

# THIRD WORLD *Economics*

## TRENDS & ANALYSIS

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## Differing stances on WTO reform outlined

WTO reform has come under the spotlight of late, with competing and contrasting visions of reform being set out by different member states. Developed countries, which are seeking to steer the WTO in a more plurilateral direction, managed to push through language on “necessary reform of the WTO” in the declaration adopted by the recent G20 summit of major economies. On its part, China has called for reform that would preserve the core architecture of the multilateral trading system and “respect members’ development models”.

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# North countries succeed in foisting WTO “reforms” at G20 meet

Developed countries pushed through their call for WTO “reform” – which has aroused concern among developing countries wary of what it would entail – at the recent G20 summit of major economies.

by D. Ravi Kanth

GENEVA: Major developed countries succeeded in foisting, in the declaration adopted by the Buenos Aires summit of leaders of the G20 major economies held on 30 November-1 December, “reforms” at the World Trade Organization ostensibly to salvage the multilateral trading system from “falling short of its objectives”.

Despite the writing on the wall that the multilateral trading system is being subjected to trade wars launched by the United States in its pursuit of “America First” trade policies, the G20 sherpas meekly agreed to the US demand to shift the blame for the current crisis in global trade to the multilateral trading system and the WTO, said a trade envoy who asked not to be quoted.

During the crucial negotiations among the sherpas in Buenos Aires on 30 November, the developing countries, especially South Africa and India among others, resisted the use of the term “reforms” for the WTO, given the potential negative effects on the developing and poorest countries, said a trade envoy who asked not to be quoted.

But major industrialized countries, especially the European Union and its members such as Germany and France among others, insisted that “reforms” are needed at the WTO on a war footing to address the crisis in the multilateral trading system. The EU was supported by its allies such as Japan, Canada, Australia and some South American countries like Argentina, Brazil and Chile.

The US, which spurned multilateral trade liberalization to pursue its “America First” policies, sought to insert language based on US President Donald Trump’s incessant criticism that the WTO has failed to address American concerns. The US also insisted that the declaration must include language addressing “un-

fair” trade practices.

China emphasized the importance of resisting unilateral and protectionist measures, but the US said that it would block the declaration if it included language on curbing “unilateral and protectionist” measures.

Ahead of the sherpas’ meeting, China, India and Russia had agreed to step up their interaction and cooperation at the multilateral institutions, including the unfinished Doha trade negotiations, said a trade envoy who asked not to be quoted.

The negotiations on the final declaration were also influenced by the likely standstill agreement between the US and China for not imposing tit-for-tat tariffs against each other for the next three months, said a sherpa who asked not to be quoted.

Besides, the US, the EU and Japan have remained united on initiating reforms at the WTO, particularly for strengthening transparency and notification requirements and enhancing the oversight role of the WTO. The three countries have also demanded that reforms include new rules against industrial subsidies, stopping the mandatory transfer of technologies, and enhancing intellectual property provisions.

Unlike the Hamburg declaration of the G20 leaders last year, the Buenos Aires declaration largely reflected the US concerns. The Hamburg declaration, for example, suggested that, “to further improve the functioning of the WTO, we will cooperate to ensure the effective and timely enforcement of trade rules and commitments as well as improve its negotiating, monitoring and dispute settlement functions.”

In sharp contrast, the G20 leaders’ declaration from Buenos Aires said, in paragraph 5: “We renew our commit-

ment to work together to improve a rules-based international order that is capable of effectively responding to a rapidly changing world." After the US accepted language recognizing "the contribution that the multilateral trading system has made" to growth, productivity, innovation, job creation and development, the rest of the G20 members agreed to include the general assertion in paragraph 27 that "the [multilateral trading] system is currently falling short of its objectives and there is room for improvement."

"We therefore support the necessary reform of the WTO to improve its functioning," the leaders' declaration continued in paragraph 27, without clarifying what that reform would include. "We will review progress at our next Summit [which will take place in Tokyo in 2019]."

### Nature of "reform"

Clearly, the battle lines are drawn on what would constitute "reform" and the next few months will indicate whose "reforms" will succeed, said a trade envoy who asked not to be quoted.

For a large number of countries, including the EU, India, China and South Africa, the first priority of reforms is filling the vacancies in the WTO's Appellate Body (AB) as well as ensuring the independent and impartial functioning of the AB.

But the US remains firmly opposed to filling the AB vacancies. Effectively, the "reforms" will have no meaning unless this first major challenge, i.e., filling the vacancies in the AB, is addressed.

The US is interested only in bringing in intrusive notification requirements and embarking on plurilateral negotiations on electronic commerce, said a trade envoy who asked not to be quoted.

The EU and Japan as well as several other countries are also with the US on reforms/new rules for notification requirements.

Unless the developing countries remain united on their priorities within the reforms/new rules, they will face the prospect of onerous and burdensome commitments being imposed by the developed countries.

The plurilateral negotiating issues of electronic commerce, new disciplines for micro, small and medium enterprises, and investment facilitation were also inserted in the G20 leaders' declaration.

Paragraph 9 says: "To maximize the benefits of digitalization and emerging technologies for innovative growth and productivity, we will promote measures to boost micro, small and medium enterprises and entrepreneurs, bridge the digital gender divide and further digital inclusion, support consumer protection, and improve digital government, digital infrastructure and measurement of the digital economy. We reaffirm the importance of addressing issues of security in the use of ICTs [information and communication technologies]. We support the free flow of information, ideas and knowledge, while respecting applicable legal frameworks, and working to build consumer trust, privacy, data protection and intellectual property rights protection. We welcome the G20 Repository of Digital Policies to share and promote the adoption of innovative digital economy business models. We recognize the importance of the interface between trade and the digital economy. We will continue our work on artificial intelligence, emerging technologies and new business platforms."

To counter the demands on electronic commerce and new disciplines, the developing countries must demand that the reforms address food security and hunger in developing countries, said a trade envoy who asked not to be quoted. They must ensure that the permanent solution for public stockholding programmes for food security is concluded as part of negotiating reforms, the

envoy said.

In paragraph 11 of the Buenos Aires declaration, the G20 leaders reaffirmed their "commitment to tackling the challenges of food security, which is crucial to achieving a world free of hunger and all forms of malnutrition."

Paragraph 11 further says that the G20 countries "will promote dynamism in rural areas and sustainable agriculture, conscious of the importance of sustainable soil, water and riverbanks management supported by individual countries voluntarily, taking into consideration the specific needs of family and small-holder farmers."

"We encourage the voluntary use and sharing of innovative as well as traditional agricultural practices and technologies. We highlight the importance of collaboration among public and private stakeholders to strengthen risk management, facilitate adaptation to a changing environment, protect biodiversity and provide effective responses to reduce the impacts of extreme weather on agriculture."

In crux, battle lines at the WTO have been drawn by the G20 leaders' declaration from Buenos Aires. Unless there is complete unity of purpose and collective resolve to fight the US-EU-mooted reforms at the WTO, the developing countries will be forced to implement new rules that are harmful to their interests, said trade envoys who asked not to be quoted. (SUNS8809) □

## China for WTO reform to preserve MTS, respect development models

**China has put forward its own blueprint for WTO reform, which would, among others, retain the core framework of the multilateral trading system and allow member states to pursue their respective development models.**

by D. Ravi Kanth

GENEVA: China has unveiled a set of proposals for reforming the WTO that calls for respecting "members' development models" while preserving the core values of the multilateral trading system (MTS), including the fundamental principle of consensus decision-making.

This comes as the European Union and its allies are intensifying their efforts to transform the multilateral trade body into a plurilateral organization for pursuing their new issues.

In a position paper that was first issued in Beijing in the week of 19 Novem-

ber and subsequently circulated by the Chinese mission in Geneva, China largely stuck to the developmental interests of developing countries for fighting "protectionism and unilateralism".

It also showed signs of pursuing issues such as investment facilitation and disciplines for micro, small and medium enterprises (MSMEs).

Significantly, the Chinese position paper remained silent on what needs to be done with the unfinished Doha trade negotiations as well as on electronic commerce, which will be a major area of interest for the industrialized countries at the WTO's 12th Ministerial Conference in Astana, Kazakhstan, in 2020.

In October, China's envoy to the WTO Zhang Xiangchen had rejected binding e-commerce provisions for free cross-border data flows, preventing data localization and protection of source code, among others. China, however, said that it would prefer rules on "e-signatures, e-authentication, e-contract, paperless trading, consumer protection, anti-spam, international regulatory cooperation, and facilitation of trade in goods enabled by the internet" among others (see TWE No. 670).

The highlight of the Chinese position paper was its emphasis on "respect[ing] members' development models," implying that countries cannot be unilaterally targeted for pursuing their specific developmental models.

China said that "the [WTO] reform should prohibit discrimination against enterprises of certain members in investment security review and anti-trust investigations," cautioning the US and the EU which are resorting to escalating security-related restrictions on the transfer of technologies and acquisition of companies.

The WTO reform, according to China, "should address the abuse by developed members of export control measures in obstructing technology cooperation."

China said it "opposes special and discriminatory disciplines against state-owned enterprises in the name of WTO reform and the inclusion of issues based on groundless accusations in the WTO reform agenda."

Barring this major issue of allowing countries to pursue their "development models" without being penalized, China's concept paper was largely aimed

at preserving the current WTO architecture in the face of a relentless assault by the US administration, which is aided and abetted by other industrialized countries in select areas of the proposed WTO reforms.

### Principles and suggestions

As opposed to the package of reforms being pursued by the EU along with Japan, Canada, Mexico, Chile, Brazil, Singapore, Korea, Australia and New Zealand among others, which want to do away with the consensus principle of decision-making and special and differential flexibilities for several developing countries, China's proposals for reforming the WTO revolve around "three basic principles and five suggestions."

The three principles suggested by China are as follows:

- The WTO reform shall preserve the core values of the multilateral trading system. China said "the reform shall reinforce these fundamental rules of the multilateral trading system including non-discrimination and openness, in order to create stable and predictable environment for international trade."

- The "WTO reform shall safeguard the development interests of developing members." China said "the reform should address the difficulties developing members encounter in their integration into economic globalization, by providing developing members with flexibility and policy space needed for their economic development, contributing to the United Nations 2030 Agenda for Sustainable Development and narrowing the North-South gap."

- The "WTO reform shall follow the practice of decision-making by consensus." According to China, "the choice of reform agenda, the formulation of any work plan as well as the final outcomes shall be decided through extensive consultations, based on mutual respect and dialogues on equal footing."

China said that "the process shall be inclusive and open to all Members, especially the developing ones", and "the reform cannot be dictated by a few, nor decided by an exclusive small group of Members."

In addition to these three principles, China offered five concrete suggestions for reforming the WTO:

- The WTO reform should uphold

the primacy of the multilateral trading system. China said "some members are trying to introduce 'new concepts' or 'new terminologies' into the reform agenda, which could undermine the authority of the multilateral trading system in a disguised way." It said it will firmly oppose such attempts. It emphasized that the "WTO reform should reinforce the centrality of the multilateral trading system in international trade liberalization and facilitation."

- The WTO reform must address the existential crisis/problems faced by the WTO, particularly the issue of filling vacancies at the Appellate Body as soon as possible to "rein in actions of unilateralism and protectionism with the strings of the WTO rules, and ensure the smooth functioning of all aspects of the WTO."

- The WTO reform should address the imbalance of trade rules and respond to the latest developments of our time. China wanted the WTO reform to "address the long-term distortion of international agricultural trade by over-subsidization from developed members" and "prevent abuse of trade remedy measures, especially the 'surrogate country' methodology in anti-dumping investigations." Meanwhile, the reform should also keep the WTO rules relevant by including 21st-century issues such as investment facilitation and MSMEs, China said.

- The WTO reform should safeguard "special and differential treatment for developing members." China said it will oppose attempts to question or take away "the special and differential treatment for some developing members in the name of WTO reform." It said that it is the largest developing country in the world, emphasizing that it will take up commitments commensurate with its level of development and economic capability. However, China said it will never agree to be deprived of its entitlement to special and differential treatment as a developing member.

- China said the WTO reform "should respect members' development models". China argued that "the reform should prohibit discrimination against enterprises of certain members in investment security review and anti-trust investigation." The reforms must bring an end to "the abuse by developed members of export control measures in ob-

structuring technology cooperation.” Beijing said it will oppose special and discriminatory disciplines against state-owned enterprises in the name of WTO reform, and the inclusion of issues based on groundless accusations in the WTO reform agenda.

### “Losing effectiveness”

Meanwhile, speaking at a meeting in Paris in mid-November, China’s WTO envoy Zhang had expressed sharp concern that despite the Doha round dragging on for years, “over the past decade, the hundreds of millions of dollars in agricultural subsidies in the developed members have remained largely unchanged.”

“But at the same time, new forms of business, such as e-commerce, have flourished across the world. WTO is not providing international norms to address any of these issues,” the Chinese envoy said, expressing concern that the WTO “seems to be losing effectiveness to rein in the rampage of unilateralism and protectionism.”

He said that “the [WTO] reform needs to be firmly set in the course of fighting against unilateralism and protectionism.”

Zhang said the WTO has to “push for worldwide trade liberalization and investment facilitation. It has to stick to the principle of non-discrimination and adopt a democratic approach. Reform is not to reinvent the wheel. The existing rules must be fully respected and faithfully implemented. Reform is not an excuse for not implementing the rules, and any such attempt should be met with resistance from the members.”

“With respect to making new rules for new forms of business activities,” the Chinese envoy said, “we should allow members, maybe starting with groups of like-minded ones, to explore these issues, but we also need to duly consider the views and needs of the developing members and fully consult with them.”

“Only through an inclusive process can we maybe eventually reach multilateral outcomes,” he stressed.

Zhang called for “a step-by-step approach, and stay away from moon-shot targets.”

He suggested possible deliverables for 2019 such as expeditiously restoring the proper functioning of the dispute

settlement mechanism, an agreement on fisheries subsidies and making “progress on the new topics such as e-commerce, investment facilitation and MSMEs, [and] make improvements in terms of transparency.”

“If we can achieve these targets at the MC12 [12th WTO Ministerial Conference] in 2020, I think we can already call it a success,” said Zhang, who added that China “is willing to play a proactive and constructive role, and to make contributions within its capacities.”

He warned that the WTO, which is a public good, cannot be turned into satisfying “particular needs of someone or some group of members” in an attempt to “put China in a tailor-made straight-jacket of trade rules to constrain China’s development.”

Zhang said “globalization means competition” which hinges on adhering to an “agreed set of rules.”

Without naming the US, the EU and Japan among others, Zhang said “for the issues where members have divergent

views such as subsidy, transfer of technology, we can have different forms of dialogues while respecting each other’s positions.”

“People sometimes say that the WTO is a patient in a critical state with multiple failing organs,” the Chinese envoy said. “If that is the case, urgently restoring the functioning of the organs and making the right diagnostics of the illness is more important than rushing to give prescriptions.”

Without naming the US, Zhang said “we all know where the crisis of WTO comes from, but whatever a particular country or a particular individual thinks about the WTO, it can only serve as the context rather than the reason for the reform of the WTO.”

In short, China has laid out a roadmap for the proposed reforms at the WTO. But major industrialized countries are unlikely to accept China’s package of proposals, said trade envoys who asked not to be quoted. (SUNS8807) □

## India, South Africa challenge continuing moratorium on e-commerce duties

**India and South Africa have called for a rethink of a WTO-imposed halt to customs duties on electronic transmissions in light of its implications for government revenues and digital industrialization in developing countries.**

by D. Ravi Kanth

GENEVA: India and South Africa on 27 November challenged the global electronic commerce giants – the United States, China and the European Union among others – at the WTO for continuing the moratorium on customs duties on electronic transmissions. The moratorium, they pointed out, has adverse fiscal implications and deleterious effects on the digital industrialization of developing and least-developed countries, trade envoys told the *South-North Development Monitor* (SUNS).

But the major e-commerce beneficiaries stuck to their dogmatic positions that any attempt to discontinue the moratorium could cause disruption and prove

to be self-defeating for consumers.

Significantly, the demanders of the permanent moratorium on customs duties on e-commerce failed to provide any credible evidence, including technical or empirical evidence, to justify their opposition to discontinuing the moratorium, said trade envoys who asked not to be quoted.

At a meeting convened by the WTO General Council Chair, Ambassador Junichi Ihara of Japan, India and South Africa made detailed presentations backed with technical data as to why the time has come for a serious rethink about the moratorium from all aspects.

The General Council Chair has sug-

gested that the continuation of the current moratorium, which will come up for review at the WTO's 12th Ministerial Conference in Astana in 2020, must be based on concrete facts and statistics.

India's trade envoy Ambassador J.S. Deepak said a joint proposal by India and South Africa, which was first circulated at the General Council in July, called for examination of the impact of the moratorium because of significant changes in e-commerce since 1998.

WTO members had agreed to the temporary moratorium on customs duties on electronic transmissions for the first time in 1998.

Deepak said that digital trade has rapidly transformed over the past 20 years, with significant fiscal implications for developing countries and least-developed countries (LDCs).

"Also, looking from the larger development perspective, we need to analyze how the moratorium is impacting the efforts of developing countries and LDCs to industrialize digitally," Deepak emphasized.

He said the proponents want the moratorium to be continued on the basis of a WTO study entitled "Fiscal implications of the customs moratorium on electronic transmissions: the case of digitizable goods". Issued in December 2016, the study however failed to address all the issues comprehensively, India underscored.

According to India, as per the WTO's explanation, digitizable goods are physical goods which have the potential to be electronically transmitted. "In other words, these are physical goods, currently being traded physically across borders on which the WTO members can apply their bound customs duties."

Surprisingly, "digitizable physical goods obviously are not the subject of the e-commerce moratorium," India said, pointing out that the moratorium "applies to electronic transmissions (ET) which is online, cross-border trade in these products."

The WTO failed to capture these differences in its study, India said. Citing the example of one digitizable product, books, India said the WTO study concluded that "trade in books in physical form is low and if they were to be traded exclusively in electronic form the loss of revenue would be small."

"But what the study does not tell us

is that a large and growing proportion of books are already being traded in electronic form and because of the moratorium, Members are unable to impose tariffs on these e-books, even though this is technically feasible," India said.

Furthermore, there is no assessment of the "burgeoning online trade in video games, e-books, music and video downloads and software," India maintained. Clearly, "there would be reasonable ways to estimate such trade," India said, arguing that the WTO study "completely failed to capture the revenue loss that has occurred since 1998."

"Another major shortcoming of the WTO study is that it lacks comprehensive coverage of digitizable goods," India argued, pointing out that the study "seems to have excluded some important tariff lines, such as photographic films and software, whose global imports by developing countries have been substantial."

Also, the WTO study – which is based on applied rates of customs duties for various products – is not a proper gauge for the loss of revenue since it does not take into account the bound rates, which WTO members have the flexibility of applying anytime and, in this era of protectionism, are increasingly resorting to, India said.

Consequently, the WTO study, which is quoted by the e-commerce moratorium supporters, "grossly underestimates the tariff revenue loss on account of the moratorium," India said.

"It is, therefore, erroneous to claim on the basis of a study done on physical trade of products that the moratorium on ET has a minimal negative impact on customs revenues of developing countries," India pointed out.

Worse still, the developing and least-developed countries are unable to impose "internal charges" due to online trade. While all products imported into a country are subjected to "internal duties such as manufacturing tax or sales tax or value added tax (VAT) or goods and services tax (GST)," governments find it difficult to levy such taxes on electronic transmissions.

At a time when e-commerce is dominated by super platforms such as Amazon and Alibaba, the developing and least-developed countries find it difficult to tax these super platforms.

India cited several studies by the

Organization for Economic Cooperation and Development (OECD) that focused on tax challenges of the digital economy, including the concept of "base erosion and profit shifting" (BEPS) which refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations.

Deepak pointed to the case of Facebook, saying that it "generates huge profits from its India operation where almost 20% of its global users are located, but pays an abysmal 0.06% of its total tax outgo to the Indian government."

Therefore, he said, "the moratorium deprives developing countries and LDCs, which are large recipients of online traded goods or ET and have higher tariff rates bound at the WTO, of huge customs revenue."

Against this backdrop, "as online cross-border trade is exploding, the loss in revenue is also cascading steeply," India said.

More disturbingly, the loss in customs revenue "is augmented by the additional loss of domestic taxes, making digital trade a huge revenue loss-making proposition for most developing countries and LDCs," India argued.

### Digital industrialization prospects

The moratorium, according to India, is also replete with negative impacts on "the efforts of many developing countries, which are laggards as far as digital industrialization is concerned, to industrialize digitally."

Without naming the US, which is levying additional duties to protect its domestic steel, aluminium and other industries, India said WTO members "know how tariffs play an important role in protecting infant industries from older and established overseas competitors until they have attained some economies of scale."

Duty-free imports of digital products "will hinder the growth of the infant digital industry in developing countries," India said.

Deepak said that the moratorium has a "ruinous impact" on digitization for small and medium-sized enterprises (SMEs) in developing countries and LDCs.

According to a United Nations Conference on Trade and Development

(UNCTAD) study of 2017, “three countries, namely, China, USA and UK have captured around 70% of the cross-border e-commerce market.” Such a concentration of e-commerce has harmed SMEs in other developing countries, said India.

“Given low levels of broadband penetration and the fact that only 5% [of] people in developing countries use e-commerce platforms, the probability of domestic e-commerce to grow in the developing countries and benefit their SMEs appears to be low,” India argued.

“The monopoly pricing powers of behemoths that run platforms can force sub-optimal contracts on SMEs. Thus, in these countries digital trade or ETs is harming rather than helping the cause of SMEs, contrary to what some would want us to believe,” India maintained.

Moreover, “with the advent of Industry 4.0, propelled by internet of things and new technologies like 3D printing and artificial intelligence, the number of products which can be transmitted electronically will increase exponentially,” India said.

In effect, “the GATT tariff commitment of Members – the bound rates – of these digitized products will get undermined as more and more trade moves online,” India cautioned. At a time when “virtually all non-agricultural manufacturing products can be digitized and, therefore, transmitted electronically, the moratorium on application of customs duties on ET will be akin to reducing bound rates to zero on all manufactured products!”

“In other words, the e-commerce moratorium will render meaningless the existing GATT bound rates, which are typically higher in developing countries and for which they have made payments in the Uruguay Round,” India said.

Deepak said there is “an urgent need for the developing countries and LDCs to develop their digital capacities for facing the growing challenge of digital trade” – which will “require developing national digital industrial policies which match the level and pace of their digital development.”

“For designing such policies it is extremely important for developing countries to preserve policy and regulatory space in the WTO,” India argued.

Given the huge size of the online markets, which runs into trillions of dollars, “even if 10% of this is cross-border

ETs, as broad estimates show, the moratorium is preventing the levy of tariffs on more than \$100 billion of trade”, with the developing countries and LDCs being the victims, India maintained.

The moratorium will result in “serious harm to infant digital industry and SMEs” in developing and poorest countries.

In short, the time has come for revisiting “the key issues identified by the members in the context of the e-commerce moratorium,” India said.

### Digital policy challenges

South Africa said the moratorium, which is temporary in nature, provides space for members to consider the revenue implications against the backdrop of unfolding technological developments.

The rapid digital transformation which is evolving unevenly across the global economy “poses a range of challenges to governments across the world in diverse areas including those affecting policies for industry, trade, employment, taxation and market competition, amongst other things,” South Africa said.

South Africa’s trade envoy Ambassador Xavier Carim said “while technological advances hold out the promise of a wide range of benefits and solutions to problems in the economy and in society, such benefits are not automatic and deliberate policy is needed both to secure their possible benefits and to respond to the disruptive challenges that they already pose.”

Carim said that important “measures should be located in an overall policy framework that is developmental and inclusive if we [members] are to reverse or at least attenuate the current trend of growing inequality and exclusion within and between countries.”

Citing the 2017 UNCTAD Information Economy Report, Carim said “a defining characteristic of the digital transformation, at this stage, is its degree of ‘concentration’, and this is manifest in many ways.”

“The total value of global e-commerce was estimated at around \$25 trillion in 2015, of which around 50% was accounted for by just four countries [according to the UNCTAD study],” he said, adding that “business to consumer e-commerce was estimated at \$2.9 trillion,

of which cross-border business-to-consumer e-commerce was \$189 billion.”

“On a wider definition, the 2017 UNCTAD paper ‘Rising Product Digitalization and Losing Trade Competitiveness’ observes that with the exception of China, almost all developing countries are net importers of electronic transmissions,” he said.

He said even the WTO study admitted that “there are serious gaps in the data as it relates to the amount of trade in goods that have already moved online.”

As a result, the study “does not – and cannot – account for goods already digitalized that would have otherwise attracted duties,” he said. “The key point is that if all digitalized products that are traded were included [in the study], the figures would increase dramatically.”

“In short, the revenue implications of digitized trade, which to our understanding means electronic transmissions, have not been properly measured,” he maintained.

South Africa said that the WTO study also failed to take into consideration the bound duties in calculating the revenue losses.

Carim said the 2017 UNCTAD study observed that trade in electronic transmissions continues to grow and suggested that revenue losses could fall disproportionately on those developing countries that remain net importers.

The UNCTAD study “also provides interesting insights on growth trends for additive manufacturing. It suggests that the 3D printing market has grown by 30% per annum since 2012 and that developed countries account for 68% of revenue from that market,” he said.

“More importantly, this trend will shift competitive advantages away from high volume, low cost centres to those who own customer networks, with serious employment and manufacturing implications for many countries,” Carim maintained.

If the moratorium covers this trade, customs revenue losses will also grow considerably. Clearly this is an area that is going to require further research, said South Africa.

The proponents have suggested that the moratorium has encouraged e-commerce growth without mentioning the significant government support to the development of digital capabilities in

major economies over many years. The “central lesson” stemming from the government support, according to South Africa, is “the critical importance of an appropriately configured digital industrial policy.”

Carim urged the WTO secretariat to collaborate with other multilateral organizations and competent institutions “to continue to work to fill gaps in the data.”

He said “our [India and South Africa’s] call is not about ending or extending the moratorium, either on a temporary or permanent basis ... It is about the need to have more accurate data and

statistics that enable us to make more informed policy decisions in future.”

Several developed countries, including the US and Japan, as well as China opposed any rethink on the moratorium, saying it would harm global e-commerce.

In conclusion, it is clear that the developed countries and China want to turn a blind eye to the glaring asymmetries and inequalities stemming from e-commerce in order to continue their monopoly grip on digital trade, said trade envoys who asked not to be quoted. (SUNS8806) □

tion in Mode 3 of the GATS on commercial presence. The JSI plurilateral proponents, however, remain opposed to any improvements in Mode 4 concerning the short-term movement of natural persons, which is the most vital area of importance in the GATS for developing and poorest countries.

The plurilateral proponents want to start negotiations on both electronic commerce and investment facilitation at the WTO’s 12th Ministerial Conference in Astana, Kazakhstan, in 2020.

### Mode 4 trade barriers

Against this backdrop, India sought, at the 5 December WPDR meeting, to discuss its proposal on “disciplines on domestic regulations for supply of a service through the presence of a natural person of a Member in the territory of another Member.”

In its introductory statement, India said that “Mode 4 is the most important mode of export interest for most developing countries including LDCs.”

“Unfortunately, it is most neglected and therefore needs facilitation through DR disciplines,” India emphasized.

Several studies had pointed to the gross asymmetries in market access between the four modes of services supply under the GATS, particularly between Mode 3 of commercial presence and Mode 4 of the movement of natural persons. But major industrialized countries led by the US and the EU have severely opposed market access demands in Mode 4, including demands for removing the impediments in the DR disciplines.

India said the “disciplines on DRs are most relevant for Mode 4 service suppliers, as the issue of recognition of educational qualifications and licences acquired in the territory of another Member is a major impediment to Mode 4 access, especially in [the] case of regulated professions.”

While acknowledging that measures relating to qualification requirements (QR), licensing requirements (LR) and technical standards (TS) are applied by members to achieve legitimate public policy objectives, India pointed out that these measures “can also limit access to the ranks of the profession within a foreign jurisdiction as such requirements governing the supply of services vary widely across Members.”

## Strong support for India’s initiative on improving DR disciplines

**An Indian proposal aimed at easing cross-border movement of short-term service providers has received backing from other developing countries at the WTO.**

by D. Ravi Kanth

GENEVA: A large majority of developing and least-developed countries, including China, on 5 December welcomed India’s initiative to “rejuvenate” and “re-energize” negotiations at the WTO for a multilateral outcome towards improving the disciplines on domestic regulation (DR) of services trade. The Indian initiative aims to enhance market access for the movement of short-term services providers under Mode 4 of the WTO’s General Agreement on Trade in Services (GATS), trade envoys told the *South-North Development Monitor* (SUNS).

At a meeting of the WTO’s Working Party on Domestic Regulation (WPDR) on 5 December, many countries – China, the Africa, Caribbean and Pacific (ACP) Group, the African Group, the least-developed countries (LDCs), South Africa, Indonesia, Turkey, Cuba, Ecuador, Bolivia, Venezuela, Egypt and Nigeria among others – strongly supported India’s initiative.

Major developed countries, including the EU and Australia – which are strong proponents of a plurilateral outcome on DR – remained silent during the meeting.

### Plurilateral initiative

Negotiations in the WPDR on im-

provements in the DR disciplines, which come under the ambit of Article VI.4 of the GATS, had remained in limbo throughout this year because of a concerted effort by some countries to hammer out a plurilateral deal on DR disciplines.

The plurilateral proponents had launched a “joint statement initiative” (JSI) group during the WTO’s 11th Ministerial Conference in 2017 despite knowing full well that the WPDR is the multilateral forum for addressing improvements in DR disciplines. Subsequently, the JSI participants, which include all the developed countries and some developing countries such as Nigeria, Egypt, Turkey and Indonesia, held several meetings throughout this year and floated a draft text.

The plurilateral JSI is largely based on the failed Trade in Services Agreement (TiSA) text which largely reflects the interests of Canada and the United States, which continue to impose numerous DR barriers to the movement of natural persons or short-term services providers under Mode 4 of the GATS.

Significantly, the JSI in DR coincides with the plurilateral proponents’ initiatives for new rules on electronic commerce in Mode 1 of the GATS on cross-border services and investment facilitation

“Put together, the regime of DRs, covering LR, QR and TS, result in significant trade barriers for Mode 4 service suppliers, in the absence of necessary disciplines,” India argued.

“Therefore,” India said, “for commercially meaningful access for Mode 4 professionals, it is critical that Members ensure that their competent authorities take account of qualifications and licences acquired in the territory of another Member on the basis of equivalency of education, experience and/or examination requirements and have adequate procedures to meet these requirements.”

In several rounds of negotiations since 1999, there had been substantial progress in negotiating disciplines on DR at the WPDR, which was earlier called the Working Party on Professional Services. Several submissions were made by members for disciplines in other regulated professional services like legal and engineering services, India said, emphasizing that from the very beginning of the DR discussions, Mode 4 was the target for the Article VI.4 disciplines.

India said “global changes in demographics and patterns of investment in human capital have created increased scope for international trade in professional services.” However, “the scope for mutually beneficial trade is ... inhibited by a range of qualification and licensing requirements and procedures.”

“Commercially meaningful disciplines on DRs can therefore unleash the potential for mutually beneficial trade specially in professional services and more generally in trade in services,” India argued.

India maintained that addressing “disciplines on the entire gamut of DRs for Mode 4, especially qualification requirements and procedures, will also help address Part C of the LDC Collective Request pursuant to the LDC Services Waiver Decision related to recognition of qualifications of LDC professionals.”

India said that “a large group of Members comprising developing countries and LDCs have been questioning the ‘necessity’ of DR disciplines as they recognize the difficulties which may be faced by individual developing country Members and in particular the least-developed country Members in implementing horizontal disciplines on domestic regulations.”

The time has come for WTO members to “focus on developing disciplines on DR for Mode 4,” which “is not only

the key mode of export interest for most developing countries but is also in dire need of disciplines for commercially meaningful access.”

As per an April 1999 decision of the WTO’s Council for Trade in Services (CTS), members are required “to develop any necessary disciplines to ensure that measures relating to licensing requirements and procedures, technical standards and qualification requirements and procedures do not constitute unnecessary barriers to trade in services.”

India criticized the JSI plurilateral proponents for pursuing DR disciplines outside of the WPDR when the WPDR, in accordance with the CTS decision, is mandated to develop such necessary disciplines.

India also severely criticized the JSI group for proposing that the working text on DR disciplines being developed under the group not include any of the following commercially significant disciplines on qualification requirements and procedures, all of which were an integral part of the earlier work done in the WPDR:

- verification and assessment of qualifications of foreign service suppliers – consideration to professional experience and membership in professional association;
- identification of deficiencies – details of how deficiencies in qualification can be addressed by applicants;
- examinations – through electronic means, and from home country of the applicant.

In short, India said that the GATS Article VI.4 mandate must be used to develop commercially meaningful disciplines in the key area of qualification requirements and procedures, as reflected by the history of DR negotiations at the WTO. Additionally, the mandate “cannot be used to multilateralize a particular template developed in the context of some regional trade agreements”.

#### Draft texts

India further spoke about the draft texts on DR that were prepared by the then chairpersons of the WPDR in 2009 and 2011. The draft texts included disciplines on the five mandated elements, namely, licensing requirements, licensing procedures, technical standards, qualification requirements and qualification procedures for Mode 4, as compared with the disciplines on “authorization” along broad thematic areas in the work-

ing text of the JSI group.

India said that in its proposal, “disciplines on licensing procedures and qualification procedures, and licensing requirements and qualification requirements have been merged to do away with overlap between the separate sections on LP and QP and between LR and QR, as in the earlier versions of the texts being discussed in the WPDR.”

Further, as regards disciplines on qualification requirements and procedures, the Indian proposal retains the disciplines contained in the earlier versions of the texts, with one additional provision “to provide adequate opportunity to developing country Members to negotiate accession to existing agreements pertaining to recognition, pursuant to GATS Article VII and the various provisions built in the GATS for increasing trade opportunities for developing countries”.

India said that its proposed draft is aimed at reinvigorating the WPDR discussions and that it welcomes constructive suggestions to take the process ahead.

India also requested the WTO secretariat to conduct “a briefing session on the history of DR negotiations, much of which relate to professional services, and the past submissions on DR disciplines to guide the membership in fulfilling the mandate pursuant to Article VI.4 of the GATS, in its letter and spirit.”

At the 5 December WPDR meeting, the ACP Group, the African Group, the LDCs, Ecuador, Cuba, Bolivia, Indonesia, Turkey, Nigeria, Egypt and Thailand among others supported India’s initiative for restarting the work to improve the DR disciplines.

China said that the initiative presents a multilateral framework for improving the DR disciplines, while South Africa welcomed India’s proposal, suggesting that it would need further discussions.

Significantly, services negotiators from the US, the EU, Australia and Japan among others remained utterly silent during the brief discussion on the Indian proposal.

In conclusion, it is clear as daylight that the developed countries are determined to pursue plurilateral initiatives to safeguard their interests and deny market access in areas of interest to the developing countries such as domestic regulation in services, said trade envoys who asked not to be quoted. (SUNS8812) □

## WTO panels set to examine US steel and aluminium duties

The contentious US tariffs on steel and aluminium imports will now come under scrutiny at the WTO.

by Kanaga Raja

GENEVA: Nine dispute panels have been set up at the WTO to examine the additional duties imposed by the United States under Section 232 of its trade law on imports of certain steel and aluminium products.

The WTO Dispute Settlement Body (DSB) on 21 November agreed to establish dispute panels at the separate requests of China, the European Union, Canada, Mexico, Norway, Russia and Turkey, and established another two panels on 4 December at the requests of India and Switzerland.

The panel establishment was automatic under WTO rules as all nine were second-time requests after the US had previously blocked the initial requests at the DSB.

More than 20 WTO members reserved their third-party rights to the disputes.

The panels will look into the US decision to impose an additional duty of 10% on imports of certain aluminium products and an additional duty of 25% on imports of certain steel products on grounds of national security under Section 232.

While the nine complaints were almost identical, the US did not agree to requests for a single panel to be established to examine the issue, which it said required consensus at the DSB.

The DSB on 21 November also agreed to the establishment of four panels, at the second-time request of the US, to examine the additional duties imposed by Canada, China, the EU and Mexico on certain US products in response to the US steel and aluminium tariffs.

A first-time request by the US for the establishment of a panel over the additional duties imposed by the Russian Federation was blocked by Russia on 4 December.

Meanwhile, under a separate agenda item at the 21 November DSB meeting, the US again said it was not in a position to agree to a joint proposal

sponsored by some 71 WTO members calling for the simultaneous launch of the selection processes to fill four vacancies on the seven-member Appellate Body as soon as possible.

### Safeguard measures?

At the DSB on 21 November, China, the EU, Canada, Mexico, Norway, Russia and Turkey largely reiterated that the US measures, allegedly taken for national security reasons, were, in their content and substance, safeguard measures taken to protect the US steel and aluminium industries from the economic effects of imports.

According to trade officials, the seven complainants rejected US arguments that recourse to the national security exception under Article XXI of the General Agreement on Tariffs and Trade (GATT) precluded WTO panels from examining the claims. They contended that while national security was a sensitive matter, panels were fully within their right to see whether such claims were justified.

According to trade officials, the EU said that a claim under Article XXI did not mean there should be no panel review where the exception was so "blatantly" being abused. It said that the US was ignoring the fact that Article XXI sets out conditions under which a national security exception can be justified.

Canada said it was "inconceivable" that its steel and aluminium exports to the US could pose a threat to US national security. Members should show great prudence when invoking the Article XXI exception, it added.

Mexico said that resort to Article XXI by the US would frustrate the purpose of WTO dispute settlement and lead to a crisis in the multilateral trading system.

Norway said if a member's mere invocation of a national security defence rendered a claim non-justiciable, this would allow easy circumvention of WTO

obligations. A respondent could, in theory, allege justification of a variety of protectionist interests under the guise of national security, and thereby avoid scrutiny of its WTO obligations altogether. The US argument, if accepted, would render all WTO obligations effectively unenforceable.

Norway said Article XXI is an affirmative defence to a claim of WTO-inconsistency, which the US may invoke in dispute settlement before a WTO panel. If the US chooses to do so, it bears the burden of demonstrating that its measures are indeed justified under this provision.

Norway said that while it appreciates that matters of national security are sensitive, it is confident that, using the usual procedures set out in the WTO Dispute Settlement Understanding (DSU) and other covered agreements, WTO panels are well-equipped to assess whether the US has adequately demonstrated that its measures are justified under Article XXI.

The US said that China's panel request continues the latter's pattern of using the WTO dispute settlement system as an instrument to promote its non-market economic policies. These non-market policies are widely recognized by WTO members as leading to massive excess capacity and distortions of world markets while damaging the interests of market-based economies and businesses and workers who operate under these principles, the US argued. In particular, it claimed, China's policies have created and maintained excess capacity in the steel and aluminium sectors, and undermine the basic fairness of international trade.

WTO members already know that these sectors are suffering under conditions of excess capacity directly caused by China's non-market economic system, the US maintained. Driven by its industrial policy, China has created new plants and maintained existing production contrary to market signals.

The US added that China's non-market policies have also led to global conditions in which core US industries vital to its national security are not able to survive and invest for the future on market-based terms. This devastating effect on US industries critical to its national defence could place the US in a position where it is unable to meet national defence demands in a national emergency,

it said.

According to the US, the tariffs imposed under Section 232 are necessary for the protection of its essential security interests given the key role steel and aluminium play in US national defence, and are therefore justified under Article XXI of the GATT and not subject to review by a WTO panel.

It said this has been the clear position of the US for 70 years, and a position the EU and others supported in the past, most notably in 1982 when certain EU actions were examined before the GATT Council (in relation to the Falklands/Malvinas war) and the US supported the EU's argument that an Article XXI defence required neither notification, justification nor approval.

If the EU and others maintain their misguided requests for panels on the steel and aluminium tariffs, there is no finding a panel could make other than to note that the US has invoked Article XXI, the US maintained.

China said it is not surprising that the US once again has singled out China to disguise its illegitimate safeguard measures. This is not novel, China said, pointing to a similar move during a DSB meeting in October when the US criticized China for so-called non-market economy policies and overcapacity.

China said it recognizes that the overcapacity in the steel and aluminium industry arose alongside the stimulus policies adopted in response to the financial crisis since 2008, and such an issue constitutes a global challenge that should be addressed by joint effort. In this regard, China said that it has already implemented numerous actions to absorb its increased capacity and made sincere contributions to heal the global steel and aluminium market, even if it has caused tremendous adjustment pains to its businesses and workers.

As for the term "non-market practice", China reiterated that there is no definition of "market economy" throughout the WTO rulebook and there is no one-size-fits-all "market economy" standard in the world.

The statement made by the US reeks of hypocrisy, China maintained. From the non-market economy to the issue of overcapacity, the US is working really hard to further cover up its national security disguise over its safeguard measures, it said.

"We don't know how many layers of disguises the US is trying to dress itself. Yet, we do know that the DSB is mandated to strip off any disguise of protective measures and bring them into conformity with the WTO rules," said China.

China said that it does not share the US' enthusiasm in playing the blame game. "We are not under the law of the jungle. Let's follow the law and abide by it. At the end of the day, nothing justifies anyone to put itself above the law agreed by the whole membership including itself."

According to trade officials, the EU pointed out that its position on Article XXI has remained consistent. The EU said that its statement in 1982 was taken at a time when there was no binding dispute settlement system and where one EU member found itself in a situation which fell squarely under Article XXI(iii) (action "taken in time of war or other emergency in international relations").

Brazil said that there is a clear difference between an exception under WTO rules and a derogation. In the case of the former, which covers Article XXI, the member invoking it must be able to show its action falls within the exception, and the subject matter is not excluded from WTO jurisdiction. In the case of a derogation, such as Article III:8(a) of the GATT exempting government procurement from the WTO's principle of national treatment, there is no need for the invoking member to present a defence of its actions, Brazil said.

### Concern of WTO membership

When submitting their second-time panel requests at the 4 December DSB meeting, both India and Switzerland reiterated that the US actions are, in effect and content, safeguard measures. They expressed concern over the US resort to the national security exception under Article XXI as a justification for the tariffs.

India underlined its firm view that the additional tariffs are inconsistent with the US' WTO obligations under the GATT 1994 and the Agreement on Safeguards.

Noting that seven panels had been established on 21 November in relation to the same US measures and based on virtually identical legal claims, India said

this collective resort to dispute settlement reflects the serious concern of the WTO membership over the US actions. It also reflects trust and confidence in the WTO as a forum for resolving international trade disputes.

India argued that a single panel should be established under Article 9.1 of the DSU for the nine disputes as they are all related to the same matter, particularly given the complainants' willingness to coordinate and proceed in this manner.

(Article 9.1 states: "Where more than one Member requests the establishment of a panel related to the same matter, a single panel may be established to examine these complaints taking into account the rights of all Members concerned. A single panel should be established to examine such complaints whenever feasible.")

The plain reading of Article 9.1, said India, provides that a single panel shall be established, whenever feasible, for the examination of multiple complaints related to the same matter. These circumstances are met here, and therefore there is no valid reason to ignore the clear text of Article 9.1, India underlined.

According to trade officials, Switzerland challenged the US argument that, with mere invocation of Article XXI, a panel is precluded from reviewing the claims against the US tariffs. It said that without the possibility of reviewing such a claim, any WTO member could, by simply invoking Article XXI, exempt measures of a commercial nature from the scope of WTO dispute settlement.

The US said that because it has invoked Article XXI, there is no basis for a panel to review the Indian and Swiss claims of WTO-inconsistency. If the WTO were to undertake to review an invocation of Article XXI, it would undermine the legitimacy of the WTO dispute settlement system and even the viability of the WTO as a whole.

According to the US, the text of Article XXI is clear: each WTO member has the right to determine, for itself, what it considers is in its own essential security interests. This has been the understanding of the US for over 70 years, since the negotiation of the GATT. And that understanding has been shared by every WTO member whose national security action was the subject of complaint, including the EU, Canada, Russia and oth-

ers, it said.

The US reiterated that it does not agree to the establishment of a single panel, which it said requires consensus from the DSB. Because the measures in question were taken for reasons of national security, the US said it sees no basis for this dispute and does not agree to the establishment of a single panel.

The EU said that it looks forward to an adjudicative examination of the merits of what the US has been advancing, inter alia regarding the justifiability and conditions of Article XXI.

The EU noted that the DSB has failed to expressly establish a single panel, contrary to the provision of Article 9.1 of the DSU whereby "a single panel should be established to examine [multiple] complaints [related to the same matter] whenever feasible". It said this means that Article 9.3 applies by default and automatically; this is a "shall" provision that is self-executing and directly applicable.

(Article 9.3 states: "If more than one panel is established to examine the complaints related to the same matter, to the greatest extent possible the same persons shall serve as panellists on each of the separate panels and the timetable for the panel process in such disputes shall be harmonized.")

Accordingly, the same persons must serve as panellists and the timetable must be harmonized, to the greatest extent possible, said the EU, which added that it counts on the WTO secretariat to implement this provision fully. (SUNS8802/8811) □

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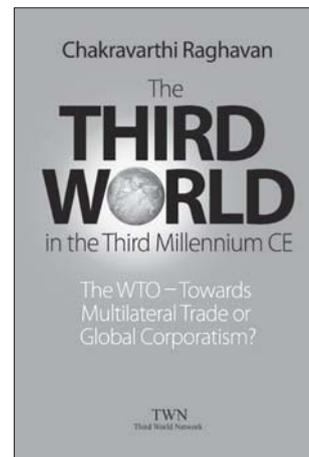
## The Third World in the Third Millennium CE

### The WTO – Towards Multilateral Trade or Global Corporatism?

By Chakravarthi Raghavan

THE second volume of *The Third World in the Third Millennium CE* looks at how the countries of the South have fared amidst the evolution of the multilateral trading system over the years. Even at the General Agreement on Tariffs and Trade (GATT) gave way to the World Trade Organization (WTO) as the institution governing international trade, this book reveals, the Third World nations have continued to see their developmental concerns sidelined in favour of the commercial interests of the industrial countries.

From the landmark Uruguay Round of talks which resulted in the WTO's establishment to the ongoing Doha Round and its tortuous progress, the scenario facing the developing countries on the multilateral trade front has been one of broken promises, onerous obligations and manipulative manoeuvres. In such a context, the need is for the countries of the Third World to push back by working together to bring about a more equitable trade order. All this is painstakingly documented by *Chakravarthi Raghavan* in the articles collected in this volume, which capture the complex and contentious dynamics of the trading system as seen through the eyes of a leading international affairs commentator.



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# LDCs need entrepreneurship for structural transformation

A UN economic report highlights the role of innovative entrepreneurship in promoting the structural transformation required to realize sustainable development in the poorest countries.

by Kanaga Raja

GENEVA: The least-developed countries (LDCs) need to undergo a process of structural transformation in order to fulfil the economic, social and environmental dimensions of sustainable development and achieve the Sustainable Development Goals (SDGs), the United Nations Conference on Trade and Development (UNCTAD) has said.

In its *Least Developed Countries Report 2018*, released on 20 November, UNCTAD said that entrepreneurship, in particular through its innovative dimension, can make an important contribution to structural transformation in several ways.

First, it is an important mechanism for shifting productive resources from economic activities with low value added and productivity to those with higher value added and productivity, whether in agriculture, industry or services.

Second, it can stimulate investment and contribute to building a knowledge-driven economy, which plays a central role in economic growth.

Third, even unviable innovations in production that introduce goods, services, production technologies or business models that are new to a particular setting may provide valuable information for future entrepreneurial decisions, including those of other entrepreneurs, in the form of cost discovery.

"All of these effects are particularly critical in LDCs that are in the initial stage of structural transformation. Entrepreneurship is thus a *sine qua non* of sustainable development," said UNCTAD.

"The report establishes a more active stance for the state in steering the emergence of dynamic and transformational local entrepreneurship," said UNCTAD Secretary-General Mukhisa Kituyi.

"By encouraging policymakers to value the benefits of entrepreneurship, this report makes an invaluable contri-

bution to efforts to add value to the least developed countries' implementation of the 2030 Agenda for Sustainable Development," he added.

## Structural transformation

According to UNCTAD, LDCs need to undergo a process of structural transformation analogous to the historical transformations of developed countries and emerging market economies. However, starting from a position of heightened structural vulnerabilities, they need to embark on this process in such a way as to avoid repeating the negative environmental consequences of the past.

"Such structural transformation has become a *sine qua non* for LDCs to fulfil the economic, social and environmental dimensions of sustainable development and achieve the Sustainable Development Goals."

According to the UNCTAD report, rural development in LDCs is an imperative, as agriculture continues to play a disproportionate role in LDC economies, absorbing two-thirds of the labour force and generating some 22% of economic output on average, compared with 8.5% in other developing countries. This makes the transformation of rural economies central to the overall structural transformation of LDCs.

LDCs have typically experienced a transfer of labour from low-productivity agricultural activities to low-productivity urban services, sustained over the medium term. While labour productivity in such services is marginally higher than in agriculture, this does not amount to structural transformation and has been characterized, in the context of African LDCs, as "static gains, dynamic losses".

Successful structural transformation processes, for example, in developed countries and other developing coun-

tries, such as China and Vietnam, have instead entailed the transfer of rural labour to manufacturing activities with much higher productivity.

Other examples of structural transformation not evolving in the socially desirable direction in LDCs are the premature deindustrialization observed since the 1980s and the "re-primarization" which has taken place at different points of time, including most recently during the period of high international commodity prices.

According to the report, structural transformation typically involves four main features: a declining share of agriculture in economic output and employment; a rising share of industry and modern services; migration from rural to urban areas; and a demographic transition, entailing a temporary acceleration of population growth to reach a new equilibrium level.

UNCTAD said it has long called for LDCs to adopt economic development strategies based on the development and upgrading of productive capacities and diversification of their economic activities, leading to structural transformation of their economies that is rich in employment growth.

It noted that structural transformation has typically been associated with a demographic transition. Most LDCs remain in the initial phases of both these processes, and both are, at best, proceeding slowly. The result has been a combination of rapid population growth and predominantly young populations that have added, and will continue to add, almost 11 million to the labour force annually between 2010 and 2050, requiring employment creation on an equivalent scale.

LDCs thus face the double challenge of accelerating both structural transformation in a desirable direction and job creation. This means redirecting productive resources to higher-value-added activities and increasing productivity within sectors much more rapidly than in the past, while ensuring that this structural transformation is employment-intensive.

This requires addressing the tension between increasing labour productivity (reducing labour use relative to output) and employment creation (increasing overall labour use), both of which will

need to accelerate considerably from historical rates to eradicate poverty and generate enough jobs that are higher in productivity and better-paying to employ rapidly growing labour forces.

Agriculture continues to play a disproportionate role in LDC economies, generating on average some 22% of economic output, compared with 8.5% in other developing countries and 1.3% in developed countries. Its role in employment is greater still. Agriculture absorbs two-thirds of the LDC labour force, similar to the rural share of the population, whereas this is less than 7% in most developed countries.

Even by 2030, more than half of the population in LDCs (56.5%) is projected to continue living in rural areas, making the transformation of rural economies central to the overall structural transformation of LDCs and highlighting “the rural development imperative”.

According to UNCTAD, agriculture must become more productive to contribute effectively to structural transformation, rather than grow only through increased labour and land use or higher commodity prices, as appears to have been the case in the recent past.

This implies seeing agriculture primarily as a business, not only as a livelihood, and improving its links with market opportunities and supply and global value chains, and strengthening agricultural enterprises’ ability to exploit such opportunities.

“Agricultural development and the entrepreneurship on which it depends, built on a foundation of increasing agricultural productivity, are crucial to structural transformation, especially in LDCs.”

Diversification from agriculture into non-farm entrepreneurship contributed to a yearly overall improvement in rural labour productivity of 4.1%, between 2001 and 2012, across a number of LDCs. In addition to expansion of the non-agricultural sector, such diversification can also improve agricultural labour productivity, as labour moves from agriculture to non-agricultural enterprises.

The report noted that productive capacities play a pivotal role in sustainable development. This is increasingly recognized in the policy discourse and in international frameworks, such as the 2030 Agenda for Sustainable Develop-

ment and the Istanbul Programme of Action for LDCs, where productive capacities feature as a priority. Strengthening domestic productive capacities is one key to structural transformation, which occurs through capital accumulation, technological progress and structural transformation.

Strengthening productive capacities is of particular importance in LDCs, which are typically characterized by a weak domestic private sector, heavy reliance on primary commodity exports and undiversified economic structures. By underpinning economic growth, enhancing the scope for domestic value addition and setting in motion economic diversification, development of LDC productive capacities can provide a sustainable means of improving welfare, generating productive employment and reducing aid dependence.

### Innovation

There is a widespread tendency to assume that innovation is always positive and, therefore, socially desirable. This is in fact most often the case. However, there are times when innovation has socially deleterious effects. It can benefit the few at the expense of the many, said the report.

In LDCs, while low levels of physical and human capital make factor accumulation essential to development, the central role of innovation in structural transformation means that innovation is also critical, said UNCTAD. However, unlike in developed countries (where the changes introduced by innovation are generally “new to the world”, pushing the technological frontier outwards), innovation in LDCs typically entails the introduction of items and processes that already exist elsewhere but are new to the local market and thus far from a worldwide technological frontier. Innovation is thus as important to economies where growth is driven by factor accumulation as those where it is driven by knowledge accumulation.

Given the fundamental role of entrepreneurship activity in bringing about structural transformation, the UNCTAD report summarized, transformational entrepreneurship is fundamental to achieving sustainable development and the Sustainable Development Goals in

the LDCs.

Transformational entrepreneurship consists of the creation, recognition and utilization of positive opportunities within existing organizations (or through the creation of new organizations ) in such a way that “innovation” is involved – or the provision of “new combinations”, which ultimately contribute to the structural economic transformation of a country. It is this conception of transformational entrepreneurship that is therefore a fundamental condition of sustainable development in the LDCs, UNCTAD said.

### Entrepreneurial landscape in LDCs

It also said that it is well documented that wage employment is relatively limited in LDC labour markets, while various forms of self-employment, including as employers, own-account workers and family workers, are visibly more prevalent, notably in rural areas and in the urban informal sector. The incidence of self-employment in LDCs is high, even by developing-country standards, at 70% of total employment, compared with 50% in other developing countries, with an estimated 268 million self-employed workers in 2017. The prevalence of self-employment has declined somewhat over time in almost all LDCs, but relatively slowly, suggesting that it will remain a critical feature of labour markets in LDCs in the long term.

There is considerable variability among individual economies, yet the overwhelming majority of self-employed workers in LDCs can more accurately be defined as own-account workers; in 2017, this category accounted for nearly 70% of self-employment in LDCs (185 million people). Contributing family workers, typically predominant in agriculture, accounted for 28% (76 million people) and the remaining 3% (close to 8 million people) were employers.

Therefore, while self-employment is ubiquitous in LDCs, only a fraction of the self-employed may be considered truly entrepreneurial or engaged in progressive forms of entrepreneurship. Existing empirical studies broadly put this proportion at around one-third for developing countries as a whole.

According to the report, innovation is limited among entrepreneurs in LDCs,

and me-too businesses, based on imitations of existing activities, generally predominate. On average, only 15% of early entrepreneurs in LDCs report the introduction of a new product or service, compared with 24% in other developing countries, and entrepreneurial activity by employees is also more limited.

Entrepreneurial activity in LDCs occurs predominantly in sectors with low entry barriers and limited skill requirements, in particular consumer-oriented services such as those involving retail, motor vehicles, lodging, restaurants, personal services, health, education and social and recreational services. Involvement in more transformative activities, such as construction, manufacturing, transportation, communication, utilities, wholesaling and business-oriented services, is more limited.

This suggests that the entrepreneurship potential in LDCs translates only to a limited extent into innovative businesses capable of playing a catalytic role in structural transformation, said UNCTAD.

Moreover, the entrepreneurial landscape in LDCs tends to be skewed towards early stages of entrepreneurship. In the majority of LDCs for which data are available, there are more than twice as many early entrepreneurs as established entrepreneurs, reflecting relatively higher rates of business discontinuation and lower survival rates. Some 14% of adults in LDCs report having exited a business activity in the last year, compared with 6% in other developing countries, and the principal reason for exit is low profitability.

According to the report, the entrepreneurship landscape in LDCs is mixed. Between half and two-thirds of the labour force in LDCs is typically engaged in notionally entrepreneurial activities, depending on the indicator used, suggesting considerable entrepreneurial potential. However, the contribution to structural transformation is more limited, as a disproportionate share of such activities is confined to small-scale and often informal survivalist businesses. This shortcoming is further underlined by the low level of job creation anticipated by entrepreneurs themselves.

#### Proactive policy framework

Redressing this situation requires

disentangling the various types of entrepreneurial activities and leveraging those that present the greatest innovative potential, said UNCTAD. This is particularly important because structural transformation in LDCs is likely to require a consolidation of the entrepreneurial landscape through job creation by more productive and innovative enterprises, to absorb the survivalist self-employed into wage employment.

Boosting the contribution of entrepreneurship to structural transformation thus requires – along with a careful and regular mapping of the entrepreneurship landscape across several complementary dimensions (for example, along the lines of the OECD and Eurostat measurement framework), adapted to specificities in LDCs – a proactive industrial policy framework, including an incentive structure that nudges enterprises to improve performance, harnessing market discipline to foster innovation while limiting rent-seeking behaviour. Also required are bold approaches to harnessing international trade and investment to promote structural transformation.

According to UNCTAD, the LDCs should focus on boosting entrepreneurs and established firms that seize opportunities to create innovative products and services, employ more people and grow dynamic businesses that have a transformative, ripple effect throughout the economy.

Fostering the type of enterprises that matters for root-and-branch economic transformation means going beyond the

“business-as-usual” approach of establishing an enabling environment for business, correcting market failures and supporting small enterprises.

The UNCTAD report called for a renewed “developmental state” that engages in transformative, mission-oriented investments and involves the private sector in a strategic vision that charts a clear path for development.

Policymakers should provide support that is tailored to the life cycle of firms (start-up, scale-up, maturity), based on objective selection criteria and linking clearly communicated time-bound rewards, advantages and incentives to performance.

Entrepreneurship policies also need to foster linkages between firms of different sizes, stages of maturity and sectors, for instance, by means of business clusters, networking and alliances which allow for a sustained flow of new ideas into firms throughout their life cycle and enable dynamic growth, UNCTAD said.

Greater attention needs to be given to the development of domestic supply chains, since linking LDCs to global value chains has not provided any significant boost to local enterprise development, it underlined.

Coherence and coordination between entrepreneurship policies, industrial policies, rural policies and policies for science, technology and innovation are also critical, as is entrepreneurship skills development in education, said UNCTAD. (SUNS8808) □

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# Inequality undermines democracy

*Anis Chowdhury and Jomo Kwame Sundaram point out how democracy is under threat from today's widening economic disparities.*

Economic inequality, involving both income and wealth concentration, has risen in nearly all world regions since the 1980s. Gross economic inequalities moderated for much of the 20th century, especially after World War II until the 1970s, but have now reached levels never before seen in human history.

The *World Inequality Report 2018* found that the richest 1% of humanity captured 27% of world income between 1980 and 2016. By contrast, the bottom half got only 12%.

Oxfam's *Reward Work, Not Wealth* reported that 82% of the wealth created in 2016 went to the richest 1% of the world population, while the 3.7 billion people in the poorer half of humanity got next to nothing.

2016 saw the biggest increase in billionaires in history, with a new one every two days. Billionaire wealth increased by \$762 billion between March 2016 and March 2017, with Oxfam noting, "This huge increase could have ended global extreme poverty seven times over."

The latest *World Inequality Report* warns, "If rising inequality is not properly monitored and addressed, it can lead to various sorts of political, economic, and social catastrophes."

The *Global State of Democracy 2017: Exploring Democracy's Resilience* had anticipated this concern: "Inequality undermines democratic resilience. Inequality increases political polarization, disrupts social cohesion and undermines trust in and support for democracy."

## Growing inequality undermining progress

Alexis de Tocqueville believed that democracies with severe economic inequality are unstable as it is difficult for democratic institutions to function properly in societies sharply divided by income and wealth, especially if little is done to redress the situation or if it worsens.

De Tocqueville also maintained that

there cannot be real political equality without some measure of economic equality. Poor citizens would not enjoy the same access to political and policy influence as the wealthy enjoy much more influence.

For Amartya Sen, the poor's "substantive freedom" or "capability" to pursue goals and objectives is circumscribed. Those with more power not only block progressive redistribution, but also shape rules and policy to their own advantage.

For Robert Putnam, economic inequality also impacts civic norms, such as trust, critical for political legitimacy.

Growing inequality exacerbates the sense of unfairness about a status quo run by and for wealthy plutocrats. For Joseph Stiglitz, rising inequality weakens social cohesion. Declining trust increases apathy and acrimony, in turn discouraging civic participation.

Economic inequality thus worsens "political anomie", eroding community bonds besides contributing to antisocial behaviour.

Meaningful democracy needs active citizens' participation in community affairs, typically greatest among the "middle class". However, growing economic polarization has hollowed out the middle class, reducing civic engagement and exacerbating the "democratic deficit".

Exclusion and deprivation exacerbate alienation, causing greater abandonment of prevailing social norms. Meanwhile, the privileged indignantly see others as undeserving of "social transfers".

Thus, de Tocqueville was concerned that growing inequality would gradually erode the "quality" of democracy, even in high-income societies.

The rise of "plutocratic populism" has contributed to the latest identity politics in the US and Europe. Public discourses and the media have blamed the "other" – immigrants and the culturally different – for growing social ills.

Thus, plutocrats often succeed in satisfying "their people" with privileges and "rights" in contemporary modes of

"divide and rule".

With the media, they often obscure plutocracy's rule, sometimes even justifying its worst features, e.g., legitimizing high executive remuneration as "just rewards" as tycoons secure generous tax breaks and investment incentives at the expense of social spending and public services for all.

In today's "winner-take-all" economy, those on top successfully lobby for and secure lower taxes. Nonetheless, they indignantly denounce budget deficits as irresponsible and inflationary, threatening the value of all financial assets.

## The US divided

In the United States, the income share of the top 1% is now at its highest level since the Gilded Age on the eve of the Great Depression. Meanwhile, the bottom half of Americans has captured only 3% of total growth since 1980. Disparities are reaching levels never before seen in the modern period.

Thus, around 2013, the top 0.01%, or 14,000 American families, owned 22.2% of US wealth, while the bottom 90% – over 133 million families – owned a meagre 4%. The richest 1% tripled their share of US income within a generation, with 95% of income gains since the 2008-09 financial crisis going to the top 1%.

Meanwhile, legislative and other reforms as well as judicial appointments have stacked the legal system even more heavily against those with little power or influence. A recent survey found more than 70% of low-income American households had been involved in civil legal disputes in the previous year, such as eviction and employment law cases, with more than 80% lacking effective legal representation.

Lack of attention to those down and out has worsened the sense of abandonment and exclusion. Many Americans, especially in depressed regions, have become disillusioned and alienated, but also more susceptible to chauvinist politicians promising protection against "the other", imports and immigrants. (IPS) □

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