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China, India defend need for S&DT

In light of attempts to question the basis for according "special and differential treatment" (S&DT) to developing-country members of the WTO, China and India have argued that more lenient WTO rules for developing countries remain a pressing need given the "huge development divide" separating them from the developed countries.

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China, India respond robustly to US paper on "differentiation"

Responding to US moves to question the basis for applying more flexible WTO rules to developing countries, China and India have asserted that such "special and differential treatment" is needed to address the persistent development divide between North and South.

by D. Ravi Kanth

GENEVA: China and India have offered a robust response to the United States over its attempts to "differentiate" among developing countries on which of them could avail of special and differential treatment (S&DT) at the World Trade Organization.

In a joint draft paper, China and India have outlined why no one among the developing countries must be left behind in continuing to avail of S&DT, particularly given the "development divide" between the developing countries of the South and the developed countries of the North.

Over the last two years, the US has stepped up its multi-pronged assault on central pillars of the WTO multilateral trading system: on the "most-favoured nation" (MFN) clause, by imposing unilateral and selective import duties; on the Appellate Body in the WTO's dispute settlement system, by blocking the filling of vacancies on the body; and on the multilateral negotiating function based on the principle of consensus, by selectively pushing plurilateral agreements in the areas of services trade and now electronic commerce.

Now the US has, in a paper circulated at the WTO on 16 January, launched its latest attack on the core WTO pillar of S&DT, so as to ensure that the likes of China, India, Brazil, South Africa and Indonesia are removed from the S&DT bracket.

In its 45-page paper, the US has called for "differentiation" among developing countries because of the "economic tides" and "great strides" made in the years since 1995 when the WTO was established. The US has claimed that the WTO remains stuck in an outdated construct of "North-South division, developed and developing countries", that fails to reflect the realities of 2019.

In response to this, China and India have, in their 38-page draft paper, argued that "there is a huge development divide between the developing and developed Members of the WTO, not only in aspects of economic development level, industrial structure and competitiveness, regional balance, but also in education, social security and the ability to effectively participate in international governance."

Notwithstanding the significant progress achieved by developing-country members since the creation of the WTO in 1995, China and India said "the old divides have not been fully bridged or even have been widened, while new divides, such as those in the digital and technological areas, continue to emerge."

Without naming the US, China and India have argued in their draft paper that "it is inappropriate, if not inhumane, to measure a member's development level with select gross economic and trade statistics, so as to deny the divide between developing and developed Members, and to request the former to abide by absolute 'reciprocity' or superficial 'fairness', essentially depriving the developing Members of their right to develop."

Contrary to the repeated US claims that China's accession to the WTO has made it a powerhouse with huge trade surpluses, "the WTO rules-based system has helped the growth of trade but has not made it equitable," China and India maintained.

At the WTO and in the global trading system, including at forums such as the G20, the developing countries are confronted by "capacity constraints" since they lack "human resources with capable negotiation skills, a well-functioning intra-governmental coordination mechanism, and sufficient social participation in and support to trade negotiations," the joint paper suggested.

Consequently, the developing countries are unable to overcome these deficiencies that "diminish not only the ability of developing Members to negotiate, but also the efficiency and effectiveness of translating negotiation outcomes into their domestic economic growth."

It is against this backdrop, China and India argued, that S&DT was made one of the "cornerstone" principles of the General Agreement on Tariffs and Trade (GATT). It was meant to be "the main instrument for addressing the development divide and capacity constraint of developing Members, to help them achieve growth, expand employment and reduce poverty through trade".

Moreover, "the current S&DT provisions in the WTO agreements are rules formulated through negotiations and compromises, not charities granted by developed Members," China and India maintained.

Besides, the S&DT provisions remain only best-endeavour clauses. The developing countries, led by India and South Africa among others, have called for making these provisions effective and binding as part of the implementation issues in the Doha Development Agenda.

However, after agreeing to the implementation issues, the developed countries led by the US and the European Union vehemently opposed discussing any improvements for making S&DT provisions effective.

"In contrast, it is developed Members that have reaped substantial benefits by taking advantage of the 'reverse S&DT'," China and India maintained.

Worse still, the developing countries which acceded to the WTO since 1995, including China, had made "tremendous efforts, significantly contributed to upholding the core values of the WTO including free trade, openness and non-discrimination; supporting the rules-based multilateral trading system; and maintaining a transparent, stable and predictable global trade environment," the joint paper pointed out.

China and India reminded the US that "the dichotomy of developed and developing Members is frequently used by almost all International Organizations to describe the structure of today's global economy." The underlying rationale behind the classification methodologies is to demonstrate "the constraints and thresholds that divide developed and developing Members". Further, the rationale adopted by the United Nations and various intergovernmental organizations clearly suggests that "there are structural features behind the UN classification that distinguish countries in terms of their development challenges" and "these features form the basis on which countries classify themselves and are adapted to the various mandates, functions and statistical work of the International Organizations."

In sharp contrast, "for the WTO, the status of developed and developing Members are reflected in the bargaining process, and incorporated into the final rules themselves."

Therefore, "the self-declaration approach has proved to be the most appropriate for the WTO, which best serves the WTO objectives," China and India maintained.

Huge gap

The joint paper said that "the gap between the developed and developing Members appears to have actually widened over time, instead of getting reduced."

Arguably, "the development divide, which was taken note of in mid-1960s in Part IV of the GATT, continues to remain relevant today – perhaps even more relevant."

"Attempts at ignoring the need for S&DT provisions, or diluting it, [are] fraught with the risk of making future negotiations in the WTO even more difficult than today," China and India warned.

According to their joint paper, the gap between the developed and developing countries is manifested in two ways. "First, with reference to an indicator, the difference in value between the developed and developing Members widens over time; and second, even if the difference in value does not widen over time, the gap between the developed and developing Members during a time period is substantial."

China and India pointed to a number of indicators which suggest that "the gap between the developed and developing Members has remained substantially high" while "in many cases the gap has considerably widened."

"Besides, the essence of development is the human being," China and India maintained. "Hence, per capita indicators must be given the top priority when assessing the development level of a country."

"In WTO agreements, all the indicators used to assess development are based on per capita calculation. For example, in Article 8.2(b)(iii) of the Agreement on Subsidies and Counter-vailing Measures, 'income per capita', 'household income per capita' and 'GDP per capita' are mentioned for the purpose of measuring the economic development of a member."

The joint paper offered figures of various indicators for the developed and developing countries, particularly China, India, South Africa, Indonesia and Brazil, to bolster its argument that the development divide had widened since 1995.

The joint paper also cited cases of "reverse S&DT" in the agriculture sector, particularly with regard to subsidy payments in the developed countries. It gave the figures for domestic support per farmer in the US ($60,586), Canada ($16,562), Japan ($10,149), the EU ($6,762), China ($863), Brazil ($345) and India ($227). The per-farmer subsidy in the US was 70 times that in China, 176 times that in Brazil and 267 times that in India.

In a similar vein, China and India revealed that there is a substantial divide between developed and developing countries in the areas of trade in services, intellectual property rights, global value chains and value-added. The developing countries also lag far behind in relation to per capita use of energy, the role of banks in the financial system, research and development capacity, digital divide, company efficiency and benefits from globalization.

In addition, China and India showed how the developing countries continue to suffer from capacity constraints due to the lack of negotiating capacity at human resource level. From the GATT to the WTO, developed countries have been in a dominant position in the initiation of negotiations, the design of rules, the assertion of rights and even the "flexible use of rules". The developing countries, due to lack of resources, are usually short of negotiators (especially experienced ones) and thus unable to achieve their objectives in the negotiations as well as manage negotiation outcomes.

The problem is further compounded because of limited budgetary resources in developing countries. Consequently, it is often the case that negotiating officials are not able to participate in a systematic way, said China and India.

Also, due to the lack of coordinating capacity at institutional level nationally, developing countries usually lack a unified policy across different government departments and have difficulties in fully assessing and accurately analyzing the impacts of multilateral trade negotiations on the economic system, and in formulating the national trade negotiation strategies and tactics accordingly.

"In a word, the fact is that, for the multilateral trade negotiations, developed Members are usually 'well and proactively prepared', while developing Members often 'rush to respond in a reactive manner'," China and India argued. Hence, "there is a big asymmetry between the two in formulating multilateral trade rules due to the capacity constraint."

"The formal 'de jure' equality cannot mask the 'de facto' inequality in reality," said China and India.

Integral part

The two countries said that S&DT is an integral part of the WTO agreement.

They pointed out that in 1947, 11 developing members acceded to the GATT based on the same conditions and obligations as developed members. "To help developing Members better benefit from the multilateral trading system, the concepts of 'less than full reciprocity' and 'non-reciprocity' gradually emerged during the 1960s, which gave birth to Part IV of the GATT." In short, "the issue of development was explicitly addressed in that part for the first time in history."

Subsequently, the Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries (also known as the Enabling Clause) adopted in 1979 "provided a permanent legal basis for S&DT Clause 12," according to the joint paper.

In 1986, the Uruguay Round of multilateral trade negotiations was launched and the S&DT-related content was stated in the Ministerial Declaration. "However, the negotiation outcomes were far less than expected," China and India said, citing a prominent expert who observed that "most of the concessions and commitments have come from developing countries and very few from industrialized countries."

In 1994, all developing members of the GATT joined the WTO, adopting the results of the Uruguay Round as a single undertaking. But in Article XXXVI:1(c) of the GATT 1994, the Contracting Parties noted that "there is a wide gap between standards of living in less-developed countries and in other countries".

Paragraph 3 of the article specified: "There is need for positive efforts designed to ensure that less-developed contracting parties secure a share in the growth in international trade commensurate with the needs of their economic development."

What could constitute "positive efforts" was specified in paragraph 8 of the article, which stated: "The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties."

The China-India joint paper also refuted the US argument that "all rules apply to a few (developed countries)", saying it "totally ignores the 70 plus year history of GATT/WTO." The paper offered concrete examples of how reverse S&DT works for the developed countries.

In conclusion, China and India maintained that "the real threats to the relevance, legitimacy and efficacy of the WTO are raging protectionism and unilateralism, the blockage of Appellate Body member selection process and the impasse of the Doha Development Round, not the self-declared development status of developing Members."

The two developing countries asserted that "S&DT is an integral part of the multilateral trading system, and self-declaration appears to be the fairest classification approach in the WTO."

The battle lines have thus been drawn on the issue of continuation of S&DT for all developing countries. The paper by China and India has revealed the divide between the countries of the North on the one side, and the developing countries in the South on the other. It remains to be seen how the developing countries close ranks to launch a united fight to retain S&DT. *(SUNS8846)* ❐

US-China trade tensions will have significant repercussions

The trade feud between the US and China will not only impact the two countries alone but also weigh on global growth prospects and international trade flows, says a UN economic body.

by Kanaga Raja

GENEVA: Due to the size of the two economies involved, the tariffs that have been imposed by the United States and China (on each other) will have significant repercussions on international trade, according to a new report by the United Nations Conference on Trade and Development (UNCTAD).

In particular, the implications will be "massive" in the absence of an agreement between the US and China on 1 March, when the US will increase tariffs to 25% (from the existing 10%) on about $200 billion of Chinese imports.

UNCTAD also found that the tariffs imposed by the US on China have not resulted in increased domestic production but will rather lead to diversion of trade to third countries.

In its *Key Statistics and Trends in Trade Policy 2018* report released on 4 February, UNCTAD said that while the brunt of the effects of the tariffs will fall on the two countries directly involved, when it comes to trade nothing happens in isolation. Trade tensions among major economies are bound to have spillovers, externalities and several ripple effects on many other countries.

In this context, UNCTAD highlighted several concerns for developing countries, including the unavoidable impact that the ongoing trade tensions will have on global growth, the spillovers that the tensions could have on monetary policy and currency markets, and the possibility of stagflation, namely, an increase in prices coupled with lower growth.

At a media briefing on 4 February, Pamela Coke-Hamilton, Director of the UNCTAD Division on International Trade in Goods and Services, and Commodities, cited former US Secretary of State Cordell Hull as once saying, "We learnt that a prohibited protective tariff is a gun that recoils on ourselves."

Barring an agreement between the US and China on 1 March, US tariffs on $200 billion worth of Chinese goods will escalate to 25% from 10%. "The implications are going to be massive," Coke-Hamilton said, pointing out that at the macroeconomic level, "we will see an economic downturn especially due to instability in commodities and financial markets."

"Additionally, there will be increased pressure on global growth as companies will have to impose adjustment costs which will affect productivity, investment and profitability."

Coke-Hamilton further pointed out that small and lower-income countries, which are exposed to external shocks, will find it very difficult to maintain any level of resilience. And the impact on currency markets will also be deleterious; there will be currency wars and devaluation.

Coke-Hamilton further pointed to the potential for stagflation, leading to job losses and higher unemployment and, "more importantly, the possibility of a contagion effect over what we call a reactionary effect leading to a cascade of other trade distortionary measures, because everybody then will get into the game and it will be very difficult."

The impact on global value chains and intermediate suppliers will draw almost $160 billion away from East Asia. However, the European Union will be able to attract almost $90 billion of those value chains, "which is great for the EU but not for East Asia and others along the value chain."

The implications for the multilateral trading system will also be onerous, said Coke-Hamilton. She highlighted the weakening of the system with significant repercussions for the developing countries, particularly in relation to special and differential treatment and other embedded principles within the system.

"So there is a move also towards more regional and bilateral trade, with actually more than 50% of trade now being done under preferential trade agreements."

According to Coke-Hamilton, the central message from the UNCTAD report is that the tariffs imposed by the US have not resulted in increased US domestic production but rather will lead to diversion of trade to third countries.

If the US tariffs rise to 25%, she said, they will limit trade from China but will not be effective in protecting domestic firms in the US. Suppliers in the rest of the world will be more competitive, and trade diversion effects will be in favour of third countries. The EU will capture $70 billion of the US-China trade while Japan, Mexico and Canada will each capture over $20 billion.

Trade tensions and their consequences

The UNCTAD report examines the repercussions of the existing tariff hikes by the US and China, and the effects of the US tariff increase on Chinese goods scheduled for 1 March.

It noted that the year 2018 was an eventful one with regard to international trade. While trade continued to substantially outpace GDP growth, the last 12 months have also been characterized by several trade confrontations. While some confrontations have de-escalated through bilateral arrangements, some have further escalated. Most notably, disagreements between the US and China have escalated into rounds of retaliatory tariffs.

"Given the size of the economies involved, these tensions are of importance not only for the United States and China, but for all other countries," it said.

The first round of retaliatory tariffs occurred in early 2018 when China and the US imposed tariffs on about $50 billion of each other's goods. The confrontation quickly escalated, and in September 2018 the US imposed 10% tariffs covering about $200 billion of Chinese imports, to which China retaliated by imposing tariffs on imports from the US worth an additional $60 billion.

These tariffs were initially due to rise to a much more substantial 25% in January 2019, but in early December 2018 the US agreed to freeze the tariff increase until 1 March.

The tariffs imposed by the US and China on each other in 2018 cover more than half of their bilateral trade (the total was valued at about $640 billion in 2017). Both sets of tariffs encompass a wide range of products, though most of them are concentrated in the manufacturing sectors.

US tariffs targeted about $250 billion worth of imports, of which about $120 billion related to intermediate manufacturing products, $80 billion to capital manufacturing goods, and about $50 billion to consumer manufacturing goods. Some of the US tariffs also targeted China's agricultural exports (about $5 billion).

China's retaliatory tariffs cover about $50 billion of intermediate manufacturing products and $20 billion of capital and consumer manufacturing goods. China also targeted almost $20 billion in agricultural products (largely soybeans) and about $4 billion in energy products (largely liquefied gas).

The relatively lower amount of trade affected by Chinese tariffs reflects China's large bilateral trade surplus with the US, said UNCTAD. While US imports of goods from China were in the order of about $505 billion in 2017, Chinese imports of goods from the US were about $130 billion.

The UNCTAD report identified several factors for which the current trade tensions will have far-reaching consequences.

A major concern for developing countries is the unavoidable impact that the tensions will have on global growth. "Overall, the global economy remains fragile and confrontations in the area of international trade can have negative spillovers to commodities and financial markets and increase the risk of a global economic downturn."

More directly, trade frictions weigh on global growth as they impose adjustment costs to international firms which would reflect upon investment decisions, profitability and productivity. In addition, the increase in uncertainty about commitments to trade rules adds to the risk of investing abroad.

These factors will ultimately have negative repercussions for the growth prospects of many countries, especially small and low-income developing countries, as they are generally less resilient to unfavourable global conditions, said UNCTAD.

Another macroeconomic concern is the spillovers that trade tensions could have on monetary policy and currency markets. Although other factors may be also at play, trade tensions have at least in part contributed to the depreciation of the renminbi, while contributing to the appreciation of the dollar. A lower renminbi has had the effect of making Chinese companies relatively more competitive not only versus US firms but also vis-a-vis firms from the rest of the world.

Currency markets are closely interlinked, and any adjustment in one currency can spread quickly to other currencies. Indeed, the trade confrontations between the US and China have already weighed on currency markets by increasing the volatility and downward pressure for many currencies, especially in the riskier emerging markets. For many developing countries, one important concern is whether trade tensions will affect currency markets in ways that will make their dollar-denominated debt more difficult to service.

Another concern is stagflation – an increase in prices coupled with lower growth. Tariffs can contribute to stagnation as they can reduce efficiency due to the frictions they create, while increasing inflationary pressure because some of their costs will inevitably be passed down to consumers.

Given the size of the two countries directly involved, the concern is that these effects will be felt not only domestically but also abroad.

While moderately higher inflation is generally not a problem if it is a result of economic growth, in periods of economic stagnation, inflation often results in job losses and rising unemployment.

Trade patterns altered

Because of the size of the two economies involved, the tariffs implemented by the US and China will inevitably have significant repercussions on international trade, said UNCTAD.

The impact of the tariffs on international patterns of trade depends primarily upon the extent to which US-China trade will be substituted with products originating from other countries. Some products may not be easily substituted because of a lack of foreign competitors or because of US/Chinese suppliers willing to absorb at least part of the additional costs due to the tariffs.

While this implies that even with substantial tariffs some trade will continue to occur between the two countries, some bilateral trade will inevitably be diverted to other countries or lost due to price rises and import substitution effects, said UNCTAD.

The report analyzes the amount of trade affected by tariffs across several sectors along with estimates of trade diversion effects (imports diverted to third countries), residual trade (imports still originating from the country affected by the tariffs) and trade losses (imports that would be substituted by the domestic economy or lost due to price increases).

In a sectoral breakdown, it said the effects of US tariffs will be, amongst others, on various machinery, electrical machinery, office machinery, wood products and furniture, communication equipment, metal products, motor vehicles, rubber/plastics, chemicals and tanning.

The effects of Chinese tariffs will be, amongst others, on chemicals, vegetable products, motor vehicles, various machinery, precision instruments, paper products and publishing, electrical machinery, rubber/plastics, wood products and furniture, and communication equipment.

In general, the trade diversion effects of tariffs of 25% are orders of magnitude larger than residual trade and trade losses. For example, of the about $33 billion of various machinery that the US imports from China, about $27 billion would be diverted to third countries, $4 billion would remain in Chinese firms and $2 billion would be lost or captured by US firms. This suggests that while bilateral tariffs are not very effective in protecting domestic firms, they are very valid instruments to limit trade from the affected country, said UNCTAD.

One effect of the US-China tensions is to make suppliers in the rest of the world more competitive relative to US and Chinese firms, UNCTAD added. "A substantial share of United States-China trade is therefore likely to be captured by other countries whose firms are close competitors of Chinese and United States companies."

Overall, EU exports are those likely to increase the most, capturing about $70 billion of the US-China bilateral trade

($50 billion of Chinese exports to the US, and $20 billion of US exports to China). Japan, Mexico and Canada will capture above $20 billion, while other countries would capture substantially less.

Although these numbers are not very large in relation to global trade (about $17 trillion in 2017), for many countries they represent a substantial share of exports. For example, the about $27 billion of US-China trade that would be captured by Mexico represents about 6% of Mexico's exports. Substantial effects relative to the size of their exports are also expected for Australia, Brazil, India, the Philippines, Pakistan and Vietnam.

Still, while US and Chinese tariffs can be beneficial to some foreign competitors, the overall effects would be more uncertain depending on each country's economic structure as well as the extent to which tariffs will affect prices, said the report.

A clarifying example of these dynamics is provided by Chinese tariffs imposed on US soybeans. Because of the importance of these two markets (China accounts for more than half of global imports of soybeans and the US is the world's largest producer of soybeans), the tariffs on soybeans have substantially disrupted world trade of this commodity.

One consequence of such tariffs has been a diversion of trade to favour several exporting countries, in particular Brazil which suddenly becomes the main supplier of soybeans to China. However, while higher price premiums have been welcomed by Brazilian producers, not everyone has been happy.

One concern of Brazilian soybean producers is that higher prices brought about by the Chinese tariffs may hamper Brazilian procurers' long-term competitiveness. In a situation where the magnitude and duration of tariffs are unclear, Brazilian producers are reluctant to make investment decisions that may turn unprofitable if tariffs are revoked. Moreover, Brazilian firms operating in sectors using soybeans as inputs (e.g., feed for livestock) are bound to lose competitiveness because of higher prices due to the increase in demand for Brazilian soybeans from Chinese buyers.

One major concern is that the trade confrontations and bilateral policy actions could spread to other countries, UNCTAD underlined. Since trade policies implemented by large economies are bound to influence international markets, even the countries not directly involved in the confrontations often find it efficient to adjust their trade policies to maximize opportunities or minimize negative spillovers.

In other words, changes in trade policy in one country often create policy changes elsewhere, eventually resulting in a cascade of distortionary trade policies, said UNCTAD. The report cited the example of the tariffs on steel and aluminium products that the US imposed in March 2018. Those tariffs exacerbate the problem of global oversupply and consequently contributed to lower prices. To limit the possibility of dumping, several economies including the EU, India, Canada, Turkey and South Africa have all initiated investigations within the WTO framework to implement temporary tariffs under the WTO Agreement on Safeguards.

Effect on global value chains

UNCTAD noted that today patterns of trade are greatly shaped by production networks, with assembly done in one country while parts and components originate from elsewhere. In this context, the imposition of a tariff would have far-reaching consequences beyond the country and sector directly targeted.

One important element to consider is the implications of tariffs for international production networks. While trade tensions between the US and China may promote some domestic relocalization of global value chains, they will largely alter the localization of industries across countries. For example, the US tariffs on China could benefit Mexico as they may result in the relocation of some assembly lines away from China. Moreover, US tariffs will also have negative implications for East Asian suppliers as they may find themselves unable to be competitive when other processes along the value chain move away from their region.

The report analyzed the effects on regional value chains consequent to 25% tariffs on the affected products. The reported effects include the reallocation of assembly processes away from the US and China as well as the effects on direct suppliers to those assembly lines.

The results indicate that while both the North American and East Asian value chains will be negatively affected, East Asian value chains will shrink considerably more. Considering both US and Chinese tariffs, trade would be reduced by about $160 billion for East Asian regional chains.

For the North American region (the countries in the USMCA agreement: the US, Canada and Mexico), the negative effects of Chinese tariffs will be almost entirely compensated by the reallocation of production processes away from China into the USMCA area. For the region, the net loss is estimated at $10 billion of trade.

One reason for such disparity is the larger amount of trade affected by US tariffs, as well as the fact that a large number of US tariffs are targeted to intermediate products.

Negative effects in East Asia and North America will benefit other countries, in particular the EU. It is estimated that the EU will be able to attract about $90 billion of trade related to value chains. Other Asian countries and South American countries would also attract some trade related to value chains, while Africa much less so.

Effect on the trading system

According to UNCTAD, the ongoing trade tensions have implications not only for the global economy, but more so for the rules governing it.

The very fact that negotiations and settlements on ongoing trade confrontations are taking place at a bilateral level rather than within the domain of the WTO denotes the weakening of the multilateral trading system. Although the multilateral rules governing international trade are far from perfect and need reform, the rapid weakening of the existing framework can have large repercussions for many developing countries.

In a context where countries are becoming more attentive to national and socioeconomic outcomes rather than to multilateral cooperation and development assistance, it is unclear whether

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Beware Trojan horse of proposed e-commerce rules

Instead of the accelerated digital liberalization pushed by proponents of e-commerce talks in the WTO, what developing countries need is a development-focused digitization strategy.

by Chakravarthi Raghavan and Jomo Kwame Sundaram

In Davos in late January, several powerful governments and their allies announced their intention to launch new negotiations on electronic commerce.

Unusually, the intention is to launch the plurilateral negotiations in the World Trade Organization (WTO), an ostensibly multilateral organization, setting problematic precedents for the future of multilateral negotiations.

Any resulting WTO agreement, especially one to make e-commerce tax- and tariff-free, will require amendments to the WTO's existing goods agreements, the General Agreement on Trade in Services (GATS) and the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement.

If it is not an unconditional agreement in the WTO, it will violate the WTO's "most favoured nation" (MFN) principles. This will be worse than the old and ostensibly extinct "Green Room" processes of a few major powers negotiating among themselves and then imposing their deal on the rest of the membership.

Thus, the proposed e-commerce rules may be "WTO-illegal", unless legitimized by the amendment processes and procedures in Article X of the WTO's foundational Marrakesh Agreement.

Any effort to "smuggle" an e-commerce agreement into the WTO, e.g., by including it in Annex 4 (comprising plurilateral trade agreements) to the Marrakesh Agreement, will need, after requisite notice, a consensus decision at the WTO Ministerial Conference (Article X.9 of the Marrakesh Agreement).

It may still be illegal since the subjects of the agreement are already covered by other, existing WTO agreements.

Consolidating power of the giants

Powerful technology transna-tional corporations (TNCs) are trying to rewrite international rules to advance their business interests by gaining access to new foreign markets, securing free access to others' data, accelerating deregulation, casualizing labour markets and minimizing tax liabilities.

While digital technology and trade, including e-commerce, can accelerate development and create jobs if appropriate policies and arrangements are in place, e-commerce rhetoric exaggerates opportunities for developing countries, especially small and medium enterprises.

Instead, the negotiations are intended to diminish the right of national authorities to require "local presence", a prerequisite for the consumer and public to sue a supplier.

The e-commerce proposals are expected to strengthen the dominant TNCs, enabling them to further dominate digital trade as the reform proposals are likely to strengthen their discretionary powers while limiting public oversight over corporate behaviour in the digital economy.

If digital commerce grows without developing countries first increasing value captured from production – by improving productive capacities in developing countries, closing the digital divide by improving infrastructure and interconnectivity, and protecting privacy and data – they will have to open their economies even more to foreign imports. Further digital liberalization without needed investments to improve productive capacities will destroy some jobs, casualize others, squeeze existing enterprises and limit future development.

Such threats, due to accelerated digital liberalization, will increase if the fast-changing digital economic space is shaped by new regulations influenced by TNCs.

Diverting business through e-commerce platforms will not only reduce domestic market shares, as existing digital trade is currently dominated by a few TNCs from the United States and China, but also reduce sales tax revenue which governments increasingly rely upon with the earlier shift from direct to indirect taxation.

Developing countries must thus quickly organize themselves to advance their own agenda for developmental digitization.

Meanwhile, concerned civil society organizations and others are proposing new approaches to issues such as data governance, anti-trust regulation, smaller enterprises, jobs, taxation, consumer protection and trade facilitation.

Proactive measures needed

A development-focused and jobs-enhancing digitization strategy is needed. Effective national policies require sufficient policy space, stakeholder participation and regional consultation, but the e-commerce initiative seeks to limit that space. Developing countries should have the policy space to drive their developmental digitization agenda. Development partners, especially donors, should support, not drive, this agenda.

Developmental digitization will require investment in countries' technical, legal and economic infrastructure, and policies to bridge the digital divide; develop domestic digital platforms, businesses and capacities to use data in the public interest; strategically promote national enterprises, e.g., through national data use frameworks; ensure digitization conducive to full employment policies; and advance the public interest, consumer protection, healthy competition and sustainable development.

Following decades of economic liberalization and growing inequality, and the increasing clout of digital platforms, international institutions should support developmental digitization for national progress, rather than digital liberalization.

Developing-country governments must be vigilant about such e-commerce negotiations and instead undertake proactive measures such as:

- Data governance infrastructure: Developing countries must be vigilant of the dangers of digital colonialism and the digital divide. Most people do not properly value data, while governments too easily allow data transfers to big data corporations without adequate protection for their citizens. TNC rights to free data flows should be challenged.

- Enterprise competition: Developing countries still need to promote national enterprises, including through proactive policies. International rules have enabled wealth transfers from the Global South to TNCs holding well-protected patents. National systems of innovation can succeed only if intellectual property monopolies are weakened. Strengthening property rights enhances TNC powers at the expense of developing-country enterprises.
- Employment: Developmental digitization must create decent jobs and livelihoods. Labour's share of value created has been declining in favour of capital, which has influenced rule-making to its advantage.
- Taxation: The new e-commerce proposals seek to ban not only appropriate taxation but also national presence requirements, where TNCs operate to avoid taxes at the expense of competitors paying taxes in compliance with the law. Tax rules allowing digital TNCs to reduce taxable income or shift profits to low-tax jurisdictions should be addressed.
- Consumer protection: Strong policies for consumer protection are needed as the proposals would put privacy and data protection at risk. Besides citizens' rights to privacy, consumers must have rights to data protection and against TNC and other abuse of human rights.
- Competition: Digital platforms must be better regulated at both national and international level. Policies are needed to weaken digital economic monopolies and to support citizens, consumers and workers in relating to major digital TNCs.
- Trade facilitation: Recent trade facilitation in developing countries, largely funded by donors, has focused on facilitating imports, rather than supply-side constraints. Recent support for digital liberalization similarly encourages developing countries to import more instead of developing needed new infrastructure to close digital divides.

"E-commerce" has become the new front for further economic liberalization and extension of property rights by removing tariffs (on IT products), liberalizing imports of various services, stronger intellectual property protection, ending technology-transfer requirements, and liberalizing government procurement.

Developing countries must develop their own developmental digitization agendas instead of simply copying or, worse, promoting e-commerce rules developed by TNCs to open markets, secure data, as well as constrain regulatory and developmental governments. *(IPS)* ❐

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An earlier version of this article can be found on the Inter Press Service (IPS) website: http://www.ipsnews.net/2019/02/beware-proposed-e-commerce-rules/

Financial globalization, N-S wealth distribution, resource transfers

Yilmaz Akyüz **explains how a more integrated global financial system leads to significant resource transfers from emerging to advanced economies.**

At a time when the world economy is seen poised for yet another bout of financial turmoil, there is a widespread recognition that emerging economies (EMEs) are particularly vulnerable because of their deepened integration into the global financial system.

What is less appreciated is the implication of financial globalization and integration for external wealth distribution between emerging and advanced economies and resource transfers from the former to the latter.

This is the subject matter of a new study by this author on external balance sheets of emerging economies, focussing on nine G20 EMEs (Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Turkey) and four major advanced economies (AEs), the US, Japan, Germany and the UK.

The new millennium has seen a rapid increase in gross external assets and liabilities of EMEs, as a result of ultra-easy monetary policy in major AEs and capital account liberalization in EMEs – a process of deepened integration described as "playing with fire" in this author's book of the same title. Almost 90% of outstanding external assets and liabilities of G20 EMEs have been accumulated since the turn of the century.

Although debtor-creditor relations and foreign direct investment (FDI) within the Global South have been growing rapidly, a very large proportion of gross external assets and liabilities of EMEs are still with AEs. This is true not only for financial assets and liabilities but also for FDI. Even in China, less than 20% of the stock of outward FDI are in other EMEs.

While foreign investment and lending in EMEs have reached unprecedented levels, even EMEs with current account deficits have been able to accumulate large amounts of gross external assets because inflows of capital have often exceeded what is needed to finance deficits.

In fact, with the exception of China and Russia, which have run current account surpluses since 2000, the entire foreign asset accumulation in G20 EMEs has relied on borrowed money, resulting in significant leverage in external balance sheets.

There are also significant changes in the structure of EMEs' external balance sheets. The share of equities (FDI plus portfolio equity) in total external liabilities increased and the share of debt declined as governments sought to shift from debt to equities by opening up equity markets and liberalizing FDI regimes on grounds that equity financing is more stable and less risky than debt.

The share of equities in gross external assets also increased, but not as fast as in liabilities. Consequently, the net equity position (external equity assets minus liabilities) of G20 EMEs taken together, which was already negative at the beginning of the century, deteriorated further.

The share of international reserves in total external assets increased rapidly as countries sought to build self-insurance against speculative attacks, often with borrowed money.

The share of local currency in external sovereign debt increased as bond markets have been opened to foreigners to pass the currency risk. But the corporate sector has come to account for a growing part of external debt of EMEs by increasingly borrowing in international markets in dollars to benefit from lower rates.

These changes in the size and composition of external balance sheets of EMEs have not only generated new channels of transmission of external financial shocks (discussed in *Playing with Fire*), but also resulted in significant transfer of resources from EMEs to AEs.

Capital gains and losses

First, they have rendered the value of their existing stocks of external assets and liabilities more susceptible to changes in global financial conditions, notably asset prices and exchange rates, leading to capital gains and losses and altering their net foreign asset positions (NFAP or net external wealth, that is, the difference between gross external assets and liabilities).

Over the short term, these valuation changes can be much more important than current account balances in the movement of NFAP, particularly at times of severe instability as was seen during 2008-09.

Since foreign assets and liabilities of EMEs are mainly with AEs, these gains and losses entail redistribution of external wealth between the Global South and the North.

Indeed, there is a strong negative correlation between year-to-year changes in net external wealth of nine G20 EMEs and four major AEs in the new millennium, and a large proportion of such changes is accounted for by capital gains and losses rather than current account balances.

In the long term, the current account remains a main determinant of net external wealth of nations, but capital gains and losses resulting from valuation changes can also be important.

Since the beginning of the century, the NFAP of most G20 EMEs deteriorated because of sustained current account deficits. The NFAP of two surplus EMEs, China and Russia, improved, but not as much as their cumulative current account surpluses because they both suffered large amounts of capital losses on their outstanding external assets and liabilities.

For instance, China had a cumulative current account surplus of over $3 trillion during 2000-16 but its net external wealth increased by only $1.6 trillion. By contrast, the US had a cumulative current account deficit of over $8 trillion during the same period but its net external debt deteriorated by less than $7 trillion because of capital gains.

Even though some smaller G20 EMEs also had capital gains, the nine EMEs taken together suffered capital losses in the order of $1.9 trillion during 2000-16, while the four AEs enjoyed capital gains of over $1.6 trillion.

Investment income

Second, with the expansion of gross foreign assets and liabilities, international investment income receipts and payments have gained added importance in the current account.

Generally, EMEs are red in net international investment income not only because their external liabilities exceed assets, but also because the rate of return on their foreign assets falls short of the rate of return on their foreign liabilities. Their liabilities are concentrated in high-yielding equities while a large proportion of their assets consists of low-yielding reserve assets. For this reason, even some EMEs with positive net external wealth positions such as China and Russia have deficits in net international investment income.

Furthermore, all EMEs including China earn lower return on their outward FDI than they pay on inward FDI. They also pay more on their external debt liabilities in risk premia than they receive on their external debt assets including reserves (US Treasuries), other bonds or deposits abroad. The shift to domestic currency debt by governments of EMEs has widened the return gap between debt liabilities and assets because the exchange rate risk assumed by foreign investors needs to be compensated.

By contrast, the return differential between external assets and liabilities is positive for all four major AEs.

The US registers the highest positive return differential and runs a surplus on its international investment income balance despite having negative net external wealth in the order of some 25% of its GDP. The return on its outward FDI is higher than in all other countries and exceeds by a large margin the return it pays on its inward FDI. As the country issuing the dominant reserve currency, the US also earns higher return on its external debt assets than it pays on its external debt liabilities (mainly Treasuries), thereby enjoying what is commonly known as "exorbitant privilege".

The nine G20 EMEs taken together have been transferring around 2.7% of their combined GDP per year in the new millennium mainly to AEs as a result of the negative return gap between their foreign assets and liabilities and capital losses resulting from changes in asset prices and exchange rates.

These resource costs are incurred in large part because EMEs favour a particular structure of external balance sheets (highly liquid low-yielding assets, less liquid high-yielding liabilities) that is believed to be more resilient to external financial shocks. This means that, in effect, EMEs are transferring large sums of resources to AEs in order to protect themselves against the shocks created mainly by policies of the very same countries. This is underpinned by an international reserves system that allows a handful of reserve-issuing countries, notably the US, to constantly extract resources from the rest of the world.

On the other hand, it is not clear if EMEs can adequately protect themselves against shocks when capital can move freely.

Judicious use of capital account measures can secure reasonable protection while avoiding such costs. For instance, one would not need to issue high-yielding liabilities to acquire large stocks of low-yielding reserve assets as self-insurance if inflows of fickle capital are effectively controlled.

Resource transfers from the South to the North through financial channels will continue unabated as long as capital flows remain unrestricted and the international reserves system favours a handful of rich countries which can also pursue self-seeking policies without regard to their global repercussions. *(IPS)* ❐

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Peasants' rights, defended by the countries of the South, now backed by UN

A UN peasants' rights declaration adopted in December offers hope for improving the lot of rural communities around the world.

by Chloé Maurel

On 17 December 2018, the 73rd session of the UN General Assembly voted in favour of the Declaration on the Rights of Peasants and Other People Working in Rural Areas. The declaration is a major step forward for rural communities around the world, especially in the Global South, as it recognizes a wide range of rights such as the right to land, the right to water and the right to food sovereignty. It is a reflection of the current concern over these issues within the United Nations, which has declared 2019-28 the Decade of Family Farming.

To this day, agricultural work is still the most common occupation in the world, with 45% of the world's active population working in the sector. And the figure is rising. Small-scale farmers produce around 70% of the world's food. And yet they still represent 80% of the world's hungry and 70% of those living in extreme poverty, as reported by FIAN, an international NGO working to promote the right to food.

The declaration was adopted thanks to the "tremendous work undertaken by La Via Campesina" (LVC, the largest international movement coordinating peasant organizations), according to Swiss sociologist Jean Ziegler, vice chair of the UN Human Rights Council Advisory Committee and former UN Special Rapporteur on the right to food. He welcomes the declaration, describing it as "a huge step forward". He continues: "It was a major victory. It gives hope for the future."

The declaration was adopted by 121 votes in favour, eight against and 54 abstentions. Not surprisingly, the countries of the North, such as the United States and France, did not vote for the declaration, being exporters of seeds and phytosanitary products and having close ties with the interests of the large multinational agribusiness firms. "Bayer and Monsanto lobbied against it. They were against the principle of the right to seeds, given the monopoly they have on them," adds Ziegler.

The road to a declaration

This achievement is the result of an initiative led by Indonesian trade unions and the longstanding endeavours of LVC. The idea of establishing peasants' rights was conceived in Indonesia in 1993 by the peasant union Serikat Petani Sumatera Utara, as FIAN recalls. Indonesia's small-scale farmers were confronted with widespread land grabbing at the time, as a result of the growth in oil palm plantations. In 2002, the Indonesian Peasants' Union (SPI) presented its draft declaration on peasants' rights to LVC, which began promoting the project, initially calling for an international convention – a regulatory text with punitive mechanisms. "Along the way, we opted to work towards a simple declaration, because we wouldn't have secured a majority," says Ziegler.

In 2008, a year marked by a global food crisis and food riots, LVC adopted a Declaration on the Rights of Peasants, with the support of civil society groups, and presented it to the UN Human Rights Council. The text denounced the forced displacements and discrimination faced by small farmers in numerous countries, and advocated global agrarian reform and better protection for small farmers against land grabbing. As Ziegler points out: "In 2017 alone, 41 million hectares of land were stolen from peasants," by large agribusiness firms in the main.

The creation of the UN Human Rights Council in 2006 and the involvement of the new Special Rapporteur on the right to food, Olivier De Schutter, appointed in 2008 to succeed Ziegler, helped to facilitate the adoption of the declaration. Bolivia and Indonesia were among the main drivers of the project. Bolivia chaired the intergovernmental working group set up for the adoption of the declaration by the Human Rights Council. "The Bolivian president, Evo Morales, was a major driving force behind the declaration," says Ziegler. "And the Bolivian ambassador to the UN did an amazing job."

Very few European countries – Switzerland, Ukraine and Portugal – joined the countries of the South in voting for peasants' rights. The majority abstained, in spite of the resolution adopted in July 2018 by the European Parliament calling on the European Union and its member states to support the declaration and to vote in favour of its adoption. The current UN Special Rapporteur on the right to food, Hilal Elver of Turkey, also urged all UN member states to vote in favour of the declaration. But the representatives of most European states proved unwilling, and placed their economic interests ahead of the fight against the exploitation of rural communities in countries of the South.

The Declaration on the Rights of Peasants breaks new ground, as FIAN points out, with articles establishing "new" or "emerging" rights, such as the right to food sovereignty, the right to land and other natural resources, the right to seeds, the right to a safe, clean and healthy environment, and the right to a decent income and living conditions. The declaration underlines that food sovereignty includes "the right to healthy and adequate food produced through ecologically sound and sustainable methods that respect their [peasants and other people working in rural areas] cultures".

And the right to land includes protecting peasants from the risk of dispossession and forced displacement. The aim is to give people in rural communities decision-making power, as a counterweight to the power of big industry.

France abstained during the December vote. Pierre Maison, a member of the LVC coordinating committee, told the Equal Times website: "Although it recognizes many of the positive developments in the declaration, France explained that it was abstaining for two main reasons: it is committed to a universal vision of human rights and considers that a specific declaration for small-scale farmers contributes to segmenting those rights." The US also voted against it. Maison also explained that many countries had sought to water down the declaration, asking for the word "right" to be replaced by "access", but, in the end, most of the text was approved without amendment.

Ziegler told Equal Times: "The United States, the European Union and Australia were fiercely opposed to the declaration. They feel that the existing human rights [those set out in the 1948 Universal Declaration of Human Rights] are sufficient. Opponents of the declaration argued that it would undermine the universal nature of human rights if specific rights for peasants were established. It was very hard to secure. The intergovernmental working group laboured for seven years to achieve this goal. The Latin American countries within the Human Rights Council wanted a convention on the rights of peasants"; in other words, a more binding text than a simple declaration.

"Soft power"

What changes will the declaration bring on the ground? For Maison, "the hope is that the states that voted in favour of the declaration will refer to it when adopting national laws. We hope to see national legislation seeking to tackle the problem of land grabbing, for example, especially in countries of the South. The declaration could also give greater sway to states that are fighting against free trade agreements that jeopardize entire swathes of their agricultural sector. We are confident that this declaration will enable farmers around the world to improve their living conditions and hold their heads high."

"Several states have already recognized this peasants' right, either by enshrining it in their constitutions such as in Bolivia, Ecuador and Venezuela, or by adopting specific laws and policies such as in Nicaragua, Mali and Senegal. Other states have initiated a process to recognize food sovereignty, including Peru, the Dominican Republic and El Salvador," FIAN points out. In Indonesia, a presidential decree has just been issued in support of agrarian reform that favours peasants.

In Ziegler's view: "The declaration is 'soft power', but it is very useful because peasants can put it to good use."

He explains that certain points were the source of very intense debate, such as the right of peasants and peasants' unions to file proceedings against land theft, for example, and the fact that they can be filed in the country where the multinational in question is based. Action against the practices of Bolloré in Benin, for instance, could be filed in France, where the company has its headquarters. "There were some very heated debates, and we won."

The regions of the world set to benefit most from the declaration are Latin America and Africa. Ndiakhate Fall, the representative of Senegal's National Council for Rural Consultation and Cooperation (CNCR) within LVC, highlights the serious problem of land grabbing in Africa, and the seed laws in force in several African countries, "which deprive farmers of the right to produce, save, sell and exchange their traditional seeds". He points out that, as a result, "most African countries welcome the declaration. They are conscious of the fact that some international policies act as barriers to our development and the declaration could help to lift them." The multinationals, he explains, "lobbied hard and put a lot of pressure on governments and other institutions to vote against it".

Some of the rights set out in the declaration were more difficult to push through than others, Fall recounts, such as "the right to natural resources, the right to seeds and biodiversity". Some proved impossible to include, such as those regarding "extra-territorial responsibility and the issue of migration". "UN declarations should be binding and all countries failing to comply with them should be subjected to international sanctions," he adds.

This UN declaration, although not binding, is an important step forward in improving the conditions of rural communities around the world, and shows that UN action can bring tangible benefits. "This is proof that civil society can establish new rights," says Ziegler. In December 2018, the United Nations General Assembly adopted its first ever resolution, proposed by China, to combat poverty in rural areas of developing countries. ❐

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(continued from page 7)

rewriting global trade rules may produce a more positive outcome for smaller and low-income countries.

For example, any new trade policy could become a major concern for developing countries if the policy would not be obliging to the principles of special and differential treatment associated with the present multilateral trading system, UNCTAD said.

Another aspect is that the weakening of the global trade system may further advance regional and bilateral trade integration initiatives. Although this is not necessarily a negative outcome, such initiatives often give more leverage to economically powerful countries.

The current trade confrontations reflect disagreements in the areas of intellectual property rights, government subsidies and many other types of non-tariff barriers affecting market access. Trade rules governing these areas are being rethought and wrangled, and likely to be rewritten. Whether these rules would favour a supportive global environment remains to be seen. What is sure is that these rules will have great importance for the development perspectives of many developing countries, said UNCTAD. *(SUNS8840)* ❐

The power of public finance for the future we want

Lavinia Steinfort makes the case for democratically controlled public money and finance systems that will fund efforts to tackle the social and environmental challenges of our time.

It may not be a new idea, but the speed with which the Green New Deal has gained traction in the US is remarkable. Potential presidential candidates are already embracing the call and it's firmly on the agenda for the new Congress, with 40 Democratic members demanding a firm plan be drawn up. But what is remarkable is not its popular resonance but the growing political acknowledgement that the government has the power to create the necessary trillions of dollars to not only address the climate crisis but also tackle inequality and transform the economy.

It is hard to overstate the significance of this. Before the 2008 financial crisis, the mantra was that "there is no alternative" (TINA) to rising inequality, corporate greed and environmental destruction. After 2008, the story became one of there being no more public money to pay for the alternative so we must rely on private finance. The Green New Deal turns that on its head. As its most famous spokesperson, newly elected US Congresswoman Alexandria Ocasio-Cortez, says, the framework has the potential to replicate "the Great Society, the moon shot, the civil rights movement of our generation".[1]

The costs of private finance

The assumption that private finance is the only way to advance social and environmental policy dominates discussions on how to implement the Paris Agreement on climate change and the Sustainable Development Goals (SDGs). They frequently ignore how private finance facilitates the extraction of wealth from the public sector to the rich. A 2018 study that re-examines data from the International Monetary Fund (IMF) on global tax evasion by multinational corporations (MNCs), for example, calculates losses to the public sector to be around $650 billion,[2] disproportionally hitting people in poor (and plundered) countries. Another study suggests that from 1995 to 2015 the City of London cost the UK population £4.5 trillion in resources, skills and investments that benefited the financial sector rather than going to society's more productive activities, as well as the vast wealth that evaporated to the wealthiest in the 2008 financial crisis.[3] The current "yellow vest" protests in France are another example where people have in part taken to the streets against a so-called "ecotax" because the Macron government was trying to make its population – rather than the polluters – pay for climate change. This happened after it transferred €14 billion from the poor to the rich and another €41 billion to French companies, including MNCs.[4]

When it is deployed – even for productive or progressive purposes – private finance often ends up being more expensive. The UK National Audit Office calculated that when public projects – for example, the building of schools – are privately financed, it is 40% more expensive than using public financing.[5] This is because of the profits that the private investors and shareholders demand; the accounting rules that hide the real costs of private finance until they show up as debt at the end of a project;[6] and the interest rates for borrowing, which average 7-8% for the private sector and only 3-4% for governments.[7]

Decades of intellectual efforts[8] have tried to make us believe that the public is dependent on private finance and that there are very few public banks left to finance public services and infrastructure, even though these have proven essential to redistribute wealth more evenly across populations. Figures produced by the World Bank and the Organization for Economic Co-operation and Development (OECD) misrepresent the value of public finance by pretending that public banks have only $2-5 trillion in assets. With the many trillions that are needed to finance the climate infrastructure needed to combat the climate crisis and bring about energy transition, this amount would be a drop in the ocean. However, research undertaken by Thomas Marois of the School of Oriental and African Studies (SOAS) at the University of London shows that there are worldwide 693 public banks which own assets worth $37.72 trillion.[9]

This public money is urgently needed to directly finance the fight against adverse climate change and for democratic, socially just and renewable energy systems. Most governments, however, limit themselves to incentivizing private companies to invest in the transition to renewable energy by supporting privatization and public-private partnerships (PPPs). Irrespective of countless tax cuts, subsidies and government guarantees, the private sector has shown no significant interest in financing a transition from fossil fuels to renewable energy. With reliance on the private sector, investments in renewables even dropped by 7% in 2017, according to the International Energy Agency.[10] This trend is likely to continue as long as we depend on private finance and market mechanisms.

By contrast, public investment can be made in public systems and services – and with better social and environmental results. A study of 835 cases of public services around the world that either ended privatization or provided a new public service alternative – of which 311 have been in the energy sector – has shown that privatized corporations don't bring better quality of service, lower prices and more investments. Reclaimed, re-municipalized public services more often perform better, proving that, working together, local authorities, workers and communities are much better equipped than any for-profit company to provide quality services for all.[11]

Pillars of financial transformation

We can draw four conclusions from these insights. First, the resources are there but are being expropriated and wasted by a very small and very privileged corporate minority. Second, private finance is much more expensive than public finance to pay for public services and infrastructure. Third, despite privatization, there is still a considerable volume of public finance available in the form of public banks. Fourth, as long as public finance is mobilized for private profits, a just transition towards energy democracy will fail.

So, if we know what we are up against and what we need to fight the climate crisis, how do we envisage finance and money systems that make sure we get there?

Our vision for transforming money and finance rests on two pillars. The first is a politics of finance for the 99% in which public and democratically accountable finance is used to invest in water, healthcare and education as well as ecologically sound industries. The second is a politics of public money that encourages governments to use their democratic power to spend money directly in the real economy. Only this will liberate society from the shackles of debt and financialization. These new politics can give hope as they provide a base for fleshing out radical but viable proposals and practices of public finance for the future we want. The following real-world alternatives that have withstood neoliberalism, from Costa Rica and India to Germany and the US, demonstrate that we can fundamentally transform money and finance so that they foster collective well-being.

Finance for the 99%

Kerala, a state in southwest India with over 31 million inhabitants, shows how a web of more than 11,000 cooperatives, combined with high unionization, public finance and state support, can succeed in fostering strong human development. Kerala's state-wide Kudumbashree (meaning "prosperity for the family") programme, which has been running for 20 years, is impressive: 4.3 million economically marginalized women from nearly 60% of Kerala's households participate in this programme. These women are organized in neighbourhood collectives that are active in a variety of sectors, from construction and transport to textiles and handicrafts to agro-processing and farming.

Its farming sector, in which 320,000 women earn a livelihood, is especially inspiring. Working in small neighbourhood collectives, women choose a piece of land and receive low-interest loans, farm machinery, subsidized seeds, and also training and technical support. This helps them to cultivate rice, fruit and vegetables to feed their families and to sell any surplus in the village markets. This has created 10,000 expert women farmers who are now helping at least five other Indian states to replicate the programme. Ethiopia and South Africa are also in touch with Kerala's state government to learn from this farming model.

The strong driving force behind Kerala's social solidarity economy is the organizing power of the Left Democratic Front (LDF), a coalition of various left-wing parties – in and out of power – as well as a flourishing network of people's movements.[12] The LDF, which is currently in government, has another ambitious and more recent project to set up a statewide Cooperative Bank in order to overcome fiscal restraints imposed by the central government and to strengthen Kerala's existing 980 cooperative banks and its 1,647 agricultural cooperative credit societies. Together they have deposits of more than $1 billion.[13]

Government involvement can, of course, be problematic, as states can also act very undemocratically, if not in an outright authoritarian manner. In other words, public ownership is no guarantee of democracy. In terms of finance, and instead of top-down government, there is a need for a new generation of public and deeply democratic banks. Here we can learn from Costa Rica's Banco Popular. This bank, which is owned by 1.2 million Costa Rican workers – roughly 20% of the population – is possibly the world's most democratic bank, with the Assembly of Workers as its highest governing body, in which 290 workers represent 10 different socioeconomic sectors. It lives up to its mission of serving the social and sustainable welfare of the Costa Rican people by effectively financing cooperatives and groups who tend to face financial exclusion, such as workers, peasants and small and medium-sized enterprises (SMEs). To guarantee this, a quarter of the profits go to special funds to meet the needs of those who would not otherwise have access to the banking system.[14]

Its banking decisions are further guided by principles of gender equity, accessibility and environmental responsibility. Banco Popular works together with the regional energy cooperative COOPELESCA, one of four that successfully electrified the rural parts of the country. With a low-cost loan, COOPELESCA fully converted to LED lighting and by 2015 the cooperative offset its carbon footprint through its own renewable energy sources and additional environmental actions. The worker-owned bank also helped COOPELESCA to buy exhausted land to preserve soil, biodiversity and water resources.[15]

There is also much to learn from the German saving banks, or Sparkassen. The assets of these 400 local saving banks are nobody's property. The banks are independent from local authorities, which means that they cannot be privatized or have their profits diverted for other purposes. Each bank's board is key to its effectiveness, as it is made up of municipal representatives and other local stakeholders whose duty is to fulfil its binding mandate, which is to stimulate savings, promote financial inclusion and lend to SMEs.

These examples of cooperative and municipal banking practices provide a way to understand how these principles – such as a binding mandate, the involvement of a variety of stakeholders, providing different channels for popular participation – can facilitate democratic public banking. In Belgium, the "Belfius is ours" platform is looking into these examples in its campaign to democratize Belfius, a privatized bank that was formerly known as Dexia, which was nationalized with its second bailout in 2011. According to the platform's founders, Frank Vanaerschot and Aline Fares, to democratize Belfius means that it would effectively serve society, which can happen only through a real society-wide discussion about the bank's new public mandate as well as its ownership and governance structures.[16]

Procurement is another source of revenue that can transform local economies, especially since public procurement accounts for 15-20% of global GDP.[17] The anchor institution strategy, developed by the US-based Democracy Collaborative, creatively expands the potential of procurement through working with anchor institutions such as hospitals and universities – because they are asset- and capital-rich and locally rooted – to maximize their social contribution through spending, employing and investing locally. This strategy captures, circulates and builds community wealth. In the US city of Cleveland, it has resulted in the Evergreen Cooperative network, consisting of one of the larger urban greenhouses in the country, a cooperative that installs solar panels and does retrofitting, and a large green laundry company that recently won contracts from Cleveland Clinic, one of the city's anchor institutions. The strategy was also picked up by Preston in the UK. In 2013, seven anchor institutions (including a university, two colleges and the Preston City Council) joined forces to spend £38 million in the city and £292 million in the county of Lancashire where Preston is located. By 2017, new contracts covered school meals to big construction projects, with funds growing to £111 million for the city and £486 million for the region.[18]

Politics of public money

These real-world examples show that we can use transformative state funding, banking and procurement strategies to build strong human development and community wealth from the ground up. Yet, with a global, debt-driven financial system, we need to ask where the money comes from since most new money is issued by commercial banks in the form of private and often high-interest loans, which perpetuates the cycle of reckless economic growth. This type of money can be better understood as finance, as it is always based on creating debt and indebting people and entire populations. Even the IMF and the Bank of England now acknowledge that this is how new money is created.[19] That most of our money is based on debt is not a given, it's a political situation that people and political will can change.

In the neoliberal era, as central banks in many rich countries became apparently independent of government,[20] their primary duty was to guarantee price stability and limit inflation by setting interest rates and producing cash (notes and coins). However, governments' continued power to issue debt-free money was shown by the €2.5 trillion that the European Central Bank (ECB) created and the $3.5 trillion that the US Federal Reserve issued after the 2008 financial crisis, a process also known as quantitative easing. Although these colossal sums of money should have been spent on fighting ecological collapse, adverse climate change and massive inequality, very little of it reached the productive economy as it was predominantly used to buy up corporate and government bonds. The underlying approach remained tied to trickle-down economics, believing that buying bonds would in turn push up share prices, resulting in short-term spending and long-term investing in which everyone would prosper. This obviously never happened as only the wealthy own shares and they know they can make more quick money through the financial sector than more productive sectors.[21]

Governments, therefore, still have the power to spend money rather than borrowing it, but the way they have used it has led to more and not less concentration of wealth. The 2008 global financial crisis showed that financial losses are always socialized on the backs of ordinary people through bank bailouts and austerity measures. Given that the public is ultimately liable, this illustrates that even credit or debt-driven money issued by commercial banks should be considered a public good and therefore should be in public hands and democratically controlled.

It will take a politics of public money, as opposed to a politics of privatized finance, to stop the growth juggernaut. This can be done only by reasserting the powers to create new money in order to fundamentally democratize our money systems by spending – instead of borrowing – it. And it should be spent, not in the financial markets but to address the many great challenges of our time.

With amassed counterpower, we can reclaim the state and create a new monetary model. To give an example of what such a model could look like, Mary Mellor, Emeritus Professor at Northumbria University, argues in her book *Debt or Democracy*[22] that a new model could allow people to democratically and collectively decide the amount of public money that should be created to pay for a basic income and universal basic services. Any publicly created money that turns out to be superfluous would be retrieved through taxes in order to keep inflation in check. But as even the trillions created by central banks after the 2008 crisis did not result in inflation, the fear of hyperinflation seems largely unsubstantiated.[23] Moreover, with so many new goods and services needed to restore our ecosystems, rebuild public services and create meaningful labour, the new money can certainly be put to very good use.

While this proposal may sound too radical to many politicians, the push for creating new public money in the people's interest is gaining significant momentum. The Green New Deal, cited earlier, is one example. It has galvanized public support for massive public investment in order to fight climate change, powered by publicly created money and a new public infrastructure bank.[24] A new public money system could channel grants to foster collective well-being.

Linking our struggles against ecological collapse and all forms of exploitation to these efforts to build radically just money and finance systems is vital to transform our economies. We need to join forces for a new politics of public money and finance for the 99%, to build the organizational strength such as that already shown in Kerala, of progressive unionization, public finance and state support for thriving cooperative networks. We must demand and develop policies for democratic banking that includes a binding public mandate and a diverse range of local stakeholders on its board. We can transform public procurement and institutions' spending, investment and employment practices to build community wealth. In this way, we can ultimately reclaim our money systems so that they are public and democratically controlled, used to build life-sustaining democratic economies. ❐

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munal Performativity – A Seed for Change" on the solidarity of Thessaloniki's social movements in the diverse fights against neoliberalism (Antipode, 2017).

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