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UN SDGs working group discusses employment question

At the fourth session of the UN General Assembly Open Working Group on Sustainable Development Goals (SDGs) in June, developing countries called for structural economic transformation and industrialization that will generate employment and decent work for all. The discussions in the working group reflected the urgency of confronting a global unemployment problem which has assumed grave proportions.

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Key components of a "people-centred development agenda"

During a meeting of a UN working group seeking to draw up sustainable development goals for the international community, developing countries highlighted the need for structural economic transformation to create productive employment and decent work. *Ranja Sengupta* reports.

NEW YORK: The developing-country Group of 77 and China has called for a "structural transformation of economies of developing countries, especially African economies, through industrialization that induces value addition and economic diversification" to generate employment and decent work for all.

This call was made at the fourth session of the United Nations General Assembly Open Working Group (OWG) on Sustainable Development Goals (SDGs).

The three-day meeting (17-19 June) at the UN headquarters in New York addressed two themes: the first was employment and decent work for all, social protection, youth, education and culture, while the second was health and population dynamics.

There was a clear articulation of the need for full and broad-based employment as well as decent work all around the world. The need for social protection emerged as a major area of concern while the voice of the youth resonated round the room with a powerful intervention by a youth representative. The crucial importance of education, especially quality education, and respecting the diversity of culture as essential ingredients of sustainable development, also came across very strongly.

Discussions over the past three sessions of the OWG had dwelt upon conceptual issues, poverty eradication, food security and nutrition, sustainable agriculture, desertification, land degradation and drought, and water and sanitation.

Formulation of the SDGs is one of the major agreed actions from the June 2012 UN Conference on Sustainable Development (Rio+20). The Co-Chairs of the OWG are Ambassadors Macharia Kamau of Kenya and Csaba Korosi of Hungary.

Transformative agenda

Speaking on behalf of the G77 and China at the opening of the fourth session, Ambassador Peter Thomson of Fiji said that "the common desire for a transformative global development agenda beyond 2015 can best be achieved through collective efforts and an enhanced global partnership that places development and the wellbeing of people at its core. The post-2015 development agenda, including the SDGs, has the potential to be a turning point for achieving this aspirational transformative change if the international community and national governments seriously commit to an agenda for meaningful transformation on structural, institutional and normative levels. The subjects of discussion over the next three days are essential components of a people-centred development agenda."

For such transformation, Ambassador Thomson said that "industrialization is a powerful tool to generate inclusive and sustained economic growth, create productive employment and decent work and lift millions of people out of poverty".

He added that it will help developing countries, especially African countries, to address the issues of unemployment as well as employment quality, including underemployment, informality, vulnerability and working poverty.

The G77 and China stressed that "the employment-generating capacity of growth strategies is essential for achieving sustainable, sustained, and inclusive economic growth, which when fairly distributed, can bring millions of people out of poverty worldwide."

According to the Group's statement, "despite a decline in the number of the working poor, namely those employed but living below the $2 a day poverty line, the majority of workers in the developing world remain in informal and vulnerable jobs. This implies irregular incomes and little or no social protection for these workers. In turn, such workers are increasingly becoming more vulnerable and less resilient to cope with social, economic and environmental risks and shocks. It is imperative therefore that developing countries, with the support of the international community and developed partners, build new and more inclusive development pathways with the aim to provide equal employment opportunities to all people in the economy, including the adoption of objective action-oriented affirmative programmes to assist the poor and the marginalized."

The G77 and China statement also highlighted the issue of migrant workers and the need to integrate them and their families into society: "The international community should give its due consideration to the linkages between migration and development in the implementation of the Programme of Action of the International Conference on Population and Development beyond 2014, and in the elaboration of the post-2015 development agenda."

Ambassador Thomson drew attention to the "urgent need to improve market access to rural farmers to mitigate the flow of rural-urban migration. In this respect, more equitable access would imply limiting agricultural subsidies by governments in the developed countries that create an imbalanced trading system favouring developed countries. Agricultural policies need to be aligned with country priorities and global realities and take into account marginalized groups, such as smallholder farmers."

He said that employment objectives need to become central to global actions and mechanisms. "These objectives need the support of international cooperation that supports developing countries through: (1) actions at the level of international economic, financial, trade, technology and social systems, to support and enable developing countries' efforts; and (2) refrain from actions by developed countries that create barriers to developing countries' efforts and progress."

Social protection

On social protection, the G77 and China underscored the impact on reducing inequality while boosting productive employment.

The Group especially emphasized the need for social protection and social inclusion for various vulnerable groups such as women, adolescents, the elderly, the disabled, migrants and people living with HIV/AIDS.

In this context, the Group made a strong statement against the austerity measures imposed by the global consensus which necessitate budget cuts especially on social expenditure, particularly targeting social safety nets, including old-age pension.

"These adjustment measures run the high risk of excluding a large segment of vulnerable households at a time when governments should be considering supporting a social protection for all, scaling up rather than scaling down social protection systems. It is imperative that governments focus on expanding social protection coverage rather than improving the targeting of existing programmes," Ambassador Thomson said.

Recognizing youth as an emerging group that needs special attention, the G77 and China pointed out that youth unemployment threatens the skill sets and productive capacities of entire generations in several developing countries and sustained bouts of youth unemployment lead to higher rates of migration, loss of national capacities and resources, as well as leading to other social problems including aggravating national insecurity and violence.

"A global strategy on youth and employment needs to be conceptualized within the broader objective of full employment and decent work, and should address the quality and geographic distribution of employment," Ambassador Thomson said.

The Group highlighted culture as an integral part that permeates the three dimensions (economic, social and environmental) of sustainable development. Culture also acts as both an "enabler" and "driver" of sustainable development.

"Development approaches should be adapted to local contexts and should therefore rely on the cultural resource while respecting cultural rights. Culture also drives development within a number of cultural sectors including the creative industries, cultural tourism and heritage, both tangible and intangible," according to the statement.

Underscoring the importance of a good education, the G77 and China emphasized quality as opposed to quantity.

The statement pointed out that "when developing SDGs, more attention needs to be placed on relevant and measurable learning outcomes. For example, we must ensure that not only a greater amount of children are educated, but also that the education these children receive is of high quality delivered by adequately qualified teachers – in the most rural areas as well as areas affected by conflict and disasters".

As before, the Group highlighted the need for special attention to be given to "traditionally vulnerable groups, who are girls, working children, rural and indigenous children, those with disabilities, children living with HIV/AIDS, children in conflict, migrants, orphans and linguistic and cultural minorities".

"Inequalities need to be addressed through a case-by-case approach, rather than a one-size-fits-all target for countries," it was stressed.

Changing health concerns

On the issue of health, the G77 and China was of the view that "health permeates all areas of sustainable development. It is closely related to the social, environmental, economic, cultural and political spheres".

The Group said that because of changing demographics and population dynamics, it is time to call for "innovative, cross-cutting goals that reflect the changing health concerns facing men, women and children. Dense urban areas call for greater synergy between different sectors to address the failures of providing infrastructure and basic services to one-third of the world's urban population that live in informal settlements."

Ambassador Thomson specifically highlighted the issue of non-communicable diseases (NCDs), such as diabetes and heart and respiratory diseases, which accounted for 34.5 million deaths in 2010, of which 80% were in low- and middle-income countries. According to the Group's statement, this figure is expected to double within the next 20 years.

"This development trend is unacceptable and policies must be proactive and include access to health information and services, information on consumption and lifestyle and how to prevent health risks. Not only will this reduce health provision costs, but also contribute to economic benefits through a growing capable workforce," the Group emphatically added.

In relation to population dynamics, the G77 and China acknowledged improved family planning as an effective way to address population growth. In this context, the statement highlighted a clear gender dimension.

In particular, a strong correlation exists between greater access to education for young girls in developing countries and a reduction of the number of teenage and unwanted pregnancies. Again, "increasing literacy and computing skills among women has shown to be effective in improving individual household finances, creating innovative and creative entrepreneurial activities".

The Group also underscored the need for attention to the elderly and people with disabilities, adding that their inclusion in society needs to be assured through the provision of social protection instruments.

In the context of population dynamics, the G77 and China highlighted again the link between migration and development.

In strong words, the Group argued that a "paradigm shift needs to take place that recognizes migration as a catalyst for economic growth as well as knowledge and skills transfer. The stigmatization of marginalized migrant groups in countries other than their own is a threat to national stability and security, and often leads to human rights violations. Ensuring better integration and the respect of human rights should become a priority in our globalizing reality."

Expressing growing concern over rural-urban migration, the Group said, "Focus on creating better employment and working conditions in rural areas will curb the wave of rural migrants moving to urban areas in hope of finding 'better' jobs. Rural migrants easily fall trap to a mostly low-wage, perilous and irregular work cycle with little chance to climb the vocational ladder. What is more, rural work migrants typically settle in the fringes of urban areas that are prone to landslides and flash flood, with little or no access to basic services and infrastructure."

"Governments need to provide access to basic services such as water, sanitation and electricity to create sustainable cities with good quality of life for all residents irrespective of their social status or income," the Group added.

Highlighting the crucial importance of global cooperation and supportive actions, Ambassador Thomson ended with a call for a strong mechanism for means of implementation, to be embedded within each specific SDG.

"In order to respond to the call for a transformative global development agenda post-2015, the Group of 77 and China reiterates the importance for the SDG framework to address the goals on global supportive actions and objectives through an enhanced partnership for sustainable development, which should include means of implementation within each of the specific SDGs."

Industrialization

Developing countries that spoke afterwards at the OWG reinforced and complemented the G77 and China statement.

The African Group of countries, represented by Djibouti, called for a standalone goal on industrialization, employment and decent jobs, emphasizing the need for economic diversification and structural transformation in the region.

It stressed in its statement that "job growth requires a structural transformation of African economies through industrialization that induces value addition and economic diversification. Industrialization is a powerful tool to generate inclusive and sustained economic growth, create productive employment and decent work and lift millions of people out of poverty."

The Group highlighted the interlinkages between employment and decent work for all, social protection, youth, education and culture. It stressed that "productive employment and decent work are essential elements in achieving the eradication of poverty, the reduction of inequalities and the respect of human dignity."

It added that employment objectives need to become central to global actions and mechanisms.

"A development agenda which gives priority to productive employment creation, especially for youth, is of utmost importance for the African Group. A global strategy on youth and employment needs to be conceptualized within the broader objective of full employment, decent work, and dignified livelihoods. The capacity behind employment generation is fundamentally linked to reviving and enhancing productive policies, through adequate finance, investment, technology and trade policies," according to the statement.

Citing the African Union Commission and the Economic Commission for Africa, the Group said that more than 70% of Africans earn their living from vulnerable employment as economies continue to depend heavily on production and export of primary commodities, and wider diversification is therefore needed.

It also cited the *MDG Report 2013: Assessing Progress in Africa Toward the Millennium Development Goals* on how it is critical to reduce inequalities in Africa, saying that one of the causes of those inequalities is the current structure of African economies.

It referred to the report recommendation that to transform African economies, the promotion of industrialization and structural transformation is needed through, inter alia, economic diversification and value chains linking raw material producers to end-users.

According to the Group statement, "Industrialization will help developing countries, especially African countries, to address the issues of unemployment as well as employment quality, including underemployment, informality, vulnerability, and working poverty. It will also strengthen, through wealth creation and taxation, the mobilization of domestic resources which, in turn, can help to achieve other development goals and targets, including education and social protection."

The African Group then called for a standalone goal on industrialization, employment and decent jobs.

Since this transformation via industrialization will require more workers, "education and training policies should be aimed to support economic transformation and to prepare citizens [for] productive employment based on requirements of new labour markets", with a special focus on women and youth. Education, which should remain a standalone goal, should go beyond primary or even secondary education.

The African Group also stressed the need for social protection as a tool to deliver on several goals such as poverty eradication, food security, nutrition, health and education. It pitched social protection as "a cross-cutting issue" that could be incorporated as a target across several goals.

At the same time, the Group felt that "productive employment and decent work, in the context of industrialization and economies diversification, remain one of the best ways to achieve social protection by providing income, cutting working poverty and vulnerable employment and by reducing the scope of regimes such as cash transfers or school feeding programmes. By putting more people in decent and productive work, countries will be in better position to define their national floors of social protection and to extend social security vertically (providing more comprehensive services and benefits) and horizontally (extending coverage to a greater number) to cover all groups."

The African Group also highlighted the importance of culture in contributing to all three aspects of sustainable development and underscored the need for cultural diversity.

Fostering job creation

Benin, speaking on behalf of the least developed countries (LDCs), stressed that the high economic growth of the past decade in LDCs had not translated into a corresponding level of employment generation. "What is needed now is to foster the creation of new employment and decent work for all which should also be a goal of the next development agenda."

The LDC statement highlighted the need to put in place policies that facilitate the transition from the informal to the formal economy and to support micro-, small- and medium-sized enterprises. "We need to trigger the main engine of job creation. Promoting structural transformation will have to be a key part of policy packages to promote employment and decent work for all."

"LDCs need enhanced international support to build their productive capacities to reach the goal of full employment and decent work for all," the statement added.

On social protection, the statement emphasized the Istanbul Programme of Action, saying that it "aptly recognizes that social protection has both short- and long-term benefits to sustainable economic growth, poverty eradication and social stability."

Highlighting the need for everyone in LDCs to be covered by social protection schemes by ensuring essential social services and economic needs, the LDCs said that this should also be a goal of the next development agenda.

Benin further said that "it is a matter of grave concern that due to a variety of constraints, the LDCs [have] not been able to provide secured social protection schemes".

"Development partners must provide adequate financial and technical support to LDCs to develop and implement social protection policies and programmes, especially for poor and disadvantaged groups."

Underlining the fact that the number of youth is increasing very fast in LDCs, and that they are an asset provided they are given the necessary opportunities, the statement said it is necessary to give access to secondary and higher education, vocational training and productive employment, healthcare services and access to financial sector with entrepreneurial skills.

The LDCs issued a reminder on the various commitments made by development partners in the Istanbul Plan of Action and at the Rio+20 conference about this issue.

On education and culture, Benin pointed out that a quarter of young men and a third of young women are still illiterate in the LDCs, and poor outcomes in primary education have limited the scope for secondary and vocational education.

Quality of education and access for marginalized groups are also matters of serious concern, the statement pointed out.

"The next development agenda should set a goal of universal access and quality completion of primary, secondary and tertiary education. This is necessary for developing knowledge and skills, including technical and vocational, that are relevant to the worlds of work and life as well as to strengthen the role of culture and creativity in society," according to the LDC statement.

Ghana, representing the West African states, highlighted the need for decent jobs for the youth. "The challenges include a weak private sector, graduates whose skills do not match the demands of the labour market, over-emphasis on universal basic education to the neglect of higher education, some foreign companies failing to respect local content requirements, and lack of access to international markets for processed products from African countries," it said.

For addressing these challenges, Ghana underscored the need for quality tertiary (along with primary) education and practical, technical, science-based and professional courses as well as knowledge-sharing. It also highlighted the need for foreign direct investment (FDI) that focuses on processing of primary products for export and respects local-content requirements.

"Some African countries have put more emphasis on processing raw materials in the agriculture and extractive sectors to create jobs and wean themselves off foreign aid. The international community needs to support processed products from Sub-Saharan Africa to enter developed and some emerging economies," it stressed.

The group outlined a detailed set of targets with associated indicators. Some of the targets include enhancing youth employment, improving labour productivity, and promoting entrepreneurship and enterprise development that create decent and sustainable jobs.

The West African states also highlighted the need for social protection, advocating targets of "social protection for all" and to "increase income-generating opportunities and job security for women in the informal economy".

"Youth development" was another aspect that was highlighted, with a suggestion for a specific goal on "youth development facilities and activities".

Important linkages

The permanent representative of Trinidad and Tobago, speaking on behalf of the 14 member states of the Caribbean Community (CARICOM), said, "CARICOM acknowledges the important linkages between employment and decent work, youth, social protection, education and culture. In our view, joint consideration of these themes covers a broad spectrum of the sustainable development agenda at the national and regional levels."

The statement pointed out that while governments in the region are involved in addressing these issues, "several challenges remain and further work is required with strengthening the capacity of the creative industries to contribute to economic growth."

CARICOM highlighted in particular the issue of youth unemployment and several other challenges facing the youth who comprise approximately 60% of the region's population.

Therefore, CARICOM governments are of the view that "young people should be at the centre of development policy, planning and implementation; youth development and empowerment should be prioritized and well resourced, and countries' performance in youth development should be monitored and reported on; national youth employment policies should be linked to national macroeconomic development plans and young people should be involved in national and local-level labour policies and programmes."

Further, CARICOM argued that "youth development must be adequately represented in the post-2015 global development agenda" and can be considered a cross-cutting issue.

It also highlighted that "social protection is one of the foundations for inclusive equitable and sustainable development and that it can play a transformative role in addressing, not only symptoms, but causes of poverty and social exclusion".

CARICOM also reiterated its "full support for the employment and decent work agenda and remains open to the consideration of a standalone goal on employment and decent work".

Education priority

Papua New Guinea, representing the small island developing states (SIDS), made a strong case for a "transformative standalone goal on education", as the experience of the second Millennium Development Goal (on education) shows that while the task remains unfinished it must continue to be a priority.

The post-2015 SDG on education has to focus on quality and access and has to take into account access for vulnerable groups, according to the statement. Such an SDG will lead to employment and decent job conditions, and enhance health and living standards.

The SIDS advocated repeatedly for a standalone SDG on education that provides "equitable quality education and lifelong learning for all", adding that this must include "accessibility as a key component of such a goal".

They went on to raise the point about the threat to biological resources and ecosystems and the seas. Several factors including land and coast degradation, loss of biological diversity, and changing land and water usage patterns are driving this increasing threat. Lack of knowledge about indigenous methods of preservation and of long-term environmental planning and management is aggravating the situation.

In this context, the SIDS proposed a set of climate-related education factors under the education goal. Learning about climate change and disaster management must be included and informal learning especially by younger generations is a must. The learning must also be based on local contexts and experiences and must prioritize traditional and indigenous knowledge. Several other issues including NCDs and sexual and reproductive issues will also need to be included in the curriculum.

The Group also recognized the link between employment, decent work, youth, education and other development issues. In the context of the global crisis, to provide tax reliefs and to put in place a fair and equitable trading system is necessary for generating employment and decent work, the SIDS asserted.

The SIDS re-emphasized the importance of the ocean and the seas for their growth and survival and asserted that these must be protected.

The SIDS also highlighted the importance of social protection, the provision of social services and the crucial role of traditional forms of services in this regard especially for people who are especially vulnerable, such as those with disabilities. The importance of educating and giving decent work to the youth was also stressed.

Several other groups and countries, including Tanzania, Peru (with Mexico), India, Belarus, Guatemala (with Colombia), Bangladesh, Saudi Arabia, Haiti, Tunisia, China, South Africa, Ecuador, Bolivia and Argentina, made statements during the three-day session of the OWG.

The EU, Italy (with Spain and Turkey), Denmark (with Ireland and Norway) and the US (with Canada and Israel) were among the developed countries that presented statements. *(SUNS7609/7611)* ❒

Tackling the global jobs crisis

With social unrest and unemployment being coupled worldwide, there is an urgent need to restore full employment as a global and national priority goal.

by Martin Khor

Unemployment has reared its ugly head to become arguably the world's biggest economic and social problem once again. The situation today is not unlike that in the Great Depression period in the late 1930s and early 1940s, when millions were thrown out of work.

Lack of jobs was associated with unrest then, and some historians think it contributed to World War Two. It is now also a major factor in street protests in Europe and unseated political leaders in Egypt and elsewhere. Now, as then, there is confusion in intellectual and policy discussions on what has caused and how to tackle unemployment.

Global unemployment is now slightly above 200 million. It grew by 4.2 million last year and will do so by another 5 million in 2013, according to the International Labour Organization.

There are 28 million more unemployed people today than in 2007, when the global financial crisis started. But the figure climbs to 67 million as a "global jobs gap" if we include those who chose to stop looking for jobs.

Globally, 73 million young people are unemployed, a 12.6% rate. But in some countries, 30-40% of the young are jobless and thus susceptible to frustration and rebellion.

Policy priority

At the United Nations in June, employment was one of the main issues discussed at a working group tasked with formulating sustainable development goals (SDGs).

In fact, the UN should adopt employment as a top priority issue, for obvious reasons. It is the most important indicator of whether an economy is healthy. It is the gateway to social development, as people with jobs are more likely to escape poverty and fulfil their basic needs.

Thus "the attainment of full employment" should be accepted as a major SDG. And "employment" should include formal jobs as well as livelihoods in the farm and urban informal sectors.

Full employment was widely recognized as the major goal of economic policy in the post-Second World War period. The leaders swore not to have a long period of high unemployment again, as in the Great Depression.

After the war, international organizations like the UN, the IMF, the ILO, the GATT and UNCTAD were set up, and employment was one of their top priorities. One of the first UN conferences, in 1947, was titled the UN Conference on Trade and Employment; it led to the creation of the multilateral trading system.

"Ensuring full employment" is a main objective of the World Trade Organization (WTO). The International Monetary Fund (IMF) has "promotion and maintenance of high levels of employment and real income" as a main purpose.

In Economics taught in school and universities, and in government policy circles, the attainment of full employment was accepted as the main priority in economic policy, together with adequate economic growth.

However, full employment was downgraded as a policy goal starting in the 1980s, to be sidelined by other goals, including controlling inflation, reducing the budget deficit, eliminating tariffs, and cutting the size and role of government. These other goals became central in the Washington Consensus and the "structural adjustment policies" that the IMF and World Bank imposed on borrower countries as conditions for receiving loans.

Many developing countries that faced debt problems took on these policies to avoid default. Today this story is repeated in many European countries as "austerity" is adopted as the priority policy set. As a result, employment and growth were set aside.

The resulting rise in unemployment, accompanied by recession and inequality, has catapulted job creation onto centrestage as a public demand, in conflict with the austerity programme.

A policy war is raging between those who stress the need to tackle unemployment now while addressing the budget deficit in the medium term, and those insisting on wide and deep austerity measures now. The anti-austerity camp is gradually winning, as the facts on the ground show a rise in unemployment and a fall in growth rates.

The developing countries are increasingly affected by the austerity policies, especially as the Western slowdown is now affecting their exports, currencies, capital flows and growth rates. To avoid a worsening employment situation, the developing countries need favourable international policies, including:

- Avoidance by developed countries of national policies that adversely affect the employment situation of developing countries.
- International financial institutions and aid agencies should avoid policy advice and conditions that have negative impact on employment in developing countries.
- Attaining full employment in developing countries should be adopted as a top priority objective in international agencies.
- Criteria for debt sustainability for developing countries should fully take account of the requirements for generating sufficient employment.
- Trade rules and negotiations should give the highest priority to the maintenance and promotion of employment in developing countries.

Globally, full employment should be restored as a top economic policy goal. This should be translated at the national level into full employment as a top priority in national goals and targets, including in fiscal and development policies.

Developing countries that face shortfalls in government budgets required to fund programmes that generate employment-intensive growth to a level sufficient to attain full employment, should be able to draw on international financing and other support. ❐

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

LDC TRIPS exemption approved to mixed reactions

After months of difficult negotiations, the poorest member states of the WTO will now be able to defer their implementation of the trade body's intellectual property rules for another eight years.

by Sangeeta Shashikant

LONDON: The members of the World Trade Organization (WTO) adopted a decision on 11 June for the world's poorest nations to exercise their right to be exempted from implementing the organization's intellectual property rights agreement.

In a hard-won decision, least developed countries (LDCs) can now defer for another eight years the implementation of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), except for Articles 3, 4 and 5.

The decision does not include the highly contentious "no-rollback" clause contained in the previous exemption decision (WTO document IP/C/40) taken in 2005 and which expires on 1 July.

This latest decision brings to an end months of uncertainty over the fate of the "duly motivated request" submitted by Haiti on behalf of the LDCs last November seeking an unconditional extension of the transition period to implement the TRIPS Agreement for as long as a country remains an LDC.

The LDC request, while receiving massive support from developing countries, industry, civil society, UN agencies and academics, was fervently opposed by the developed countries led by the United States and the European Union.

The eventual decision is the result of many sessions of lengthy pressure-packed closed-door negotiations over the last month, facilitated by Ambassador Alfredo Suescum of Panama, the Chair of the WTO's TRIPS Council, between rich countries (the US, the EU, Japan, Australia, Canada, New Zealand, Switzerland) that opposed the LDCs' formal request and a handful of LDCs.

The Chair did hold informal briefings for other WTO members but countries that unreservedly supported the LDCs' formal request were not invited to the closed-door negotiations. The Chair-led negotiations were preceded by weeks of informal consultations between developed countries and LDCs, facilitated by Australia.

The deal that was finally concluded between the developed countries and the LDCs received mixed reactions from other members of the WTO.

Decision of the TRIPS Council

The preamble of the decision contains the following paragraphs:

"The Council for Trade-Related Aspects of Intellectual Property Rights (the 'Council for TRIPS'),

"Having regard to the transition period for least developed country Members provided for in paragraph 1 of Article 66 of the TRIPS Agreement (the 'Agreement');

"Recalling that this transition period was extended by the Decision of the Council for TRIPS of 30 November 2005 (IP/C/40) until 1 July 2013;

"Having regard to the request from least developed country Members, dated 5 November 2012, for a further extension of this transition period, contained in document IP/C/W/583;

"Recognizing the special needs and requirements of least developed country Members, the economic, financial and administrative constraints that they continue to face, and their need for flexibility to create a viable technological base;

"Recognizing the continuing needs of least developed country Members for technical and financial cooperation so as to enable them to realize the cultural, social, technological and other developmental objectives of intellectual property systems;"

The operative paragraphs of the decision state the following:

"Decides as follows:

"1. Least developed country Members shall not be required to apply the provisions of the Agreement, other than Articles 3, 4 and 5, until 1 July 2021, or until such a date on which they cease to be a least developed country Member, whichever date is earlier.

"2. Recognizing the progress that least developed country Members have already made towards implementing the TRIPS Agreement, including in accordance with paragraph 5 of IP/C/40, least developed country Members express their determination to preserve and continue the progress towards implementation of the TRIPS Agreement. Nothing in this decision shall prevent least developed country Members from making full use of the flexibilities provided by the Agreement to address their needs, including to create a sound and viable technological base and to overcome their capacity constraints supported by, among other steps, implementation of Article 66.2 by developed country Members.

"3. This Decision is without prejudice to the Decision of the Council for TRIPS of 27 June 2002 on 'Extension of the Transition Period under Article 66.1 of the TRIPS Agreement for Least-Developed Country Members for Certain Obligations with respect to Pharmaceutical Products' (IP/C/25), and to the right of least developed country Members to seek further extensions of the period provided for in paragraph 1 of Article 66 of the Agreement."

Points of contention: rich vs poor

One of the most contentious points in the informal negotiations leading to the decision was the no-rollback (NRB) clause. This clause, found in paragraph 5 of the previous extension decision (IP/C/40), states: "Least-developed country Members will ensure that any changes in their laws, regulations and practice made during the additional transitional period do not result in a lesser degree of consistency with the provisions of the TRIPS Agreement."

According to trade sources, the US and the EU in particular wished to retain this clause in the current extension decision, while LDCs were opposed to its inclusion, repeatedly arguing that it was antithetical to Article 66.1 of the TRIPS Agreement.

(Article 66.1 states: "In view of the special needs and requirements of least-developed country Members, their economic, financial and administrative constraints, and their need for flexibility to create a viable technological base, such Members shall not be required to apply the provisions of this Agreement, other than Articles 3, 4 and 5, for a period of 10 years from the date of application as defined under paragraph 1 of Article 65. The Council for TRIPS shall, upon duly motivated request by a least-developed country Member, accord extensions of this period.")

Developed countries were generally not in favour of finalizing the timeframe of the transition period until discussions on NRB were completed, sources say, and thus a number of different formulations were presented and considered during the informal negotiations before the final formulation in paragraph 2 of the decision was arrived at. LDCs firmly rejected any obligatory NRB.

Thus, the decision only makes a reference to paragraph 5 of decision IP/C/40, with LDC members expressing their "determination to preserve and continue the progress towards implementation of the TRIPS Agreement."

However, the decision also reinforces that nothing in the decision prevents LDCs from utilizing flexibilities available to them under the TRIPS Agreement, which should include the flexibility under Article 66.1 to roll back existing intellectual property protection.

According to trade sources, an earlier formulation presented by the US to the LDC Group, i.e., that "LDCs are encouraged to continue that progress towards (implementation of/compliance with) the TRIPS agreement", was subsequently withdrawn by the US. At a later stage, the US proposed: "LDC Members express commitment to preserving and continuing that progress towards full implementation of the TRIPS Agreement."

This formulation was not agreeable to LDCs, sources say, leading US Ambassador Michael Punke to suggest other alternatives to replace "commitment", such as "dedication" and "resolve", at an ambassadorial-level meeting on 4 June. Finally, all the countries settled on "determination", a suggestion by the US at that meeting. Proposals by LDCs were not accepted.

The duration of the transition period was also heavily disputed. Throughout the negotiations, developed countries favoured short timeframes, with the US going as low as five years.

According to trade sources, Australia proposed a slightly longer timeframe of 10 years but subject to a TRIPS Council review of the progress made in implementing the TRIPS Agreement. Such a review would have been an additional condition beyond Article 66.1 and thus was not acceptable by the LDCs. The final duration agreed upon is eight years, an increase over the previous extension of 7.5 years.

According to trade sources, following agreement on the NRB clause, and as discussions proceeded to the timeframe issue, the EU emerged with a new proposal that would require the WTO to present after [x] years a report on the progress made in the development of intellectual property systems by LDCs and any difficulties they encountered in that regard with the view to providing technical assistance.

This proposal was not acceptable to LDCs and even some developed countries, sources say. Thus, the final decision does not include this point.

However, during the TRIPS Council meeting, the EU reiterated a similar proposal but under the agenda item on technical cooperation. The EU reaffirmed its commitment to providing technical cooperation, but added that it needs information. It said that the previous decision required LDCs to provide information on their technical and financial cooperation needs to implement the TRIPS Agreement but such an exercise was a challenge, so it proposed that the WTO secretariat should prepare a report in 2014 on the progress of LDCs in implementing the agreement and difficulties faced.

Nepal (the LDC coordinator) clarified that the extension decision does not make reference to needs assessment, and that such an assessment which pertains to TRIPS implementation under Article 67 should not be associated with the extension decision under Article 66.1.

It also added that the needs assessment exercise agreed in 2005 did not work well as LDCs that prepared needs assessment received no response. Thus, during the negotiations, there was "mutual agreement" to drop reference to needs assessment as a condition in the new decision on the transition period. Nepal stressed that LDCs do not agree to the secretariat preparing a report, while also clarifying, however, that it was open to a discussion on technical assistance.

India, in supporting Nepal, stressed that Article 66.1, which concerns an extension of the transition period, has no linkages with needs assessment. It added that since developed countries did not wish to burden the secretariat on other intellectual property issues, similarly, the secretariat should not be burdened to prepare a report on LDCs.

India's intervention was supported by Brazil and South Africa.

The Chair took note of the statements and added that the TRIPS Council will revert to the matter at its next meeting.

Mixed reactions of WTO members

The deal concluded between the developed countries and the LDCs, adopted by the TRIPS Council, received mixed reactions from members of the WTO.

Nepal, on behalf of the LDC Group, stressed that the transition period provided under TRIPS Article 66.1 is a critical element of special and differential treatment for LDCs. It is a flexibility provided specifically to LDCs in recognition of their particular situation in terms of their capacity constraints and their need to develop a sound and viable technological base. It added that the LDCs, through their formal request in IP/C/W/583, had sought an extension of the transition period as their situation remains the same in terms of their poor technological base and capacity constraints.

It added, "Our request received a huge support from Members of this Council, for which we are thankful. Beyond this house, LDCs' duly motivated request enjoyed support from lawmakers, UN development agencies, civil society and academicians. We are thankful to them as well."

It further added that the LDCs engaged in "direct talks with developed country partners" as well as through "Chair-led consultations" and with other members of the WTO, describing the outcome as "an accomplishment of months-long, intense negotiations". It is a "compromise outcome we can live with", Nepal said.

It further said, "Now LDCs will have eight more years of transition period. The years ahead are going to be challenging for LDCs as they aim to advance on the path of development. The Istanbul Programme of Action has set the timeline of 2020 for at least half the number of LDCs to reach the graduation threshold. We sincerely hope that our partners will be forthcoming in providing enhanced support measures to LDCs, including in the areas of trade and transfer of technology. As LDCs' situation improves and as they advance from marginalization to greater participation in global trade and multilateral trading system, they will find greater incentives for participation in TRIPS provisions."

Haiti, while welcoming the compromise, said that the original LDC request contained "no notion of conditionalities" and the extension would be in place until a country graduates (from being an LDC). It added that the transition period will enable the LDCs to develop a viable technological base and to achieve a certain level of socioeconomic development.

Compromise decision

India said that it has consistently supported the LDCs' request for an extension of the transition period under Article 66.1 without any conditionalities.

It further said, "The compromise decision reached today, to grant an extension of eight years, is far removed from the legitimate request of the LDCs for a transition period for as long as they remain LDCs. This would have allowed the LDCs much needed time to address the extensive development and technological challenges facing them. Regrettably, despite overwhelming support from developing countries and a few developed countries, an outcome has been negotiated which is a derogation from the provisions of Article 66.1."

India said it would join the consensus to adopt the extension decision "since the compromise decision represented a step forward from the 2005 decision".

It also stressed its "systemic concern about the process adopted in reaching this decision which was negotiated between a small group of countries, to the exclusion of the larger membership. This would no doubt have broader implications for negotiations in other areas as well and is something that is best avoided in the interest of the system and its membership."

India expressed hope that "any future request by the LDCs for extending

(continued on page 16)

Are developing countries waving or drowning?

With external economic conditions likely to be unconducive in the coming years, developing countries need to improve their own growth fundamentals and seek strategic rather than full integration into the global economy.

by Yilmaz Akyuz

GENEVA: More than five years since the outbreak of the global financial crisis, the world economy has shown few signs of stabilizing and moving towards strong and sustained growth.

While deleveraging continues to stifle private demand, economic activity is further restrained by a fiscal drag in the US and Europe, as governments have turned to fiscal orthodoxy after an initial reflation. There has been excessive reliance on monetary policy, especially in the US, through provision of large amounts of liquidity to financial markets and institutions at close-to-zero interest rates, using unconventional means.

This has been largely ineffective in re-igniting bank lending and private spending, but has given rise to a search for yield in high-risk investments, increased leverage and boom in equity markets. It has also generated financial fragility and exchange rate instability in major developing countries.

The implications of an extended period of ultra-easy monetary policy in several reserve-currency issuers for future international financial stability remain highly uncertain since these are largely uncharted waters.

There have been strong spillovers from the crisis in advanced economies to developing countries.

Although conditions in international financial and commodity markets have generally remained favourable since 2009, the strong upward trends in capital flows and commodity prices that had started in the first half of the 2000s have come to an end and exports of developing countries to advanced economies have slowed considerably.

Furthermore, the one-off effects of countercyclical policies in developing countries have started fading and the policy space for further expansionary action has narrowed considerably.

Thus, growth in most major developing countries has now decelerated significantly. In Asia, the most dynamic developing region, growth in 2012 was some five percentage points below the rate achieved before the onset of the crisis; in Latin America it was reduced to almost half.

Underconsumption

The world economy is facing underconsumption because of low and declining share of wages in national income in all major advanced economies, including the US, Germany and Japan, as well as China – countries that have a disproportionately large impact on global economic conditions.

There has also been an increased concentration of wealth and growing inequality in the distribution of income earned on real and financial assets. Financialization, welfare state retrenchment and globalization are the most important factors accounting for these trends.

In none of the major advanced economies and China is there a tendency for a significant reversal of the downward trend in the share of wages in national income and a more equitable allocation of wealth so as to allow rapid economic expansion based on income-supported, as opposed to debt-driven, household spending.

In the US – where the downward trend in wage share started in the 1980s – in the past two decades consumption and property booms and economic expansions were driven primarily by asset and credit bubbles: first the dot-com bubble in the 1990s and then the subprime bubble in the 2000s.

The current crisis has led to a greater concentration of income and wealth. On current policies the US cannot move to wage-led or export-led growth. Rather, it may succumb to the temptation of letting the current ultra-easy monetary policy degenerate into credit and asset bubbles in order to achieve a rapid expansion, very much in the same way as its policy response to the bursting of the dot-com bubble gave rise to the subprime boom, while exploiting the exorbitant privilege it enjoys as the issuer of the dominant reserve currency and running growing external deficits.

Whether or not it might help generate a strong expansion, such a return to business-as-usual could produce yet another boom-bust cycle. It could be more damaging than the present crisis, not only for the US but the world economy at large.

If, on the other hand, asset and credit bubbles are not allowed to develop and boost aggregate spending, the outcome could be sluggish growth, sharply increased interest rates and a stronger dollar, a combination that often breeds problems for developing countries.

The eurozone appears to be mired in economic weakness for an indefinite period. Thus, the region cannot be expected to generate expansionary impulses for the rest of the world even if it manages to restore stability in the crisis-hit periphery.

China has moved to investment-led growth as its exports slowed sharply as a result of the crisis and contraction in advanced economies, and this has added to credit and property bubbles already under way. This pattern of growth cannot be sustained indefinitely. Despite the recognition of the need to raise the share of the household income in gross domestic product (GDP) and move to a consumption-led growth, the distributional rebalancing is progressing very slowly.

Whether or not China can avoid the bursting of the bubbles and a hard landing, over the medium term it is likely to settle on a lower growth path with a gradual rebalancing of external and domestic sources of demand and domestic investment and consumption.

All these imply that there will be no more Southern tailwinds. Even if the crisis in the North is fully resolved, developing countries are likely to encounter a much less favourable global economic environment in the coming years than they did before the onset of the Great Recession.

Consequently, in order to repeat the spectacular growth they had enjoyed in the run-up to the crisis and catch up with the industrial world, developing countries need to improve their own growth fundamentals, rebalance domestic and external sources of growth, and reduce dependence on foreign markets and capital. This requires, inter alia, abandoning neoliberal policies in practice, not just in rhetoric, and seeking strategic rather than full integration into the global economy. *(IPS)* ❐

Yilmaz Akyuz is chief economist of the Geneva-based South Centre. The above is an abridged version of a longer research paper (No. 48) for the South Centre.

Global FDI flows fell by 18% last year

Last year saw a strong decline in global inflows of foreign direct investment, according to a UN development agency.

by Kanaga Raja

GENEVA: Global foreign direct investment (FDI) inflows fell by 18% from $1.65 trillion in 2011 to $1.35 trillion in 2012, the United Nations Conference on Trade and Development (UNCTAD) has said.

In its *World Investment Report 2013*, released on 26 June, UNCTAD said that this strong decline in FDI flows is in stark contrast to other macroeconomic variables, including GDP, trade and employment growth, all of which remained in positive territory in 2012.

In its forecast for 2013, UNCTAD said that FDI flows are expected to remain close to the 2012 level, with an upper range of $1.45 trillion.

"As macroeconomic conditions improve and investors regain confidence in the medium term, transnational corporations (TNCs) may convert their record levels of cash holdings into new investments. FDI flows may then reach the level of $1.6 trillion in 2014 and $1.8 trillion in 2015," it said.

Nevertheless, it cautioned, "significant risks to this scenario persist, including structural weaknesses in the global financial system, weaker growth in the European Union (EU) and significant policy uncertainty in areas crucial for investor confidence."

According to the UNCTAD report, FDI flows to developing economies remained relatively resilient in 2012, reaching more than $700 billion, the second highest level ever recorded. In contrast, FDI flows to developed countries shrank dramatically to $561 billion, almost one-third of their peak value in 2007.

Consequently, developing economies absorbed an unprecedented $142 billion more FDI than developed countries. They accounted for a record share of 52% of FDI inflows in 2012.

Global FDI outflows fell by 17% to $1.4 trillion, down from $1.7 trillion in 2011. Developed economies, in particular those in the EU, saw their FDI outflows fall close to the trough of 2009, in part because of uncertainty about the euro.

In contrast, said UNCTAD, investors from developing countries continued their expansion abroad. Together, the share of developing and transition economies in global outflows reached 35%. Among developing and transition economies, the BRICS countries (Brazil, Russia, India, China and South Africa) continue to be important outward investors.

In contrast to the sharp decline of FDI flows from developed countries, FDI flows from developing economies rose slightly in 2012, amounting to $426 billion. As a result, their share in global outflows rose to a record 31%.

Among developing regions, FDI outflows from Africa nearly tripled, flows from Asia remained unchanged from their 2011 level, and those from Latin America and the Caribbean declined slightly. Asian countries remained the largest source of FDI in the developing world, accounting for almost three-quarters of the group's total.

Greenfield projects and M&As

UNCTAD said that the estimated capital expenditure of announced greenfield projects fell by 33% compared with 2011, reaching $600 billion, the lowest level in the past 10 years. The contraction was even more pronounced in developing economies (-38%), raising additional concerns about the development impact of the downturn.

The value of cross-border mergers and acquisitions (M&As) declined by 45%, back to levels similar to those of 2009 and 2010, after the financial crisis had knocked down M&A activity in developed economies.

The primary sector was the most heavily hit in relative terms, in both greenfield projects and cross-border M&As. The decline was driven by the downturn in the mining, quarrying and petroleum industry, which represents the bulk of the overall FDI activity in the sector. The contraction was particularly dramatic in developing countries, where the announced value of greenfield projects fell to a fourth of the 2011 value.

"Similarly, FDI inflows to developing economies generated by cross-border M&A activities plunged from some $25 billion in 2011 to a slightly negative value, revealing a predominant divestment trend by foreign investors in the sector."

Manufacturing was the sector with the largest decrease in FDI project value in absolute terms, originating mainly from a decline in the value of greenfield projects across all three groups of economies – developed, developing and transition economies.

The UNCTAD report further found that in 2012, FDI flows to offshore financial centres (OFCs) were almost $80 billion, despite a contraction of about $10 billion (-14%) compared with 2011. Flows to OFCs have boomed since 2007, following the start of the financial crisis. The average annual FDI inflows to OFCs in the period 2007-12 were $75 billion, well above the $15 billion average of the pre-2007 period (2000-06).

"Tax haven economies now account for a non-negligible and increasing share of global FDI flows, at about 6%," it said, noting that a significant part of inflows consists of "round-tripping" FDI to the original source countries. For example, the top three destinations of FDI flows from Russia – Cyprus, the Netherlands and the British Virgin Islands – coincide with the top three investors in Russia.

"Such flows are more akin to domestic investments disguised as FDI. The bulk of inflows in OFCs consists of FDI in transit that is redirected to other countries."

While UNCTAD said that financial flows through special purpose entities (SPEs) in Luxembourg, the Netherlands and Hungary are not counted in its FDI data, it found however that relative to FDI flows and stocks, SPEs are playing a large and increasing role in a number of important investor countries.

"These entities play a role similar to that of OFCs in that they channel financial flows for investment and redirect them to third countries. Luxembourg and the Netherlands are typical examples of countries that provide favourable tax treatment to SPEs."

The UNCTAD report stressed that although most international efforts to combat tax evasion have focused on OFCs, flows through SPEs are far more important. Three countries alone – namely, Hungary, Luxembourg and the Netherlands – reported more than $600 billion in investment flows to SPEs for 2011 compared with $90 billion of flows to OFCs.

"Tackling OFCs alone is clearly not enough, and is not addressing the main problem," said UNCTAD, adding that tax avoidance and transparency in international financial transactions are global issues that require an intensified multilateral approach.

Regional trends

Highlighting investment trends on a regional basis, UNCTAD found that FDI inflows to Africa grew to $50 billion in 2012, a rise of 5% over the previous year. The overall increase in FDI inflows translated into increased flows to North Africa, Central Africa and East Africa, whereas West Africa and Southern Africa registered declines.

Africa is one of the few regions to enjoy year-on-year growth in FDI inflows since 2010. Investment in exploration and exploitation of natural resources, and high flows from China both contributed to the current level of inward flows.

"More generally, the continent's good economic performance – GDP grew at an estimated 5% in 2012 – underpinned the rise in investment, including in manufacturing and services."

UNCTAD noted that TNCs from developing countries are increasingly active in Africa, building on a trend in recent years of a higher share of FDI flows coming from emerging markets.

Malaysia, South Africa, China and India (in that order) are the largest developing-country sources of FDI in Africa. Malaysia, with an FDI stock of $19 billion in Africa in 2011 (the latest year for which data are available), has investments in all sectors across the continent, including significant FDI in agribusiness and finance.

Outward FDI flows from Africa nearly tripled in 2012, from $5 billion in the previous year to an estimated $14 billion. South African companies were active in acquiring operations in mining, wholesale and healthcare industries, helping raise outflows from the country to $4.4 billion in 2012.

On the other hand, FDI inflows to East and South-East Asia declined by 5%, while outflows from the two subregions rose by 1% in 2012. The subregions now account for 24% of the world's total FDI inflows and 20% of outflows.

FDI inflows to East and South-East Asia fell to $326 billion in 2012 – the first decline since 2009 – as a result of drops in major economies such as China, Hong Kong (China), Malaysia and the Republic of Korea. "The sluggish global economy, fiscal constraints in Europe, a significant shrinkage in global M&A activities and cautious sentiment in investing by TNCs were among the key reasons for the decline."

East Asia experienced an 8% drop in FDI inflows, to $215 billion. China continues to be the leading FDI recipient in the developing world despite a 2% decline in inflows. FDI remained at a high level of $121 billion, in spite of a strong downward pressure on FDI in manufacturing from rising production costs, weakening export markets and the relocation of foreign firms to lower-income countries.

In contrast to East Asia, South-East Asia saw a 2% rise in FDI inflows (to $111 billion), partly because of higher flows (up 1.3% to $57 billion) to Singapore, the subregion's leading FDI host country. Higher inflows to Indonesia and the Philippines also helped, as did the improved FDI levels in low-income countries such as Cambodia, Myanmar and Vietnam.

Overall, said UNCTAD, outward FDI from East and South-East Asia rose by 1%, to $275 billion, against the backdrop of a sharp decline in worldwide FDI outflows. This marks the fourth consecutive year of increasing flows from the region, with its share in global FDI outflows jumping from 9% in 2008 to 20% in 2012, a share similar to that of the EU.

In East Asia, FDI outflows rose by 1% to $214 billion in 2012. Outflows from China continued to grow, reaching a new record of $84 billion. The country is now the world's third largest source of FDI.

FDI outflows from South-East Asia increased 3% to $61 billion in 2012. Outflows from Singapore, the leading source of FDI in the subregion, declined by 12% to $23 billion. However, outflows from Malaysia and Thailand rose by 12% and 45%, amounting to $17 billion and $12 billion, respectively. The rise of these two countries as FDI sources was driven mainly by intra-regional investments.

According to UNCTAD, FDI inflows to South Asia dropped by 24% to $34 billion as the region saw sharp declines in both cross-border M&As and greenfield investments. Meanwhile, outflows declined by 29%, to $9 billion, due to the shrinking value of M&As by Indian companies.

"India continued to be the dominant recipient of FDI inflows to South Asia in 2012. However, the Indian economy experienced its slowest growth in a decade, and a high inflation rate increased risks for both domestic and foreign investors. As a result, investor confidence has been affected and FDI inflows to India declined significantly."

A number of other factors, however, positively influenced FDI prospects in the country. Inflows to services are likely to grow, thanks to ongoing efforts to further open up key economic sectors, such as retailing. Flows to manufacturing are expected to increase as well, as a number of major investing countries, including Japan and the Republic of Korea, are establishing country- or industry-specific industrial zones in India.

FDI outflows from South Asia dropped sharply by 29% in 2012. Outflows from India, the region's largest FDI source, decreased to $8.6 billion (still 93% of the regional total) owing to the shrinking value of cross-border M&As by Indian companies.

According to UNCTAD, the 2% decline in FDI inflows to Latin America and the Caribbean in 2012 masked a 12% increase in South America. Developed-country TNCs continued selling their assets in the region, increasingly acquired by Latin American TNCs that are also expanding into developed countries.

South America continued to sustain FDI flows to the region. FDI flows to Latin America and the Caribbean in 2012 maintained almost the same level as in 2011, declining by a slight 2% to $244 billion. However, this figure hides significant differences in subregional performance, as inward FDI grew significantly in South America (12% to $144 billion) but declined in Central America and the Caribbean (-17% to $99 billion).

The growth of FDI to South America took place despite the slowdown registered in Brazil (-2% to $65 billion) – the subregion's main recipient – after two years of intensive growth. Growth was driven by countries such as Chile (32% to $30 billion), Colombia (18% to $16 billion), Argentina (27% to $13 billion) and Peru (49% to $12 billion), which were South America's main recipient countries after Brazil.

"A number of factors contributed to the subregion's FDI performance, including the presence of natural resources (such as oil, gas, metals and minerals) and a fast-expanding middle class that attracts market-seeking FDI."

Central America and the Caribbean, excluding the offshore financial centres, saw a 20% decrease in FDI inflows to $25 billion, attributable mainly to a 41% drop in inflows to Mexico.

FDI to the offshore financial centres decreased by 16% to $74 billion in 2012 but remained at a higher value than before the global financial crisis, UNCTAD said, adding that the share of offshore financial centres in the region's total FDI increased from 17% in 2001-06 to 36% in 2007-12.

Outward FDI from Latin America decreased by 2% to $103 billion in 2012, with uneven growth among countries. Outflows from offshore financial centres decreased by 15% to $54 billion, and those from Brazil remained downscaled to negative values by the high levels of repayment of inter-company loans to parent companies by Brazilian affiliates abroad.

By contrast, outflows from Mexico registered a strong increase (111% to $26 billion), and outflows from Chile continued growing in 2012 (4% to $21 billion) after the jump recorded in 2011 (115% to $20 billion).

In 2012, inward FDI flows in transition economies fell by 9% to $87 billion, due in part to a slump in cross-border M&A sales. Flows to South-East Europe almost halved, while those to the Commonwealth of Independent States (CIS) remained relatively resilient. FDI flows to Russia remained at a high level, although a large part of this is accounted for by "round-tripping".

Inflows remained concentrated in a few economies, with the top three destinations (Russia, Kazakhstan and Ukraine) accounting for 84% of the subregion's total inflows. Despite declining by 7%, FDI inflows to Russia remained high at $51 billion.

"Foreign investors were motivated by the growing domestic market, as reflected by high re-investments in the automotive and financial industries. The Russian Federation's accession to the World Trade Organization (WTO) has also had an impact on investors' decision-making for certain projects, such as the acquisition of Global Ports by the Dutch company APM Terminals."

Outward FDI flows from transition economies also declined in 2012. Russia continued to dominate outward FDI from the region, accounting for 92% of outflows in 2012. Outflows from Kazakhstan, Ukraine and Azerbaijan exceeded $1 billion.

Developed-country flows

According to UNCTAD, FDI from and to developed countries nosedived in 2012. Inflows to the group of 38 economies, in aggregate, declined by 32% to $561 billion; outflows fell by 23% to $909 billion.

"At a time of weak growth prospects and policy uncertainty, especially in Europe, many TNCs pursued a strategy of disposing of non-core businesses and assets. The commodity boom, which had driven FDI in resource-rich developed countries in the recent past, began to cool. In addition, intra-company transactions, which tend to be volatile, had the effect of reducing flows in 2012."

By region, inflows to Europe contracted by 42% and to North America by 21%. Inflows to Australia and New Zealand together declined by 14%. Outflows from Europe fell by 37% and from North America by 14%. Outflows from Japan, in contrast, held their momentum, growing by 14%.

The sharp decline in inflows effectively reversed the recovery of FDI over 2010-11. The share of developed economies in global inflows declined from 50% in 2011 to 42%. Within the group, 23 economies saw a decline in their inflows, including the two largest recipients in 2011, Belgium and the United States.

The fall in FDI to European countries was particularly marked; it diminished to $276 billion, which was considerably lower than the recent low ($405 billion) in 2009. The EU alone accounted for almost two-thirds of the global FDI decline.

UNCTAD said that the decline in FDI outflows from developed countries accounted for almost all the decline in global outflows in 2012. Outflows declined in 22 developed economies, including four of the top five investor countries in 2011.

Outflows from the United States, which had been driving the recovery of FDI in developed countries, saw a large decline. Outflows from the European countries were less than one-third of their peak ($1.33 trillion) in 2007.

Among the countries that bucked the trend were Ireland, Japan and Germany. Apart from Ireland, the four eurozone countries that have been most affected by the financial crisis – namely Greece, Italy, Portugal and Spain – showed a generally low level of FDI flows in 2012.

According to UNCTAD, "three aspects of recent FDI in those countries are worth highlighting: foreign acquisition of distressed assets, injection of capital to foreign-owned banks, and exit and relocation of firms from the crisis-hit countries."

Given the depth of the contraction in cross-border direct investment in 2012, it is unlikely that the FDI flows of developed countries will decline much further in 2013, said UNCTAD.

"The economic downturn in Europe might create opportunities for buyout firms to acquire undervalued assets. Companies with stressed corporate balance sheets might be under pressure to sell assets at a discount. However, overall, the recovery of FDI flows of developed economies in 2013, if it occurs at all, is likely to be modest." *(SUNS7615)*❐

Opponents question proposed trans-Atlantic trade deal

A planned trade accord between the US and the EU could undermine public-interest regulations on both sides of the Atlantic, caution critics.

by Jared Metzker

WASHINGTON: Controversy is building following the announcement that negotiations will soon begin on a free trade agreement between the United States and European Union, with critics warning that any such agreement could negatively affect a host of regulatory concerns.

On 17 June, during the Group of Eight (G8) summit held in Northern Ireland, the United States, European Commission and European Council jointly announced that negotiations will begin on 8 July in Washington for what British Prime Minister David Cameron called "the biggest bilateral trade deal in history".

Proponents characterize the Transatlantic Trade and Investment Partnership (T-TIP), also known as the Trans-

Atlantic Free Trade Agreement (TAFTA), as a way to improve the struggling economies of the United States and European Union.

"The whole point," Cameron stated on 17 June, "is to fire up our economies and drive growth and prosperity around the world – to do things that make a real difference to people's lives. And there is no more powerful way to achieve that than by boosting trade." He asserted that the deal could "add as much as 100 billion pounds to the EU economy, 80 billion pounds to the US economy, and as much as 85 billion pounds to the rest of the world".

The dangers of "convergence"

Nevertheless, there is significant opposition to the proposed deal.

"The claims that this deal will somehow be an economic cure-all and generate significant growth are simply not supported by any reliable evidence," Lori Wallach, director of Public Citizen's Global Trade Watch, a public interest watchdog group based in Washington, said on 18 June.

"But we do know that the talks are based on the demands of US and EU corporations that have been pushing for decades to eliminate the best consumer, environmental and financial standards on either side of the Atlantic."

Tariffs between the US and the EU are already low, and critics note that what the deal really seeks to accomplish is the removal of "non-tariff barriers" (also referred to as "trade irritants").

"Non-tariff barriers is a commonly-used euphemism which refers to the array of financial, environmental, health and other policies which the public has put in place to safeguard its own interests," Ben Beachy, a research director for Public Citizen, told Inter Press Service (IPS).

Under T-TIP, standards such as those mentioned by Beachy would be "converged", so that regulations from state to state would be more closely aligned. Supporters of the deal say this uniformity would facilitate trade, but Beachy contended that the greater effect would be to lower regulation levels to a point that "democratic electorates would never stand for."

"The resulting effect of 'convergence'," he said, "will be to limit the ability of democratic policymakers to establish their own preferred levels of regulation."

Environment groups are likewise worried that such harmonization will allow for an increase in certain energy technologies, particularly the sudden prevalence in the United States of natural gas hydraulic fracturing or "fracking".

Countries of the European Union currently restrict fracking within their own borders due to environmental concerns. But some analysts suggest these countries would be less averse to consuming imported gas fracked in the United States.

"There are concerns that the US would become a major exporter of liquefied natural gas to the EU," Ilana Solomon, of the Sierra Club, an environmental protection group, told IPS.

The United States recently approved private licences for companies seeking to liquefy gas, indicating that in the future it will export liquefied natural gas, something it does not currently do.

Under free trade agreements in the past, Solomon noted, important regulatory reviews normally undertaken when considering the advantages of exportation have often been replaced by automatic approvals.

There are also health concerns related to the agreement. Some worry that food safety standards in the United States, for example, could be compromised if European exporters – currently subject to lower standards – could deliver their, say, milk to US stores. Regardless of where US standards stood, the less-well-regulated (and possibly less expensive) European milk would be available to US consumers.

Another controversial aspect of the agreement would allow European privately owned corporations to challenge US domestic laws that may negatively affect their profits or even expected profits.

In what are known as "investor-state" tribunals, foreign corporations would be eligible to receive compensation from taxpayers if the corporations could demonstrate that they lost money because of laws that inhibit trade.

Being subject to these tribunals could lead to what Public Citizen's Beachy refers to as a "chilling effect", meaning policymakers would be less likely to pass regulations because of perceived vulnerability.

Beachy also noted the deal could carry "very real economic costs" if it undermines financial regulations and increases the risk of economic crisis.

According to a European Commission study, regulations that may be subject to "convergence" include financial safeguards such as those included in policies enacted by the United States following the economic crisis that began in 2008.

Last year, the Association of German Banks indicated what it hoped would emerge from any transatlantic deal regarding the aligning of US and European standards. "We would not like to see US regulators applying standards to our banks that are extraterritorial, duplicative or discriminating … we have a number of such concerns regarding the ongoing implementation of the Dodd-Frank Act," said the Association, referring to the most significant US regulatory legislation passed in the aftermath of the financial crisis.

According to Beachy, it is doubtful that the free trade agreement could succeed in removing all its targeted "irritants".

The European Commission study confirmed that this would be "unlikely", noting that to do so in some cases would require "constitutional changes" and that "political sensitivities" might stand in the way.

Still, opponents worry that by specifically targeting these barriers, the broad agreement could succeed in chipping away at a significant number of them.

"The corporations that favour the agreement know they won't get everything they want," Beachy said. "But they think they can get a lot." *(IPS)* ❐

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the transition period for pharmaceuticals which will expire in 2016, would be looked at in a positive manner without any conditionalities being imposed on them."

Brazil welcomed the result but said it shared the systemic concern voiced by India, stressing that future consultations should aim at including a broader membership in the negotiation process.

South Africa aligned itself with the statements made by India and Brazil. It said that it was not satisfied with the duration but could live with it. It also stressed that the outcome is far removed from the legitimate request of the LDCs despite the widespread support the request received. However, it said that it could join the consensus since the decision is a "step forward from the 2005 decision".

China welcomed the "compromise decision", expressing its understanding that the outcome was not easily achieved. It noted that the no-rollback clause was not included in the decision, which recognized the right of LDCs to make full use of the flexibilities. It added that no conditionality should be attached to LDCs in as far as treaty language does not require it. It echoed the views of Brazil, India and South Africa that encourage more inclusive negotiations.

Lesotho said that in the decision, LDC members declared their determination to move towards TRIPS compliance; however, this determination is "importantly hinged on the acquirement of capacity by the LDCs to meet their developmental needs including: economic, financial, and administrative needs and also the need for the creation of viable technological base".

"It is this 'needs-based approach' that is key to ensuring that LDCs are integrated into the multilateral trading system in a true sense of the phrase 'Integration into the MTS'," Lesotho added.

On the timeframe, Lesotho said that "while a much longer timeframe would have been desirable ... the arrival at eight years' timeframe is a decisive expression by [WTO] members that the needs of the LDCs are key determinants of the extension timeframe".

It also stressed that the extension decision "highlights the centrality of the impending need to preserve the flexibilities of the LDCs, be they those in the TRIPS Agreement itself or those in the [other] WTO agreements". Reference to flexibilities in the decision is "a resounding reassurance by members that quells any doubt concerning the ability of LDCs to use the available policy space provided by such flexibilities".

Rwanda thanked all stakeholders that supported the LDCs. It reiterated the rationale of Article 66.1 and expressed hope that LDCs will take advantage of the transition period to build a sound technological base and overcome structural constraints.

Developed countries supported the outcome. The US simply supported adoption of the outcome reached with the LDCs. Japan said that the decision supports the needs of LDCs and will assure the private sector.

New Zealand said that the decision is in keeping with the spirit of Article 66.1, adding that it had always supported a meaningful extension, and it was a "positive outcome on the whole."

The EU welcomed the decision, stressing that the decision recognizes that intellectual property is good for development and provides LDCs more time to implement the TRIPS Agreement. *(SUNS7604)* ❐