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Trade under "hyperglobalization" brings inequality – UNCTAD

The governance of international trade in the present era of "hyperglobalization" has contributed to increasing economic inequality, according to the United Nations Conference on Trade and Development (UNCTAD). Unilateral protectionist actions such as those taken by the US are not the solution, says UNCTAD, but neither is the unquestioning practice of "free trade".

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Trade wars a symptom of unbalanced hyperglobalized world

A UN report contends that the current wave of protectionist measures reflect discontent with the ills of "hyperglobalization", and explains why the solution to this challenge does not lie in unfettered free trade.

by Kanaga Raja

GENEVA: The world economy remains in a fragile state, and a sharp escalation of tariffs and heightened talk of a trade war will only add to its underlying weakness, the United Nations Conference on Trade and Development (UNCTAD) has said.

In its *Trade and Development Report 2018 (TDR-2018)*, released on 26 September, UNCTAD said that in the absence of strong global demand, trade is unlikely to act as an independent engine of global growth. Because tariffs operate in the first place by redistributing income among several actors, gauging their impact is not as straightforward as some of the more apocalyptic trade pundits are predicting.

Still, they will almost certainly not have the desired effect of reducing the current account deficit in the United States; will raise uncertainty if tit-for-tat responses ensue; and will cause significant collateral damage for some developing countries, adding to the pressures already building from financial instability.

This is not, however, the start of the unravelling of the "post-war liberal order". That order has been eroded over the past 30 years by the rise of footloose capital, the abandonment of full employment policies, the steady decline of income going to labour, the erosion of social spending and the intertwining of corporate and political power.

"Trade wars are a symptom of an unbalanced hyperglobalized world," said UNCTAD.

At a media briefing, Richard Kozul-Wright, Director of UNCTAD's Division on Globalization and Development Strategies and lead author of the report, said: "We have a fragile global economy."

He said that this time last year the International Monetary Fund (IMF) was extremely confident about the state of the global economy, with synchronized growth and recoveries everywhere. However, UNCTAD had warned in last year's *Trade and Development Report* that this was much more of a complicated situation. "And we think the situation is even more fragile today than it was 12 months ago. The world economy is walking a tightrope between debt-fuelled growth and financial instability."

While there has certainly been a recovery in the United States, said Kozul-Wright, "the question is whether that is an economic sugar-rush driven by tax cuts and military spending or whether there is a sustainable growth path behind that. We tend to think it is the former."

He said that 10 years after Lehman Brothers collapsed, the multilateral system is in crisis. "This town [Geneva, which houses the headquarters of the WTO] is momentarily the centre of that crisis, that we see trade tensions as a symptom of larger causes."

"Some of those causes are failed policies. We have been through ten years of saving banks, pushing austerity, encouraging mergers and banging relentlessly the drum of free trade."

That, he said, has, as emphasized in last year's *TDR*, been a cover for a rise in the rent-seeking economy and a "Medici vicious circle" in which economic and political power have become reinforcing to the detriment of large parts of the global system and citizenry within countries.

In particular, as a consequence of that kind of agenda, many of the underlying problems that caused the crisis – footloose capital, precarious jobs, persistent inequality and rising debt – have not been addressed.

Kozul-Wright said that trust was sucked out of the financial system with the crisis in 2008 and trust is now being sucked out of the political system as a consequence of the failure to deal with these problems. And the trade war in many respects is a reflection of that lack of trust across the political system.

"What we are seeing now are the tensions and problems of hyperglobalization and there is no doubt that trade is caught up in that," said Kozul-Wright.

He said that UNCTAD is "less apocalyptic than many people writing about this although we are worried, but our worries are not so much from the direct impact of trade, which we don't think will be very significant, but through a whole series of demand-side and distributional effects that will come in response to the tit-for-tat tariffs … now taking place essentially between the United States and China."

In a fragile world economy, such uncertainties will have ramifications, according to Kozul-Wright, and the ramifications could be significant particularly for those countries that are financially vulnerable.

At the media briefing, Kozul-Wright was also asked to comment on a 20 September meeting at the Canadian mission in Geneva where some 13 countries including the European Union discussed proposals for WTO reform that targeted the developing countries, in particular China, including proposals to deny the consensus principle and to do away with special and differential treatment for developing countries in the WTO.

In response, he said that as far as he could tell, it was an attempt to prevent China from doing more of what it had done successfully to develop over the last 25 years.

"To me it's shocking. I would use the word 'shocking' actually – the attitude of the advanced economies towards what is the one success story from the developing world of the last 25 years," he said.

"If you look at the list of things that the countries want to outlaw, it's all the things that the Europeans were doing when I was a kid in the 1950s and 1960s. State ownership was part of the normal discourse on how you ran a successful economy in the advanced world in the first 30 years of the post-war period. Technology transfer and finding ways to access the technological frontier, relatively soft intellectual property rules, all kinds of ways of trying to get at technology [were] part of the story. Finding the right balance between the public sector and the private sector was part of the story.

"Now these are the things that it seems are no longer acceptable because one country has used these policies very successfully to create its own firms," said Kozul-Wright.

He said that despite talk about China being a mercantilist economy, the biggest mercantilist economies are in the West. The US and the European economies are mercantilist economies in that policies are made in support of, and in some cases by, their largest players.

He added that "one thing that China has done that no one can dispute is a model that has eliminated poverty. Why in the world would you not want to think of ways of generalizing that model, rather than finding ways to clamp down on all the measures that were used as ingredients to make that model successful?"

"To me it makes no sense other than to explain it as part of a rent-seeking world which has become a serious source of not only economic problems but political tensions as well," said Kozul-Wright.

Backlash against hyperglobalization

According to *TDR-2018*, the backlash against hyperglobalization is gaining momentum, with the international trading system on the frontline.

As discussed in previous *TDR*s, the roots of the heightened insecurity, indebtedness and inequality that are hallmarks of the current era stem more from the workings of the financial system than the trade regime; and that regime proved robust in the face of the economic fallout from the global financial crisis.

Moreover, using tariffs to mitigate the problems of hyperglobalization will not only fail to do so but run the danger of adding to them, through a vicious circle of retaliatory actions, heightened economic uncertainty and slower growth.

Still, it would be foolish to dismiss the constituency in advanced economies worried about trade shocks as simply ignorant of the subtleties of Ricardian theory or misguided victims of populist politicians. Indeed, in addition to discontent in the North, there are numerous and longstanding concerns that developing countries have been raising about the workings of the international trading system which have also intensified in this century.

In reality, the lived experiences of each and every constituency at the local level reflect the intertwining of trade, financial and technological forces operating through national, regional and global markets and managed by policies, regulations and institutions designed to govern those markets and interactions.

The dominant narrative of the current era equates globalization with the growing reach (and porosity) of markets and an accelerating pace of technological change. It employs the language of "free trade" to promote the idea of a harmonious (win-win) world governed through clear rules and greater competition. But hyperglobali-zation has as much to do with profits and mobile capital as with prices and mobile phones and it is governed by large firms that have established increasingly dominant market positions.

"Indeed, while trade and technology, through both destructive as well as creative impulses, have, no doubt, had an impact on the way we go about organizing our lives, in the end it is social and political initiatives in the form of rules, norms and policies that matter most for the outcomes of an interdependent world."

And, as described in previous *TDR*s, the hyperglobalized world is one where money and power have become inseparable and where capital – whether tangible or intangible, long-term or short-term, industrial or financial – has extricated itself from regulatory oversight and restraint and muted the voice and influence of other social stakeholders with an interest in the direction of public policy.

As a result, said UNCTAD, it is hardly surprising that heightened anxiety among a growing number of casualties of hyperglobalization has led to much more questioning of the official story of the shared benefits of trade. Trade sceptics now have substantial political constituencies across the world, in both developed and developing countries.

Mainstream economists bear part of the responsibility for the current state of affairs. Ignoring their own analytical nuances and the subtleties of economic history, they remain biased in favour of unqualified free trade when it comes to communicating with policymakers and broader audiences. The mainstream narrative pitches "comparative advantage" as a "win-win" boost to economic efficiency and social welfare, without specifying the conditions under which such beneficial outcomes can occur or how any negative effects could be abrogated.

There is no doubt that the new protectionist tide, together with the declining spirit of international cooperation, poses significant challenges for governments around the world. However, the call to double down on "free trade" provides a cover for a regime of footloose capital, concentrated market power and the capture of public policy by powerful economic interests. Fighting isolationism effectively requires recognizing that many of the rules adopted to promote "free trade" have not promoted a rules-based system that is inclusive, transparent and development-friendly.

Reviving optimism about trade and multilateralism must go beyond simply promoting trade for trade's sake and pitching multilateralism as the last line of defence against an autarchic Hobbesian dystopia. A more positive narrative and agenda is required, said UNCTAD.

Trade and inequality

TDR-2018 said that the governance of international trade in the era of hyperglobalization has contributed to increasing domestic inequalities in many countries. This has in part reflected the way in which trade is governed in global value chains (GVCs), which has heightened the bargaining power of footloose capital, including through job offshoring to poorer countries (or simply the threat of that), as well as market-concentrating and rent-seeking practices of large firms that effectively weaken competition.

This is partly because international trade is increasingly governed by "free trade" agreements that empower global firms. For example, services derived from intangible assets whose geographical location can be determined by firms almost at will – such as financial assets or intellectual property rights (IPR) – can now be "traded" more freely between higher-tax and lower-tax jurisdictions and within transnational corporations (TNCs) themselves.

Overall, these processes have tilted the distribution of value added in favour of capital, especially transnational capital, whose owners remain mostly headquartered in developed countries.

Between the end of the Second World War and the global financial crisis, the growth of world trade consistently outpaced that of global output albeit with significant differences in the gap across sub-periods. The gap has persisted since 2008, just as both trade and output growth have been low by historical standards.

Between the mid-1980s and 2016, the share of world exports to developing and transition economies rose from roughly one quarter to one half. South-South trade accounted for more than 50% of this increase, from a base of only one quarter of exports to the South in 1986. Since these data include trade in intermediate goods, these changes partly reflect the expansion of GVCs, which have had significant impacts on the geography of production of manufactured products.

While gross trade data show that developing countries' gross revenues from manufacturing as a share of their total exports increased from about one half in 1995 to two-thirds in 2016, this may overestimate the rise of manufacturing in developing countries' exports, partly because of double-counting problems arising in the context of GVCs.

Trade under hyperglobalization, and the associated expansion of GVCs, is often pitched as widening the opportunities for inclusive growth and shared prosperity. The underlying assumption is that because GVCs allow developing countries to focus on individual links in the chain, their firms can integrate with the world economy "on a shoestring" without facing the large risks (and costs) incurred by investing in all the tasks required for producing the finished product or services. According to this view, developing countries can thereby more easily reap the benefits of their major comparative advantage: abundant cheap labour. Following this logic, such integration in the global economy should lead to a reduction of inequality in the South as demand for unskilled labour increases.

Reality is, unfortunately, less obliging. Indeed, it is now increasingly acknowledged that trade patterns under hyperglobalization contributed to polarizing domestic income and wealth distribution not only in the North but also in the South, thus exacerbating domestic economic inequalities. Recently released data that enable the disaggregation of the value added along GVCs support this view. They suggest that these outcomes are partly the result of the proliferation of GVCs and partly due to the behaviour of lead firms, mostly large TNCs that are today the most significant players in international trade.

TDR-2018 highlighted new evidence that GVCs and the spread of low-productivity assembly lines in export processing zones (EPZs) across the South have not just contributed to suppressing the wages of manufacturing workers in the North, but have also exacerbated the income gap between manufacturing workers and owners of capital in developing countries.

In analyzing the rise of export market concentration under hyper-globalization, and the associated increase in the ability of large firms to extract rents, UNCTAD said much as was argued in *TDR-2017*, the evidence is that increased rents have largely resulted from newer and more intangible barriers to competition, reflected in heightened protection for IPR and abilities to exploit national rules and regulations for profit-shifting and tax-avoidance purposes.

The consequent increase in returns from monopolies generated by IPR as well as a reduction in the relative tax costs of larger companies create an uneven playing field. The empirical exercises carried out for *TDR-2018* suggest that the surge in the profitability of top TNCs – a proxy for the very large firms dominating international trade and finance – together with their growing concentration, has acted as a major force pushing down the global labour income share, thus exacerbating personal income inequality.

In developing countries, the negative impact of international trade on inequality was partly the result of the proliferation of special processing trade regimes and EPZs. Many countries created regimes favouring exporters, with the objective of attracting or preserving investment, production and jobs on their shores. The associated risk, however, is that such regimes merely subsidize labour-intensive assembly work or, more precisely, subsidize the organization of low-cost and low-productivity assembly work by large exporters or foreign TNCs in control of GVCs.

"Evidence accumulating in recent years, particularly from experiences in China, points to the limited benefits of such policies for the broader economy and their negative effects on income distribution," said UNCTAD.

The mixed outcomes of policies to promote processing trade often reflect the strategies of TNCs to capture value in GVCs that are designed on their own terms, with high-value-added inputs and protected intellectual property content sold at high prices to processing exporters, with the actual production (fabrication) in developing countries accounting for only a tiny fraction of the value of exported final goods.

The ongoing success of China at bolstering its productive capacities – thus slowly breaking out of the trap of processing trade and moving up the value ladder – has crucially relied on its capacity to claim and use policy space to actively leverage trade through targeted industrial and other policies aiming at raising domestic value added in manufacturing exports. It has also relied on the ability of the Chinese authorities to develop independent financing mechanisms and acquire control over foreign assets, which is being perceived by developed countries as a threat to their own business interests.

To an even larger extent than domestic markets, global exports today are dominated by very large companies, most of them TNCs. Large firms have become the most relevant actors in international trade, although their dominance is hard to quantify precisely, because of data limitations and obstacles to combining country-level trade data with transnational firm-level data.

Nevertheless, recent evidence from aggregated firm-level data on goods exports (excluding the oil sector, as well as services) shows that, within the very restricted circle of exporting firms, the top 1% accounted for 57% of country exports on average in 2014. Moreover, while the share of the top 5% exceeded 80% of country export revenues on average, the top 25% accounted for virtually all country exports. The distribution of exports is thus highly skewed in favour of the largest firms, especially in G20 emerging economies and in developed countries.

In sum, said *TDR-2018*, the evidence describes a widening gap between a small number of big winners in GVCs and a large collection of participants, both smaller companies and workers, who are being squeezed. Rising export market concentration and intangible barriers to competition, both of which have increased the rents of top TNCs (the largest players in international trade and finance), have exacerbated other impacts of trade on inequality.

Furthermore, as large TNCs have increased their weight in rulemaking at all levels, they have become ever less accountable from a social perspective as well as with respect to environmental concerns.

This is one of the main reasons why trade liberalization under hyper-globalization did not deliver the promised shared prosperity in the North or the South. Rather, it promoted debt-fuelled market concentration dominated by a relatively small number of top TNCs, deepened the financiali-zation of the global economy and vastly increased the influence of transnational capital over national and international policy decisions that affect global production, employment and income distribution.

Harnessing trade for development

The belief that international trade can be an "engine for development" and help establish an inclusive growth path, as recently affirmed in the 2030 Agenda for Sustainable Development, is neither new nor unreasonable. Yet, these objectives should not lead to simplistic advocacy of untrammelled free trade.

When UNCTAD was convened for the first time in 1964, policymakers from the South were concerned that their countries were increasingly being marginalized by an international trading system that added to polarizing pressures in the global economy. This was not seen as the ineluctable consequence of market or technological forces but the outcome of institutions, policies and rules, at the national and global levels, that always and everywhere animate and channel these forces in both creative and destructive directions, and could be changed if the balance was seen as unfair and undesirable.

"More than half a century later, and despite myriad changes in the volume, direction and governance of cross-border trade, such concerns have surfaced once again, in advanced economies as well as in developing economies."

It is evident that increased trade under hyperglobalization has created opportunities for structural change, but only in very limited parts of the Global South. Besides the first-tier newly industrializing economies (NIEs) and more recently China, only a few countries have managed to leverage trade as a means for mobilizing and reallocating productive factors away from primary commodities towards higher-value-added manufacturing and service activities, and even then in a sporadic manner. As global trade has decelerated since the global financial crisis, underlying structural weaknesses have been revealed in many countries.

In many cases, the growth spurts that occurred were on the back of unsustainable booms in extractive industries, which in turn further entrenched patterns of hyperspecialization, when what was needed was to move towards more diversified structures. In developing countries that did increase manufactured exports via the offshoring of production, the underlying shift in corporate strategy to minimize costs and maximize the capture of rents has, in combination with the indiscriminate application of neoliberal policies, exacerbated the unequalizing impact of trade.

These outcomes pose several macroeconomic risks and development challenges which are starkly evident today, said UNCTAD. The main concern is probably the negative impact that trade under hyperglobalization has had on aggregate demand.

Global financial markets and major

transnational financial institutions have, with some justification, become the principal villains in this story but it is now evident that non-financial corporations cannot remain immune from criticism. Facing weaker prospective sales in a context of weak aggregate demand and compounded by the post-crisis turn to austerity, large corporations have cut back on investment, further depressing aggregate demand and contributing to slower trade in recent years.

In an interdependent world characterized by financial instability and low growth, trade risks becoming a zero-sum game. Unilateral actions by governments to reinvigorate their own economy by trade protectionism, currency depreciation or wage restraint risk increasing tensions between countries and ending in a self-defeating spiral. But simple-minded calls for more trade liberalization are no substitute for development strategies either.

It is true that trade has been successfully leveraged for promoting structural change by some countries, most recently China. But without policy interventions to generate structural change, channel profits into productive investment and bring better-quality employment, trade can nurture more economic, social and environmental damage, at odds with the Sustainable Development Goals.

The various pieces of evidence examined call for a more evidence-based and pragmatic approach to managing trade as well as to designing trade agreements. Crucially, it is important to address trade with a narrative that departs from unrealistic assumptions, such as full employment, perfect competition, savings-determined investment or constant income distribution, which underpin mainstream computable general equilibrium trade models and the associated policy discourse on trade policy. Instead, the insights of new trade theory that acknowledge the impact of trade on inequality need to be combined with an assessment of the causal relationship between rising inequality, corporate rent-seeking, falling investment and mounting indebtedness.

Revisiting the Havana Charter

According to *TDR-2018*, as UNCTAD has argued consistently in the past few years, a new international compact is required – a Global New Deal – that would aim for international economic integration in more democratic, equitable and sustainable forms.

Specifically, with reference to strategies for international trade and the architecture that sustains it, there is a strong case for revisiting the Havana Charter 1948, which emerged, albeit ephemerally, from the original New Deal and still provides important insights for our contemporary concerns.

First of all, the Charter (Chap. II, Art. 2.1) looked to nestle trade in the appropriate macroeconomic setting, noting that "the avoidance of unemployment or underemployment, through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work and of a large and steadily growing volume of production and effective demand for goods and services, is not of domestic concern alone, but is also a necessary condition for the achievement of the general purpose ... including the expansion of international trade, and thus for the well-being of all other countries."

This focus on employment has largely been lost in the period of hyperglobalization, and also finds little reflection in the "trade" and "economic cooperation" agreements that have dominated the landscape. Yet it must be revived if the widespread backlash against trade is not to gather more strength, said UNCTAD.

Second, the Charter recognized the links between labour-market conditions, inequality and trade, calling for improvements in wages and working conditions in line with productivity changes. It also sought to prevent "business practices affecting international trade which restrain competition, limit access to markets or foster monopolistic control" (Chap. V, Art. 46.1), and dedicated an entire chapter to dealing with the problem of restrictive business practices. Revisiting these goals in light of 21st century challenges should be a priority.

Third, the Charter insisted that there were multiple development paths to marry local goals with integration into the global economy and that countries must have sufficient policy space to pursue pragmatic experimentation to ensure a harmonious marriage. This need for policy space also brings to the forefront the matter of negotiating trade agreements that have in recent decades privileged the requirements of capital and limited the possibilities for development in line with social priorities.

A decade after the collapse of Lehman Brothers, the global economy has been unable to establish a robust and stable growth path. Instead, weak demand, rising levels of debt and volatile capital flows have left many economies oscillating between incipient growth recoveries and financial instability. At the same time, austerity measures and unchecked corporate rentierism have pushed inequality higher and torn at the social and political fabric.

As the drafters of the Havana Charter knew from experience, tariffs are treacherous instruments for dealing with these problems and if a vicious cycle of retaliation takes hold, it will only make matters worse. But trade wars are a symptom not a cause of economic morbidity.

"The tragedy of our times is that just as bolder international cooperation is needed to address those causes, more than three decades of relentless banging of the free trade drum has drowned out the sense of trust, fairness and justice on which such cooperation depends," said UNCTAD.

US protectionism and trade wars

According to *TDR-2018*, one factor intensifying uncertainty is the protectionist turn in the United States. From January 2018 the US administration has announced various measures that have come close to triggering what many are calling a "trade war", beginning with quotas and tariffs on solar panels and washing machine imports from China, and then moving onto steel and aluminium for a wider set of countries, as well as investigating US car imports. The tariffs were imposed under a WTO clause relating to imports that threaten national security, though the idea is to curb competition from "cheap metal that is subsidized by foreign countries", which amounts to a "dumping" charge.

Subsequently, further trade sanctions were imposed on China on the grounds that it was using unfair tactics such as hacking commercial secrets and demanding disclosure of "trade secrets" by US companies in return for access to the Chinese market.

According to *TDR-2018*, the impact of such a wave of protectionism is uncertain. It is true that the US aggregate trade deficit increased by close to 13% to $568 billion in 2017. Of that, around $375 billion was on account of the deficit with China. The point, however, is that imposing these unilateral tariffs is not going to help in reducing these deficits, which reflect macroeconomic imbalances, and things could get even worse with retaliatory action. Moving in this direction would likely disrupt prevailing global value chains around which much of trade is now built.

Such disruption would, in the first instance, affect the profits of multinational operations rather than national output, but with a likely adverse knock-on impact on investment given the heightened level of uncertainty. However, over time it could encourage relocation or "reverse" relocation in some areas in order to jump tariff barriers, thereby partially arresting the process of globalization.

On the other hand, to the extent that it increases government revenues and therefore expenditures in individual nations, it could drive growth based on domestic demand with reduced leakages in the form of imports. So the effect on global growth and its distribution is not easily predicted. But so long as trade continues, which it would since factors other than tariffs drive trade, trade deficits and surpluses would persist.

In sum, said UNCTAD, while unilateral protectionist actions by the US may or may not help strengthen its domestic producers, they are unlikely to make a significant difference to the size of its external deficit. Moreover, they are likely to introduce disruptions to trade patterns and add to uncertainty, which in the absence of expansionary macroeconomic measures will probably damage world trade.

"They will also have distributional consequences which are likely to weaken growth. The Trump Administration sees its protectionist actions as a way of escaping the long years of relative stagnation. What it may actually get is more of the same," UNCTAD added. *(SUNS8762)* ❒

Azevedo's pitch for WTO rules in new areas countered at CSO event

A recent WTO outreach event saw differing visions outlined for the trade body's future direction.

by D. Ravi Kanth

GENEVA: The World Trade Organization (WTO) Director-General Roberto Azevedo, along with business and corporate lobbyists, has made an aggressive pitch for negoti
ating new rules on electronic commerce, disciplines for micro, small and medium enterprises (MSMEs), investment facilitation and services.

At the WTO Public Forum, held here on 2-4 October, Azevedo left no stone unturned in sending a message loud and clear that the WTO, which is an intergovernmental trade body of 164 countries, works solely for advancing new rules in areas which are not part of the Doha work programme.

At a time when the global economy is faced with serious financial risks and worsening trade wars launched by the US, Azevedo did not address the systemic crisis at the WTO's Dispute Settlement Body, nor pointed a finger at the US which is causing the grave crisis.

The Public Forum is an annual WTO outreach event that brings together government, business, academic and civil society representatives to discuss WTO and trade issues.

This year's edition highlighted how the trade body under the leadership of Azevedo is attempting to advance new rules in areas such as e-commerce which a large majority of developing countries have opposed time and again.

Using the Penelope-ruse of "inclusive" strategies, Azevedo said, "We know that around 4 billion people do not yet have Internet access – and of course this is concentrated in developing and least-developed economies. But even when you are connected, there are still many other barriers. We need also the right policy infrastructure, such as regulatory and payment systems – as well as the appropriate skills and expertise. So if we want this digital revolution to be inclusive, we have to work on all of these areas."

In contrast, the Director-General remained deafeningly silent on the problems faced by the developing and poorest countries which want to address the unresolved issues of the Doha work programme, including food security.

Failed globalization

During the session at the Public Forum on "The crisis in multilatera-lism: solutions for inclusive and sustainable growth", organized by the Our World Is Not for Sale (OWINFS) civil society network, speakers exposed the inherent hypocrisy behind attempts to bury the existential issues that need to be addressed on a war footing.

OWINFS, which represents environmental, development and public interest advocates, maintained that "trade can help promote development and shared prosperity around the world. But it depends on the policy environment in which it occurs."

"And so we are also more honest than many of the people who work in this building in acknowledging that the current set of rules of globalization that have been implemented by the WTO over the last 23 years have utterly failed," said Deborah James, Director of International Programs at the Center for Economic and Policy Research, during the session.

She said that "many world leaders and advocates of the model of globalization embodied in the WTO will give credit to 'globalization'." By this they mean developments such as:

- rationalization of tariffs, such as in the General Agreement on Tariffs and Trade (GATT);
- liberalization (privatization, deregulation and foreign presence) in the services sector under the WTO's General Agreement on Trade in Services (GATS);
- liberalization of agriculture, in which the US and the EU are however still allowed to subsidize agricultural products that are exported, even as developing countries are restricted from implementing their developmental policies to address the concerns of their poor farmers; and
- extreme government protectionism in the form of patent monopolies, in which the government intervenes in the economy to stifle competition, promote monopolies and drive prices upwards, which is the opposite of free trade.

And now, added James, there are moves to achieve a full liberalization of the future digital economy with the attempt to push aside the development agenda and the urgent need for agricultural reform, and instead launch new negotiations on digital trade (e-commerce).

James contrasted this model of globalization with the Chinese experience. She said "two-thirds of the net reduction in extreme poverty in the world since 1990 has been in China. Much of the remaining third was helped by the vast increase in China's imports from other developing countries, as well as hundreds of billions of dollars of Chinese foreign investment, loans and aid."

While "Chinese globalization has done very well, the same is not so clear for the other kind of globalization that has been advocated by Washington-led institutions such as the IMF, World Bank, including the WTO."

China, which was "one of the few developing countries that decidedly did not follow a neoliberal path since 1980", "multiplied its per capita income by a factor of 21 by 2017, became the largest economy in the world, and played a major role in pulling dozens of other countries out of their long slump", said James.

"There is a sharp contrast between Chinese development policy, which included state control over most investment, the financial system, central bank and much of manufacturing – as well as a gradual transition from a planned to a mixed economy – versus the neoliberal reforms in most of the world during the 1980s and 1990s," she said.

"We are now seeing the negative impacts of 'globalization' in high-income countries, which have contributed to political upheaval," she said. However, it is a stark reality that "globalization has not benefited the majority of people in developing countries."

According to this year's UNCTAD *Trade and Development Report*, James said, the gains are going to "the top 1%, to the superstar vampire corporations who are sucking ever more wealth out of the vast majority of people around the world".

"And this corporate takeover is the predictable result of those firms using their wealth to intervene in the economy to rewrite the rules, through the WTO and also bilateral and regional 'trade' agreements, and through electing austerity-focused national governments," she maintained.

"So now we have a crisis in the multilateral debates, where countries are blaming China and India, the US is attacking the WTO (for the wrong reasons) and many people in this house are shocked that there has been a popular backlash against an entire economic model that has failed them miserably," James pointed out.

She said "trade can be good for development, but this particular model of trade in the WTO has failed and impoverished workers and farmers in developed, developing and least developed countries, while exacerbating inequality".

Hence, there is an urgent need for "a transformation of the existing system, to prioritize food, jobs, sustainable development, access to medicines, financial stability, quality accessible public services, technology transfer, and priority of climate over 'trade'".

James added that developing countries need "policies of digital industrialization to foment development", but not policies that bring about "digital colonization."

Divergence and deadlock

South African trade official Vahini Naidu, speaking for her country's trade envoy to the WTO Xavier Carim, said there are attempts to undercut rules and principles of the WTO, particularly with regard to the dispute settlement system.

She also spoke about the current attempts in the WTO to adjust the rules on special and differential treatment, on the consensus principle, on plurilaterals, on tightening rules on industrial subsidies and state-owned enterprises, on transparency and notification procedures, and on enhancing the role of the WTO secretariat. There was no agreement at the WTO's last Ministerial Conference in Buenos Aires in December 2017 for advancing these new issues, she said, cautioning that "if these issues are pushed, we will have more divergence, conflict and deadlock."

Naidu said members "should focus on one issue that has traction – fisheries subsidies – and resolve the AB [Appellate Body of the dispute settlement system] impasse." Without convergence on these two issues, it is redundant to talk about reform of rules and about new rules, she said.

She also called for "strengthening special and differential treatment, for addressing the imbalances in rules in agriculture domestic subsidies, and for enhancing food security."

South Africa, according to Naidu, does not want the existing WTO rules to constrain industrial policy.

Therefore, it is a prerequisite that there be "inclusive multilateralism" as against the "flexible multilatera-lism" advanced by the European Union, she said.

Prerna Bomzan from Third World Network, Nepal, offered a graphic account of the issues faced by the least developed countries (LDCs), particularly their low level of social and economic development. Other problems include weak institutional capacities, scarcity of financial resources, and internal and external conflicts.

She said the Doha work programme mandated member states of the WTO to conclude duty-free, quota-free market access for LDC products, simplification of preferential rules of origin, and the services waiver for LDCs. But there has been no progress in concluding this LDC package.

She said the LDCs still find it difficult to participate in global value chains and e-commerce because of their weak infrastructure.

Richard Kozul-Wright, Director of the UNCTAD Division on Globalization and Development Strategies, spoke about the continued turmoil in the world economy because of the 2008 financial crisis.

He pointed out that the multilateral system died following the hyperglobalization that came after the Uruguay Round.

He said the ideological component with the rise of neoliberalism as the dominant economic narrative is about "setting rules that allow business to do what it wants, when it wants, how it wants, without encumbrance by other factors such as democracy and trade unions and other contenders."

Kozul-Wright referred to Quinn Slobodian, an American historian who laid out how the neoliberalism that began with Hayek and the International Chamber of Commerce last century led to consumer sovereignty while eroding national sovereignty.

He said that the neoliberal economic model led to "the financiali-zation of corporate life, shaping the way IP [intellectual property] is central for economic development, and corporate governance." Neoliberalism accentuated financialization and rent-seeking globally.

Kozul-Wright said UNCTAD's *Trade and Development Report 2018*, which was issued by his division, suggested "growing dependence on indebtedness as a driving feature of the growth path of many countries." The indebtedness during this phase of hyperglobalization included both household debt and corporate debt.

He argued that "inequality is hardwired in a hyperglobalized world", suggesting that "it's not just inequality across households, but also functional inequality – inequality between capital and labour."

Lawlessness

D. Ravi Kanth, who writes for the *South-North Development Monitor (SUNS)*, argued that the crisis in multilateralism, particularly on the trade front, has different sources. One of them is at the WTO, where lawlessness and impunity have become the order of the day, Kanth argued.

There is growing lawlessness in the WTO's negotiating function, the functioning of its dispute settlement system and the functioning of its secretariat, Kanth said. The lawlessness in negotiations involves setting aside ministerial mandates in favour of pursuing new issues that have no multilateral mandate, while the lawlessness in the dispute settlement system's functioning is due to the crisis at the Appellate Body, which has been reduced to just three members now. The lawlessness in the WTO secretariat's functioning is largely due to the Director-General's controversial actions, such as accepting funds for technical projects to promote issues that have no prior multilateral approval. The recent actions of the Director-General on investment facilitation have violated the conduct of business rules as set out in the WTO's foundational Marrakesh Agreement, said Kanth.

(When the Marrakesh Agreement was being finalized at the end of 1993, the negotiators refused, despite the then GATT Director-General Peter Sutherland's pleas, to give to the Director-General of the soon-to-be-formed WTO the kind of role that executive heads of other UN system organizations have, namely, the ability to make proposals to members. It is for WTO members, at Ministerial Conferences, the General Council and the Budget Committee, to discipline Azevedo for abusing his position and acting to further the interests of a small group of members. – *SUNS*)

Little wonder that the WTO, which has not been addressing the issues of the developing and poorest countries, is now pursuing new issues which suit only a small set of powerful countries, Kanth argued. *(SUNS8768)* ❐

US-EU-Japan WTO proposals target China's trade policies

The US, the EU and Japan are working to forge a common front at the WTO against "non-market-oriented policies and practices of third countries" – with China seen as their principal target.

by D. Ravi Kanth

GENEVA: China faces a defining moment at the World Trade Organization after the United States, the European Union and Japan chose to gang up against its alleged non-market-oriented policies regarding industrial subsidies, state-owned enterprises and forced technology transfer, trade envoys told the *South-North Development Monitor (SUNS)*.

Under the pretext of WTO reform, trade ministers of the US, the EU and Japan on 25 September issued a set of proposals for launching negotiations at the WTO, targeting China as their principal adversary and other major developing countries as their secondary targets for rewriting rules on several issues.

The three trade chiefs also called for differentiation among developing countries for availing of special and differential flexibilities in the WTO, on the grounds that "overly broad classifications of development, combined with self-designation of development status, inhibit the WTO's ability to negotiate new, trade-expanding agreements and undermine their effectiveness."

While not naming the likes of China, India, Brazil and South Africa, the three trade ministers "called on advanced WTO members claiming developing country status to undertake full commitments in ongoing and future WTO negotiations".

Without addressing the core issue that is staring in the face of WTO members – i.e., the existential crisis confronting the WTO dispute settlement system because of opposition from the US – the three major trading members joined hands in their resolve to target China and other developing countries, said several trade envoys who asked not to be quoted.

"Non-market" policies in the crosshairs

In their four-page joint statement issued on 25 September in New York, US Trade Representative Robert Lighthizer, EU Trade Commissioner Cecilia Malmstrom and Japan's Minister of Economy, Trade and Industry Hiroshige Seko expressed their shared objective to "address non-market-oriented policies and practices of third countries that lead to severe overcapacity, create unfair competitive conditions for their workers and businesses, hinder the development and use of innovative technologies, and undermine the proper functioning of international trade, including where existing rules are not effective."

Echoing the much-repeated position of the US that the current WTO rules are ineffective to address China's non-market economic model, the three trade chiefs directed their negotiators in Geneva to intensify their campaign for addressing "non-market policies and practices of third countries" so as to "maintain market-oriented conditions, and to deepen discussions on enforcement and rule-making as tools to address these problems."

Following the US proposal last year for implementing stringent transparent and notification conditions, the three developed countries want to turn the WTO secretariat into an "intrusive" oversight agency for assessing members' notifications, said a trade envoy who asked not to be quoted.

Under the heading "Statement on Industrial Subsidies and State-Owned Enterprises", the US, the EU and Japan called for "possible new rules on industrial subsidies and state-owned enterprises so as to promote a more level playing field for their workers and businesses."

Significantly, however, the statement is silent about correcting the continued historical asymmetries in the provision of agricultural subsidies.

At a meeting of 13 countries held at the Canadian mission in Geneva on 20 September, Australia, Brazil and Chile, among others, demanded that agricultural subsidies must be addressed on the same footing as new disciplines for industrial subsidies, said a participant familiar with the meeting. But the EU, Japan, Switzerland and Norway, among others, turned their backs on this demand, the participant said.

In their joint statement, the US, the EU and Japan called for creating "a level playing field given the challenges posed by third parties developing state-owned enterprises into national champions and setting them loose in global markets – resulting in distortions that negatively affect farmers, industrial producers and workers" in their countries.

The insertion of "farmers" in the

statement implies that the three trade powers want access to the agricultural markets of other countries without addressing their own trade-distorting domestic farm subsidies.

Without naming China, the US, the EU and Japan called for "effective rules to address market-distorting behaviour of state enterprises and confront particularly harmful subsidy practices such as: state-owned bank lending incompatible with a company's creditworthiness, including due to implicit government guarantees; government or government-controlled investment fund equity investment on non-commercial terms; non-commercial debt-to-equity swaps; preferential input pricing, including dual pricing; subsidies to an ailing enterprise without a credible restructuring plan; and subsidies leading to or maintaining overcapacity."

Effectively, the EU and Japan thus agreed with the US statement made at the China trade policy review meeting in the WTO in July that China engages in "harmful subsidy practices such as: state-owned bank lending incompatible with a company's creditworthiness, including due to implicit government guarantees; government or government-controlled investment fund equity investment on non-commercial terms; non-commercial debt-to-equity swaps; preferential input pricing, including dual pricing; subsidies to an ailing enterprise without a credible restructuring plan; and subsidies leading to or maintaining overcapacity."

The US, the EU and Japan want to "strengthen the ability to obtain information on subsidies" and maintain "the effectiveness of existing WTO disciplines."

More importantly, they want to prepare the ground for launching negotiations in 2019 on "more effective subsidy rules."

The US, the EU and Japan want to bring more members into "these future negotiations" on a plurilateral basis and not on a multilateral framework, trade envoys said.

"Forced technology transfer"

On tackling "forced technology transfer policies and practices of third countries", the US, the EU and Japan said "no country should require or pressure technology transfer from foreign companies to domestic companies, including, for example, through the use of joint venture requirements, foreign equity limitations, administrative review and licensing processes, or other means."

Without naming China, the three ministers "condemned government actions that support the unauthorized intrusion into, and theft from, the computer networks of foreign companies to access their sensitive commercial information and trade secrets and use that information for commercial gain."

Coincidentally, US President Donald Trump also made a similar statement at the UN General Assembly on 25 September attacking China for engaging in the forced transfer of technology and theft of intellectual property.

The US, the EU and Japan maintained that "forced technology transfer policies and practices create unfair competitive conditions for their workers and businesses, hinder the development and use of innovative technologies, and undermine the proper functioning of international trade."

The three ministers want to build a bigger alliance with other like-minded partners on "the full range of harmful technology transfer policies and practices and their effects" so as to create new rules for enforcement at the WTO. Effectively, they seem determined to create another plurilateral negotiation to arrive at rules for "enforcement" at the WTO.

The three trade ministers also came into the open about their ongoing efforts to strengthen the "monitoring and surveillance function." As a first step, the three countries will issue a proposal on "transparency and notification" for consideration at the next meeting of the WTO Council for Trade in Goods.

Besides, the three trade ministers called for "strengthening of the regular [WTO] committees' activities" focusing on the promotion of best practices and increasing efficiencies across committees.

To target the "proliferation of digital protectionism", the three trade policy chiefs want to intensify work on their plurilateral initiative on electronic commerce. They said explicitly that "the possible elements" of the plurilateral agreement on e-commerce will "be included" in the WTO rulebook. They added that they will now enter into plurilateral negotiations for achieving "a high standard agreement with the participation of as many members as possible."

Seemingly with a view to restrict China from acquiring foreign companies in the high-technology areas in their countries, the US, the EU and Japan said they will share their best practices and information "for mitigating risks to their national security from trade and foreign investment."

The three countries also said they will step up their cooperation at "the G7, G20 and the OECD and in sectoral initiatives such as the Global Forum on Steel Excess Capacity and Governments/Authorities Meeting on Semiconductors, to address market-distorting measures."

Defining moment

In short, the US, the EU and Japan effectively vowed to launch a coordinated as well as concerted battle against China and other developing countries to deny them "policy space" in their future industrial development policies, said a trade envoy who asked not to be quoted.

"China faces a defining moment at the WTO as it is frontally targeted by the US, the EU and Japan," said a trade envoy who asked not to be quoted. "While other major developing countries – India, Brazil, South Africa and Indonesia – will also face the consequences of the proposals made by the three countries, it is China which has to bear the brunt of their assault."

"China has to decide one way or the other whether it will continue to align with the US, the EU, Japan and other countries in pursuing the plurilateral initiatives on e-commerce, investment facilitation, and disciplines for micro, small and medium enterprises … or join with the majority of the developing countries that want to pursue multilateral initiatives in the unfinished Doha Development Agenda negotiations and preserve their special and differential flexibilities," the envoy said.

"China cannot run with the hares and hunt with the hounds at the WTO," said another envoy who asked not to be quoted. *(SUNS8761)* ❒

Developed countries turn their backs on permanent solution for PSH

The latest developed-country positions aired in the WTO agriculture talks put at risk public food stocks and various farm support measures established by developing countries.

by D. Ravi Kanth

GENEVA: Major developed countries turned their backs on the mandated permanent solution for public stockholding (PSH) programmes for food security at a recent WTO meeting, insisting that developing countries must first prove that they need such an instrument, trade envoys told the *South-North Development Monitor (SUNS)*.

Separately, Australia, joined by Brazil which has already electrocuted the G20 developing-country coalition that sought to end the continued inequities and asymmetries in the WTO's Agreement on Agriculture (AoA), argued that the special and differential flexibilities for developing countries in the AoA under Article 6.2 formed part of what were deemed "trade and production distorting subsidies".

These two developments marked the proceedings at the Doha agriculture negotiating body meeting at the WTO on 20-21 September.

China, India, South Africa and Indonesia, among others, severely opposed the new "evangelical" positions of the major developed countries for concluding the PSH permanent solution by the WTO's 12th Ministerial Conference (to be held in 2020), said trade envoys familiar with the development.

Opposing PSH solution

The permanent solution for PSH programmes ought to have been concluded by the 11th ministerial meeting in Buenos Aires, Argentina, last December. But the US pulled the plug on the draft agriculture outcome prepared by the chair Amina Mohamed, then Kenya's Permanent Secretary for Foreign Affairs. Subsequently, the outcome on the permanent solution for PSH contained in the chair's draft remained unresolved.

The chair of the Doha agriculture negotiations, Ambassador John Deep Ford of Guyana, convened a special session to discuss the PSH permanent solution on 21 September.

During the session, several major developed countries as well as farm exporting countries led by Australia, Canada and Paraguay among others objected to negotiating the permanent solution as mandated by trade ministers at the 10th Ministerial Conference in Nairobi in December 2015, said participants familiar with the session.

In a unified position, the developed countries said that members seeking the permanent solution must justify why they need it.

After almost five years of to-and-fro negotiations that began at the WTO's 9th Ministerial Conference in Bali in December 2013, the opponents now struck a diametrically opposite position, saying that there is no need for the permanent solution unless those wanting it can first justify/prove why they would need such an instrument, said a participant after the 21 September session.

The position adopted by Australia and others reflected what the EU and Canada proposed in their separate proposals for formulating new rules governing recourse by developing countries to special and differential flexibilities in the WTO, including the need for case-by-case justification as outlined in the EU proposal, the participant said.

India, China and South Africa among others flatly rejected the position adopted by the major developed countries on the PSH permanent solution.

It is a telling commentary on the developments at the WTO that addressing hunger, which requires a permanent solution on PSH programmes in the developing and poorest countries, is not seen as important compared with negotiating binding disciplines on fisheries subsidies as demanded by the US and a group of countries called the "Friends of Fish", said a trade envoy who asked not to be quoted.

Developing-country subsidies targeted

Separately, during talks on domestic support at the 20-21 September meeting, Australia, Brazil and other members of the Cairns Group of farm exporting countries turned the tables by proposing a new definition for "trade and production distorting subsidies" that does not exist in the WTO's rulebook.

In a paper on domestic support circulated in July, Australia along with Canada, New Zealand, Argentina, Guatemala, Paraguay, Peru and Uruguay had argued that there has been a sea change in domestic support programmes since the launch of the Doha trade negotiations in 2001.

By clubbing various support programmes availed of by members under Article 6 of the AoA, Australia and its allies argued in the paper that trade and production distorting domestic support under Article 6 relative to the value of production is decreasing for Brazil, Canada, the EU and the US.

"Since 2001, in nominal terms, several developing members such as India, China, Indonesia and Brazil recorded large increases in spending in this category, while developed members such as the US and the EU have significantly reduced their use," Australia and its allies maintained.

"The list of the main users of Article 6 has significantly evolved since 2001. In 2001, the top five users were, in order, the EU, the US, India, Japan and Norway. In 2010, the top five largest users were, in order, India, China, the EU, Japan and the US," the joint paper argued.

Targeting the special and differential treatment flexibility in Article 6.2 of the AoA, which is available to 124 developing countries, the sponsors of the joint paper maintained that "much of this support is concentrated to only a few members" such as India ($24.8 billion), Brazil ($1.8 billion), Thailand ($1.2 billion) and Korea ($1 billion) among others.

Australia, however, did not say a word about the manner in which the EU and the US shifted tens of billions of trade-distorting subsidies to what are called Green Box programmes, which are currently exempted under the AoA rules, said a trade envoy requesting anonymity.

"After the Doha Round of trade negotiations began in 2001, the EU and the US have shifted more than $100 billion [in] trade-distorting subsidies to the Green Box."

Clearly targeting India, China and Indonesia, among others, Australia and its allies chose to include support for investment and input subsidies, which is permitted under the AoA, in the "trade and production distorting subsidies".

Under Article 6.2 of the AoA, governments in developing countries are allowed to provide investment and input subsidies that "shall be exempt from domestic support reduction commitments that would otherwise be applicable to such measures".

Over the past four years, the US has been campaigning for removing the Article 6.2 exemptions, which provide special and differential flexibility aimed at assisting resource-poor farmers in India and other developing countries.

But several countries led by India have fiercely opposed the US demand, saying that under no circumstance will they allow attempts to do away with the exemptions under Article 6.2, said several trade envoys who asked not to be identified.

Taking a cue from the US, Australia, along with other members, has now intensified the campaign against India, China and other developing countries, which have hundreds of millions of resource-poor farmers with less than $200 per capita support as compared with about $50,000 in the US.

At the agriculture negotiating session on 20 September, India's trade envoy J.S. Deepak flatly rejected the Australian proposal, saying it was based on dubious grounds. He argued that the per capita farm support that farmers receive in India was much lower in comparison to the levels of support in industrialized countries.

Several countries, including China, South Africa, Indonesia and the Philippines, supported India in rejecting the Australian proposal.

The US, however, welcomed Australia's move, saying that it has re-

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Share the wealth? Of course. But when?

Tackling economic inequality demands confronting corporate power and privilege, contends *Sam Pizzigati*.

In the United States, back during the reat Depression, three simple words animated a grassroots upsurge that would help make the nation the world's first mass middle-class society: Share the wealth!

And the nation did. By the end of the 1960s, the top 1 percent's share of America's national income had dropped by more than half. The bottom 90% share, meanwhile, had jumped from half the nation's total income to over two-thirds.

Redistribution – via the tax code – drove this dramatic egalitarian shift, as high incomes faced high tax rates throughout the middle decades of the 20th century. But these high tax rates, levies that topped 90% on income over $200,000, would have no staying power. The relentless assaults of America's wealthiest would over time grind them down.

Egalitarians in other developed nations saw the same dynamic. They could not sustain steeply progressive tax rates. Redistribution via the tax code, progressives worldwide began to understand, would not be enough. We can't tax away inequality. We have to prevent inequality from taking hold in the first place. We have to brake the economic forces making the rich ever richer.

Foremost among the forces: the large corporations that dominate our global economy. These corporate giants create grand fortunes for those who run them. And those who run them create chronic economic insecurity for those they employ and the communities where they live.

Corporations have, in effect, become inequality's single most powerful engine. We need to slow that engine down. But how?

Progressive proposals

Our mainstream political discourse – on both sides of the Atlantic – brushes off questions like this. But progressives are beginning to rile that mainstream. They're generating bold and politically plausible approaches for confronting corporate power and privilege.

In September, for instance, the British Labour Party unveiled a new proposal designed to help make good on the party's century-old pledge to secure for workers "the full fruits of their industry." This new Labour plan would require all companies with over 250 employees to shift 1% of their stock every year into an "inclusive ownership fund" that would belong to the firm's employees as a group.

These stock transfers would continue until each company's employees own 10% of their company's shares. In many firms, that would make workers the single largest shareholder. These workers would have the same voting rights in corporate decisions as other shareholders.

These workers would also individually receive a dividend from their shareholdings, up to £500 (about $650) a year. Dividends owed to the worker shares above that £500 cap, notes the Labour Party's John McDonnell, would be "transferred back to our public services as a social dividend."

"We all know it's not just the employees of a company that create the profits it generates," McDonnell explained at the annual Labour Party conference in September. "It's the collective investment in infrastructure, education, and research and development that we as a society make that enables entrepreneurs to build and grow their businesses."

In Britain, as in the United States, the worker share of national income has been shrinking over the past four decades. In fact, if British worker wages reflected the rising productivity of their labour, average British workers would be 20% better off today. They could be enjoying, points out analyst Aditya Chakrabortty, "three-day weekends all year long and still get paid the same."

Why are British worker wages – and worker wages in the United States – not rising as fast as productivity? Corporate executives have a vested personal interest in keeping worker wages low. The fatter their corporate bottom line, the higher their personal compensation.

Any serious move to slow inequality's corporate engine needs to curb that incentive for squeezing workers, and the UK Labour Party understands this imperative to clamp down on executive pay excess. Labour leaders last year proposed legislation that would deny government contracts to corporations that pay top executives over 20 times what they pay their average workers.

Major corporations in the UK last year paid their top execs 145 times average worker earnings.

In the United States, at least 21 major corporations last year paid their top executives over 1,000 times the pay of their most typical workers. Not surprisingly, progressive groups and lawmakers in the United States have also begun working to leverage the power of the public purse against executive excess.

A handful of states in the US already have legislation along these pay-ratio lines pending. Progressive members of the US Congress, for their part, are putting together at the federal level proposals that would subject corporations with wide gaps between CEO and worker pay to higher tax rates and far less access to government contracts and subsidies.

All these pay-ratio moves have the same goal: to penalize corporate enterprises that increase our inequality and reward those enterprises that share the wealth – upfront – that they create. ❐

Sam Pizzigati co-edits Inequality.org, where this article first appeared. His latest book, The Case for a Maximum Wage, *has just been published. Among his other books on maldistributed income and wealth:* The Rich Don't Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class, 1900-1970. *Follow him at @Too_Much_Online.*

The trouble with PPPs

Touted as an effective means to finance key economic and social infrastructure, public-private partnerships (PPPs) have however often failed to deliver outcomes that serve the public interest. The following is the executive summary of a report coordinated by the European Network on Debt and Development (Eurodad) which highlights the most common problems associated with PPPs.

Public-private partnerships (PPPs) are increasingly being promoted as the solution to the shortfall in financing needed to achieve the Sustainable Development Goals (SDGs). Economic infrastructure, such as railways, roads, airports and ports, and also key services such as health, education, water and electricity are being delivered through PPPs in both the Global North and South.

Although the involvement of the private sector in public service provision is not new, there is currently keen political interest in PPPs as an important way to leverage private finance. Donor governments and financial institutions, such as the World Bank Group (WBG) and other multilateral development banks (MDBs), have set up multiple initiatives to promote changes in national regulatory frameworks to allow for PPPs, as well as to provide advice and finance for PPP projects.

Since 2004 there has been a rapid growth in the amount of money invested in PPPs in the developing world. Although the trend has been volatile since 2012, efforts by MDBs to leverage private finance in both emerging and low-income economies have continued – for example, through the "cascade" approach developed by the WBG, whereby the use of private finance is prioritized over public or concessional finance. This indicates a more determined push to reduce the risk so private investors come in.

Many projects have been procured as PPPs simply to circumvent budget constraints and to postpone the recording of fiscal costs. Some accounting practices allow governments to keep the cost of the project and its contingent liabilities "off balance sheet". This ends up exposing public finances to excessive fiscal risks. Current austerity measures and orthodox policy prescriptions that encourage a low fiscal deficit also create a perverse incentive in favour of PPPs.

PPP impacts

The recently released report *History RePPPeated: How Public Private Partnerships Are Failing*, which was coordinated by Eurodad, gives an in-depth, evidence-based analysis of the impact of 10 PPP projects that have taken place across four continents, in both developed and developing countries. These case studies build on research conducted by civil society experts in recent years and have been written by the people who often work with and around the communities affected by these projects.

The countries included are: Colombia, France, India, Indonesia, Lesotho, Liberia, Peru, Spain and Sweden. The sectors they cover are: education, energy, healthcare, transport, and water and sanitation.

Although the report does not intend to generalize its conclusions in the vast and complex universe of PPPs, these 10 cases illustrate the most common problems encountered by PPPs. Therefore, they challenge the capacity of PPPs to deliver results in the public interest.

The report found that:

All 10 projects came with a high cost for the public purse, an excessive level of risk for the public sector and, therefore, a heavy burden for citizens. For example, the Queen Mamohato Hospital in Lesotho has had significant adverse and unpredictable financial consequences on public funds. Latest figures suggest that in 2016 the private partner Tsepong's 'invoiced' fees amount to two times the "affordability threshold" set by the government and the World Bank at the outset of the PPP. Contributing factors to cost escalation include flawed indexation of the annual fee paid by the government to Tsepong (unitary fee) and poor forecasting. In Sweden, the total construction cost of Nya Karolinska Solna (NKS) hospital has rocketed – from €1.4 billion to €2.4 billion – and the project has been beset by technical failures. It is now known as the "most expensive hospital in the world".

Every single PPP studied was riskier for the state than for the private companies involved, as the public sector was required to step in and assume the costs when things went wrong. A significant example is the case of Jakarta Water in Indonesia, where two PPP contracts resulted in significant losses for the public water utility, PAM Jaya. In 2011, it reported a financial loss of $18 million. Estimates suggest that losses will eventually total $2.4 billion if the cooperation agreement continues as planned until its expiry date in 2022.

Nine out of 10 of the projects lacked transparency and/or failed to consult with affected communities, and undermined democratic accountability. The failure to publish contract details does not chime well with the risks that the public sector is forced to take on. In the small Indian town of Khadwa, for example, where a PPP was launched to provide municipal water, it took four years to finally inform the population about what was happening. More than 10,000 households filed objections against the project within a period of 30 days. This was in a town where regular domestic water connections totalled 15,000. In Liberia, where the government outsourced its public pre-primary and primary schools, initially to Bridge International Academies Ltd (BIA), the process was not competitive, local communities were not properly consulted, and there was not full transparency.

All cases showed PPPs were complex to negotiate and implement, and that they required specific state capacities to negotiate in the public interest, including during the renegotiation process. In Peru, the renegotiation process to build a new airport through a PPP in Chinchero resulted in a change to the entire funding structure of the project. After a strong report from the Comptroller General referring to economic damages for the state, and in the midst of a national scandal over the project, the Peruvian government finally had to cancel the contract on the grounds of national interest. The construction of a courthouse in Paris proved so complex, costly and controversial that the new French Justice Minister has decided that her ministry will never engage in a PPP again.

Five of the 10 PPPs reviewed impacted negatively on the poor, and contributed to an increase in the divide between rich and poor. For instance, in the case of the Queen Mamohato Hospital in Lesotho, the increasing and inflexible cost of the PPP hospital compromised necessary investment in primary and secondary healthcare in rural areas where mortality rates are rising and where three-quarters of the population live. In Jakarta, the provision of water through private operators (Jakarta Water) resulted in a radical increase in monthly bills, which are unaffordable for many poor families. Residents often rely on groundwater from community wedge wells or have to buy water in jerry cans, which can cost as much as half a person's daily income.

Three of the PPPs resulted in serious social and environmental impacts. Poor planning and due diligence accounts for some of these. For example, on the Mundra coast in Gujarat, India, where a thermal power station project has taken place, there were serious social and environmental violations from the outset. Following flawed impact assessments, there has been a deterioration in water quality and fish populations; community health impacts are evident due to air emissions; access to fishing and drying sites has been blocked; and forced displacement of fishermen has taken place. This has also impacted on the life of women. Girls in particular have also been pulled out of school to perform physical and domestic labour to survive. In Colombia, the PPP project designed to improve the navigability of the Magdalena River suffered from poor planning. Although the project never went into the construction phase – it collapsed due to the failure of the company to get the financing needed to implement it – the preliminary works carried out have already negatively affected the environment in and around the river.

Three of the PPP contracts had to be cancelled due to an evident failure in the process, including proper due diligence to identify the possible impacts of the project. For example, the Castor Project – feted as Spain's biggest offshore gas storage plant – was halted after gas injections caused more than 1,000 earthquakes. Despite never being used, the Castor project has so far cost the public €3.28 billion.

Recommendations

The *History RePPPeated* report makes the following recommendations to the WBG, the International Monetary Fund (IMF) and other public development banks, together with the governments of wealthy countries that play a leading role in these institutions:

Halt the aggressive promotion and incentivizing of PPPs for social and economic infrastructure financing, and publicly recognize the financial and other significant risks that PPPs entail.

Support countries in finding the best financing method for public services in social and economic infrastructure, which is responsible, transparent, environmentally and fiscally sustainable, and in line with their human rights obligations. Prioritize tax revenues, whilst augmenting them with long-term external, and domestic, concessional and non-concessional finance, where appropriate.

Ensure good and democratic governance is in place before pursuing large-scale infrastructure or service developments. This should be done through informed consultation and broad civil society participation and monitoring, including by local communities, trade unions and other stakeholders. Uphold the right to free, prior and informed consent, and ensure the right to redress for any affected communities. The rights of affected communities should be taken into account.

Ensure that rigorous transparency standards apply, particularly with regard to accounting for public funds – the contract value of the PPP and its long-term fiscal implications must be included in national accounts. Contracts and performance reports of social and economic infrastructure projects should be proactively disclosed. The public interest ranks higher than commercial interests.

Finally, the report urges all those concerned with justice, equality, sustainability and human rights to resist the encroachment of PPPs and to push instead for high-quality, publicly funded, democratically controlled, accountable public services. The wellbeing of our communities and societies depends on it. ❐

The above is the executive summary of History RePPPeated: How Public Private Partnerships Are Failing, *a report coordinated by Eurodad (October 2018). The full report is available at www.eurodad.org.*

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peatedly raised this issue.

The US had also filed a counter-notification against India's subsidies to rice and wheat, saying they breached New Delhi's *de minimis* commitments, a charge India had categorically dismissed.

Besides, Australia and its allies, which had argued in the past for negotiating new disciplines on Green Box subsidies which were found to be trade-distorting in the US upland cotton dispute, now remained silent about the need to look into the Green Box measures.

In conclusion, it seems there is a diabolical new wave by the countries of the North to eliminate the special and differential flexibilities and the consensus principle in the WTO. Even though some developing countries are part of this wave, it is clear that the countries of the North seem determined to achieve their goal in an attempt to appease the US.

(The Uruguay Round accords, including the AoA, are a single undertaking. Now, if the US, the EU and other industrialized countries want to go back on some parts, then in terms of international law, there is no reason for China, India, South Africa etc to abide by, say, the TRIPS Agreement or other such accords. It is time they make this clear at the WTO and in other fora. – *SUNS*) *(SUNS8759)* ❐