what should be happening.

Under these conditions, the blurring of lines between public and private interests will only worsen the social, economic or environmental problems we face. ❐

Theo Morrissey works at the International Trade Union Confederation as the outreach communications officer of the Trade Union Development Cooperation Network. The ITUC represents 180 million workers in 162 countries. The above article is reproduced from Inequality.org under a Creative Commons 3.0 licence. An earlier version of the article appeared in Equal Times (www.equaltimes.org).