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WTO deadlock over trade facilitation, food stocks continues

The standoff among the WTO membership over how to proceed on the contentious issues of trade facilitation and public food stocks continued when their diplomats returned to the trade body after the summer break. This impasse has drawn attention to agricultural trade reforms which remain unrealized even as attempts to push through new agreements in other areas gather pace.

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WTO members differ on post-Bali work on agriculture

Returning to the WTO after the summer recess, member state delegations remained divided over the way to deal with the contentious issues of trade facilitation and public food stocks. *Kanaga Raja* reports.

GENEVA: An informal meeting of the regular WTO Agriculture Committee on 16 September saw a continued difference of views among members on how to proceed with the post-Bali work on agriculture.

According to trade officials, there was a difference among members broadly on two issues:

- whether the post-Bali work could go ahead anyway in the absence of an agreement on trade facilitation; and
- which committee should handle the work on a permanent solution on public stockholding for food security purposes in developing countries (apart from the regular Agriculture Committee, the other relevant body is the Agriculture Committee in Special Session).

Continued impasse

The Agriculture Committee meeting came on the heels of an informal meeting of heads of delegation (HOD) that took place on 15 September, at which there appeared to be a continued impasse with regard to the food security issue and the adoption of the Protocol of Amendment that would bring to legal effect the Trade Facilitation Agreement (TFA).

At the informal HOD meeting, according to those present, Indian Ambassador to the WTO Anjali Prasad reiterated India's remarks at the WTO General Council on 25 July, namely that there must be a postponement of the adoption of the Protocol of Amendment on the TFA until a permanent solution is found on the issue of public stockholding for food security purposes.

India told the HOD meeting that it was looking for an accelerated process as well as a dedicated mechanism to discuss and develop the permanent solution on food security and to conclude this by the end of the year, adding that there were already some proposals by the G33 grouping on the table, including one that was tabled in July.

The suggestion that a discussion on a permanent solution should be part of the overa2ll agriculture discussion was unacceptable, and it was also against the mandate in paragraph 1.11 of the Bali Ministerial Declaration, the Indian envoy is reported as having made clear.

The argument that discussions on a permanent solution cannot begin in the absence of complete information and up-to-date notifications was also not supported by the Bali Ministerial mandate, which had not laid down any conditions for the discussions to begin. In any event, India had filed its notifications up to 2010-11 and would continue to fulfil its commitments.

India had offered constructive suggestions to arrive at an outcome on food security. Whenever the WTO membership engaged seriously and with commitment as on the TFA, they had been able to resolve issues in a matter of months or even weeks, Prasad is reported to have reminded the HOD. The same should be possible on the food security issue too.

In its interactions with a cross-section of WTO members, India had discerned a fair amount of understanding and appreciation of India's concerns on this issue, as well as a desire on the part of the members to resolve the issue. India also rejected the view that the public stockholding issue was of interest only to India. It was of relevance to a number of developing countries that have similar programmes in place and may soon find the limits on support a constraint on their farm support and food aid programmes, Prasad is reported to have told the informal HOD meeting.

India had heard of attempts being made to spread the apprehension that it would dump its accumulated grain stocks in other developing-country markets. This had no basis in fact, and it was far from helpful to spread such stories if the membership was to make some progress.

According to participants, India also took issue with the suggestion that the work programme on the remaining Doha issues was being held hostage to the trade facilitation-food security issue, saying that these remaining Doha issues were on a separate track.

India continued to believe that the multilateral trading system was in the best interest of developing countries, especially the poorest and most marginalized among them. The system must work for all and not just a select few and for that, timely correction of any imbalance or anomalies in the system or its rules was critical. If the system failed to function in a fair and just manner, then the most vulnerable sections of the world's population would be left behind, India is reported to have said.

According to a report in the *Washington Trade Daily (WTD)*, US Ambassador to the WTO Michael Punke proclaimed at the informal HOD meeting that Washington would not "renegotiate" the Bali agreements in order to break the impasse, but was willing to engage with India and other members on finding a "clarification" to the food security issue.

Switzerland, Japan, the European Union, Australia, Norway and Canada along with Chile, South Korea, Mexico, Singapore and Hong Kong-China supported the United States.

The *WTD* also cited a South American trade official present as saying that a permanent solution to food security was essential at this juncture.

According to the *WTD*, Brazil said while it was important to adopt the Protocol of Amendment without delay for the smooth implementation of the TFA, it was also important to address other issues. Argentina said there had been some improvements in the negotiations since July and that solutions could be found for all issues by December.

According to the *WTD* report, Kenya, on behalf of the African, Caribbean and Pacific (ACP) group, called on members to find a credible solution for agriculture and development issues with regard to the least developed countries (LDCs) in addition to the Protocol of Amendment on the TFA.

Bangladesh called for other issues of importance to the LDCs, such as duty-free, quota-free market access for LDC products and the services waiver for the LDCs, to be addressed, while Benin spoke of the unresolved issue of cotton, according to the *WTD* report.

The 15 September informal HOD meeting was the first one since the summer break and followed from a meeting that was held on 31 July.

The WTO missed the 31 July deadline for the adoption of the Protocol of Amendment that would have inserted the TFA into Annex 1A of the WTO Agreement.

A meeting of the General Council was held on 25 July to discuss the TFA but was suspended in the evening on account of lack of consensus on the Protocol of Amendment. In their interventions at that meeting, many developing countries voiced concern about the lack, in their view, of forward movement on issues of importance to them in the context of the Bali package.

India had made a strong statement at that meeting wherein it said that it was of the view that the TFA must be implemented only as part of a single undertaking including the permanent solution on food security.

India had received support from Bolivia, Cuba and Venezuela, who said that they would have difficulty joining a consensus on the Protocol while no progress had been made on the areas of interest to developing countries.

Just a couple of hours or so before the 31 July midnight deadline was to pass, an informal HOD meeting was convened by WTO Director-General Roberto Azevedo, and this immediately reverted to an informal meeting of the Trade Negotiations Committee (TNC). Briefing members on the state of play since the suspension of the General Council on 25 July, the D-G, in his capacity as TNC Chair, reported that at present "there is no workable solution on the table" and that he did not have any indication that one would be forthcoming.

"A very precarious position"

In his statement at the HOD meeting on 15 September, Azevedo said that when members met on 31 July he had asked them to use the summer to reflect – to take the time to think deeply about how they could move forward in all areas of work. "Specifically: how we can continue to advance the implementation of the Bali decisions, and how we can advance our efforts on the post-Bali work programme."

He said these were the issues that needed to be tackled, but argued that clearly "a vital aspect of our conversations on taking the Bali package forward will be how we can implement the Trade Facilitation Agreement."

The D-G said that there seemed to be a clear interplay between concerns relating to the negotiations on public stockholding for food security purposes and the adoption of the Protocol of Amendment on the TFA.

"However, we know that strict parallelism is not possible," he claimed, maintaining that one negotiation was concluded in the Bali package and the other was launched by the Bali package.

"That is the plain fact of the matter – indeed all of the Bali decisions have their own very specific timetables which advance at different paces. Nonetheless we must find a way of providing comfort for those with outstanding concerns on food security. And, at the same time, we must find a way of achieving the full implementation of all the other Bali decisions, including the Trade Facilitation Agreement," he said.

Azevedo however said that from his conversations over the summer, it seemed that the solution was still far from evident.

The D-G also said "we must begin a period of intensive and comprehensive consultations, starting now – with the intention of making rapid progress," adding that there would be a meeting of the Trade Negotiations Committee on 6 October.

In his own personal assessment, based on what members had said to him, he was of the view that "we are in a very precarious position. And at present I am not sure that the scale of the risk is fully appreciated by all."

In its statement at the informal HOD meeting on 15 September, the European Union said that Bali was a landmark success for the WTO and that it was an important step in a process of transition that started at the previous Ministerial Conference, and during which "we significantly developed the way we approach multilateral negotiations in order to reach results."

The developments of the last few weeks demonstrated once again the remaining difficulties of achieving success in multilateral trade negotiations, said the EU. "Some may say that we've been here before; we have missed other deadlines before. I would clearly disagree. We are facing a profound challenge with several very unique characteristics," the EU representative added, citing two of these characteristics.

First, the inability to implement in July what was agreed in Bali hit the organization at a crucial moment when it was recovering part of its much-needed credibility. Second, the differences that emerged this time were not linked to ongoing negotiations whose outcome was not yet clear; they were rather target agreements already reached and commitments already made.

According to the EU, putting in

question agreements reached collectively was profoundly different from not being able to reach new agreements.

Referring in particular to the concerns raised in relation to public stockholding and relevant deadlines, the EU said that food security was an important issue for all members and public stockholding may play a role in this context. It said that in Bali "we recognized this and we agreed on an open-ended solution that as we said already in previous occasions – in our interpretation – will be valid until we find a permanent one."

The EU further said: "We therefore need clarity now on what exactly are the concerns that were raised specifically by one member:

"(1) If a confirmation of the open-ended nature of the interim solution is needed, then I think this can most probably be achieved. We are certainly ready to look at ways to clarify aspects of the Bali package, as long as we respect the substance of our Ministers' decisions;

"(2) If some members were to expect that a permanent solution should become a condition to adopt the [trade facilitation] Protocol, then we are reopening what Ministers agreed in Bali. This cannot be an option, and agreeing on completely unrealistic deadlines cannot be one either.

"(3) But, for our part, we are ready to move the food security discussion forward and to accelerate work and reflections on a permanent solution. We believe that collectively we can certainly actively explore realistic ways to accelerate the negotiations on this issue and others."

The EU further said that in order to move forward in a realistic way, "we need a clear understanding that the TF Protocol will be adopted, without links and conditions that go clearly beyond Bali. Unless this is addressed, we are concerned that many WTO members will not be able to engage in meaningful substantive negotiations on the post-Bali work programme or on any other issue, including public stockholding."

The EU told the informal HOD meeting it was convinced that the organization simply could not realistically renegotiate Bali, could not move on post-Bali without clearly and unambiguously upholding Bali, and there could not be business as usual.

Questions at Agriculture Committee

Meanwhile, at the informal Agriculture Committee meeting on 16 September, trade officials said, several countries

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Battle hots up to curb "vulture funds"

Many countries face a worsening debt situation and thus feel the urgency to curb "vulture funds" and set up a global debt restructuring mechanism.

by Martin Khor

External debt is rearing its ugly head again. Many developing countries are facing reduced export earnings and foreign reserves.

No country would like to have to seek the help of the International Monetary Fund (IMF) to avoid default. That could lead to years of austerity and high unemployment, and at the end of it, the debt stock might even get worse. Low growth, recession, and social and political turmoil are probable. This has been experienced by many African and Latin American countries in the past, and by several European countries presently.

When no solution is found, some countries then restructure their debts. Since there is no international system for an orderly debt workout, the country would have to take its own initiative. The results are usually messy, as it faces a loss of market reputation and the creditors' anger. But the country swallows the pill rather than have more turmoil at home.

The Argentine experience

Such was the experience of Argentina, whose public debt reached 166% of GDP in 2002. After many years of decline and political instability, Argentina defaulted in 2001. Argentina then arranged for two debt swaps in 2005 and 2010, thus restructuring its debt with 93% of its creditors, who agreed to receive about a third of the original debt value.

But 7% of creditors, known as "holdouts", did not agree to the restructuring. A few influential hedge funds (comprising only 1% of creditors) which had bought some of the debt very cheaply on the secondary market sought a court order in New York (where the original loans had been contracted) to be paid in full.

There are several such funds, now popularly termed "vulture funds", that specialize in buying distressed debt at low prices (say, 10% of the original loan value) and then insisting through the courts on being paid in full with interest. Like vultures, they circle overhead and swoop to make a meal of the dead or dying bodies. Only in this case the 'bodies' are countries and they are asked to squeeze their shrivelled economies further to pay the vulture funds.

The US judiciary, after a long process that went to the Supreme Court, decided a few months ago that the holdout hedge funds that took up the case concerning the Argentine debt should indeed be paid in full and with interest.

Further, it decreed that the 93% of creditors who had already agreed to be paid at a big discount are now not allowed to be paid, unless the vulture funds are paid in full at the same time. The New York judge used the principle of *pari passu* (that all creditors should be treated the same) in reaching the decision.

Argentina had already arranged with a bank in New York to pay out interest to the 93% a few weeks ago, but the bank refused to do so, due to the court order.

The vulture funds want their pound of flesh. The main fund, NML Capital, would make an estimated 1,600% profit.

Argentina's President Cristina Kirchner refused to bow to these funds. If she did, the country might have to also repay all the creditors the full value, which is $120 billion, and that is impossible to do.

This incredible turn of events has caused outrage among many public interest groups and anger among developing countries' governments. The South Summit of the G77 developing-country grouping in May in Bolivia criticized the vulture funds and called for a proper global debt restructuring mechanism.

Finance ministries of developed countries have been concerned as well as many are also affected. Greece went through debt restructuring, in which private creditors agreed to take a loss, a few years ago.

Accepting the US court decision as the new template would make it quite impossible for any country to restructure its debts, since the now emboldened vulture funds would pounce and block it.

Influential *Financial Times* commentator Martin Wolf has supported Argentina in its battle with the vulture funds, even saying that it is unfair to the real vultures to name the holdouts as such since at least the real vultures perform a valuable task!

At the end of August, the Swiss-based International Capital Market Association, a group of bankers and investors, issued new standards aimed at reducing the ability of holdout investors to undermine debt restructuring.

UN General Assembly resolution

On 9 September, the G77 succeeded in promoting a resolution at the United Nations General Assembly which recognized that a state's efforts to restructure debt should not be impeded by hedge funds that seek to profit from distressed debt.

The General Assembly, by a vote of 124 in favour, 11 against and 41 abstentions, also decided to set up a multilateral legal framework for sovereign debt restructuring by the end of its 69th session (around September 2015), to increase the stability of the international financial system.

An international debt restructuring mechanism will be a systemic solution, since countries with debt crises can have recourse to an international court or system and need not do a messy debt restructuring on its own.

There will now be an uphill battle to get the resolution implemented, since the United States, Germany and the United Kingdom (all key countries in global finance) were among those which objected.

Another resolution, initiated by Argentina, is now being considered by the UN Human Rights Council, aimed at setting up legal frameworks to curtail vulture funds' activities and for sovereign debt restructuring.

One good thing is that the UN, which is a universal body in which developing countries have a greater say in decision-making, is now at the centre of the debt discussion.

The negotiations ahead will be tough but well worth it since preventing and managing a debt crisis is now a priority for a growing number of countries. ❒

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. This article first appeared in The Star *(Malaysia) (15 September 2014).*

UN General Assembly adopts SDG outcome

The UN General Assembly has agreed that the report of an intergovernmental working group set up to formulate sustainable development goals will be the main basis for integrating SDGs into a post-2015 development agenda for the international community.

by Bhumika Muchhala

NEW YORK: The United Nations General Assembly on 10 September adopted the sustainable development goals (SDGs) outcome document.

The General Assembly resolution was in line with developing countries' request that the report of the Open Working Group (OWG) on SDGs shall be the main basis for integrating sustainable development goals into the post-2015 development agenda.

Meanwhile, the General Assembly recognizes that other inputs will also be considered in the intergovernmental negotiation process at the 69th session of the General Assembly that was convened on 16 September.

In the resolution A/RES/68/309 distributed on 12 September, titled "Report of the Open Working Group on Sustainable Development Goals established pursuant to General Assembly resolution 66/288," the origins of the SDGs are recalled, i.e., the outcome document of the 2012 Rio+20 conference on sustainable development, in which heads of state and government resolved to establish an inclusive and transparent intergovernmental process on sustainable development goals open to all stakeholders, with a view to developing global sustainable development goals to be agreed by the General Assembly.

In a letter to the President of the General Assembly (PGA), the developing-country Group of 77 urged that the General Assembly ensure three key things:

(1) To ensure that the report of the OWG shall be the basis for integrating SDGs into the post-2015 development agenda;

(2) To assure that any further discussions on the integration of SDGs into the post-2015 development agenda are a part of intergovernmental negotiations during the 69th session of the General Assembly and are based on the report of the OWG; and

(3) To not reopen or renegotiate the OWG outcome document, and thereby to fully preserve the outcome of the OWG's transparent and inclusive intergovernmental process.

Developing countries are particularly concerned that other processes that are not open and subject to fair intergovernmental dialogue could take precedence over the OWG outcome, which was the result of challenging discussions among member states from March 2013 to July 2014.

During the PGA stockholding session, developed-country delegations called for reducing the number of goals and targets, through a "streamlined" approach. Countries like the United States were, unsurprisingly, not in favour of the language in Goal 17 on means of implementation, which includes structural issues such as international trade rules and reforming the international financial system.

However, the political momentum was clearly not with the objecting countries. The G77 were cohesive and united in their view that the OWG outcome is the basis for negotiations moving forward.

The G77 chair and some other key countries cautioned against placing the desire for an easily communicable agenda ahead of the substantive and meaningful work that needs to get done to achieve actual socioeconomic development and to reduce global/local inequalities.

The G77 specifically mentioned that the OWG document contains constructive guidance for the SDGs, and that all reservations on the text must be compiled into and clearly referenced in an official document. *(SUNS7877)* ❒

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including the US, the EU, Japan and Australia voiced objection to India's opposition to accepting the Protocol of Amendment on the TFA by the 31 July deadline until a permanent solution is found on the issue of public stockholding for food security purposes.

According to trade officials, Australia asked for an explanation for the difference between the G33 group's 17 July proposal, which called for a permanent solution on public stockholding to be agreed by 2017, as was agreed at Bali, and the position of the G33 member that was blocking the TFA and calling for both the permanent solution and the TFA to be concluded by the end of 2014.

According to trade officials, India said that it would explain the G33 proposal when members start negotiating a permanent solution on public stockholding for food security purposes. India also said that it was not going to repeat what it had said at the 15 September informal HOD meeting.

Some members also said that they were unclear about what the problem with the Bali decision on public stockholding for food security purposes was. According to trade officials, they said that if the problem arose because of a lack of clarity about the duration of the present interim decision, then they would be happy to confirm that it will remain in place until a permanent solution is found. However, negotiating the content of the permanent solution would take more time than the rest of 2014, they added.

According to trade officials, India said that it had seen hundreds of brackets (placed within negotiating texts to indicate areas of disagreement) fall within weeks (in an apparent reference to the TFA negotiations), hence it could be done by December.

According to trade officials, the discussion on which body should handle the talks on the permanent solution on public stockholding also proved inconclusive, with a number of legal and procedural arguments being put forward, particularly for treating the talks as a negotiation in the Agriculture Committee's "special sessions".

According to trade officials, the Chair of the Agriculture Committee, Miriam Beatriz Chaves of Argentina, said that the link between trade facilitation and public stockholding could only be settled in a broader body such as the Trade Negotiations Committee.

The Chair said that she would reconvene this meeting later to discuss the appropriate forum for handling the permanent solution on public stockholding for food security purposes. *(SUNS7876)* ❒

Global economy still in the doldrums, says UNCTAD

The world economy is projected to record a slight upturn in growth this year, according to UN development body UNCTAD, although it will still fall short of pre-crisis levels and doubts persist as to whether a sustained recovery is now underway.

by Kanaga Raja

GENEVA: The world economy has not yet escaped the growth doldrums in which it has been marooned for the past four years, and there is a growing danger that this state of affairs is becoming accepted as the "new normal", the United Nations Conference on Trade and Development (UNCTAD) has said.

In the 2014 edition of its flagship annual *Trade and Development Report (TDR)*, released on 10 September, UNCTAD said that the world economy has seen a modest improvement in growth in 2014, although it will remain significantly below its pre-crisis highs.

Its growth rate of around 2.3% in 2012 and 2013 is projected to rise to 2.5-3% in 2014, UNCTAD said, attributing this mild increase essentially to growth in developed countries, which accelerated from 1.3% in 2013 to around 1.8% in 2014.

Developing countries as a whole, the *TDR* said, are likely to repeat their performance of the previous years, growing at between 4.5% and 5%, while in the transition economies growth is forecast to further decelerate to around 1%, from an already weak performance in 2013.

[Since the UNCTAD secretariat wrote and published the report, both the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) have revised downwards their earlier growth projections. The OECD, in an update to its May forecasts, said that the outlook had darkened for 2014 and 2015 for almost all the world's large economies, partly as a result of one-off hits to growth early this year and partly stemming from geopolitical risks. Economic growth could prove to be even more disappointing in 2014 and 2015, the OECD further said, given an array of geopolitical risks and the possibility of major shifts in financial flows and sharp exchange-rate movements as investors prepare for a tightening of US monetary policy that is expected next year. – *SUNS*]

A moderate acceleration of growth is expected in developed countries as a result of a slight pick-up in the European Union, since the performance of Japan and the United States is not expected to improve in 2014.

In Europe, said UNCTAD, tentative easing of fiscal austerity and a more accommodating monetary policy stance, including by the European Central Bank (ECB), has shifted the direction of domestic demand from negative to positive territory.

The United States economy is continuing its moderate recovery from the Great Recession through a reliance on domestic private demand. Fiscal austerity has been a drag on economic growth since 2011, albeit with a slight easing of the negative impact in 2014. Unemployment is continuing to fall thanks to job creation in the corporate sector. However, average real wages remain stagnant. Continued liquidity expansion, although much less aggressive than in previous years, along with asset price appreciations, has helped to support the recovery of domestic borrowing and consumption.

Growth in Japan has also been relying on domestic demand. Private consumption and investment have benefited from the expansionary monetary and fiscal policies of the "Abenomics" plan. There was an increase in public spending, mainly for reconstruction, following natural catastrophes in 2011, and a stimulus package propelled the Japanese economy to higher growth in 2012-13. As the effects of those measures dissipate and the rise in the consumer tax rate in April 2014 begins to discourage household spending in the medium term, a new stimulus package may be needed to help maintain growth targets for gross domestic product (GDP) and domestic prices.

Despite some differences in their policy stances, all developed regions are expected to grow at a similar rate of around 1.5-2% in 2014, said UNCTAD.

A progressive relaxation of fiscal austerity in the EU and the United States, and the tapering off of very expansionary monetary policies in the US, have led some observers to believe that these economies are reaching a "new normal", and that they have managed to avert most systemic risks. However, said UNCTAD, in the new situation, growth is likely to be slower than before the crisis, since investment rates remain relatively low and several countries still have a long way to go before unemployment rates fall and over-indebtedness, in both the public and private sectors, is addressed.

Developing-world outlook

The main developing regions look set to repeat much the same growth performance as in 2012-13. Asia is set to remain the most dynamic region, with an estimated growth rate of around 5.5%.

Among the largest economies, China should maintain its lead with a growth rate of close to 7.5% in 2014, based on domestic demand, including an increasing role of private and public consumption.

Growth in India has recovered slightly from the significant deceleration of the two previous years, led by higher consumption and net exports, but at around 5.5% it is substantially lower than before the crisis.

Most countries in South-East Asia, including Indonesia, Malaysia, the Philippines and Vietnam, are expected to continue to grow at around or above 5%, driven by private consumption and fixed investment, but with little or no contribution from net exports. The main exception is Thailand, where political crisis has caused the economy to stagnate.

According to the report, economic performance is more contrasted in West Asia: several countries have been directly or indirectly affected by war, the Gulf countries are expected to maintain growth rates of 4-5%, and Turkey, which has been exposed to financial instability, may not be able to sustain a fairly rapid growth trajectory that is driven by domestic credit expansion.

Growth in Africa also shows wide contrasts: it remains weak in North Africa, with marginal improvements in Egypt and Tunisia but a continued fall in Libya, due to armed conflict and disruptions in oil production.

Growth has also remained subdued in South Africa, at around 2%, owing to a weakening of domestic demand and strikes in the mining sector.

By contrast, several large sub-Saharan economies (including Angola, Cote d'Ivoire, the Democratic Republic of the Congo, Ethiopia, Mozambique, Nigeria and Tanzania) posted high growth rates, which is likely to result in 6% growth in the subregion in 2014.

The transition economies are set for a continued economic slowdown in 2014. Slow growth in the European transition economies is mainly attributable to stagnating consumption and investment in the Russian Federation since mid-2013, as financial instability has led to increased capital outflows.

On the other hand, Central Asian transition economies, most of which are oil or mineral exporters, were able to maintain fairly high growth rates, as a result of historically high terms of trade.

Following a strong rebound in 2010, economic growth in Latin America and the Caribbean has experienced a continuous slowdown, and is projected to be about 2% in 2014. This weak performance mainly reflects slow growth in the three main economies, Argentina, Brazil and Mexico, where domestic demand (their main driver of growth after the global crisis) has lost momentum.

External financial shocks in mid-2013 and early 2014 also affected those economies, leading to a tightening of macroeconomic policy. However, well-capitalized banking systems, low external and fiscal deficits, external debts at historical lows and sufficient levels of international reserves have prevented these shocks from developing into financial crises.

Generally speaking, said UNCTAD, developing countries have managed to recover from the Great Recession faster than developed countries. Many of them have benefited from high commodity prices, especially those whose governments were able to capture a significant share of natural resources rents and use the additional revenues for supporting domestic spending.

Other countries, despite being exposed to the vagaries of international finance, were able to tackle the consequences of the global financial crisis by supporting domestic demand with countercyclical policies.

However, the report cautioned, there are limits to what can be achieved by both countercyclical policies and gains from the terms of trade, and new sources of dynamism will need to be found.

In addition to demand-side policies that may include redistribution policies, several countries need to improve their domestic investment and conduct industrial policies aimed at an expansion of their productive capacity and competitiveness so as to respond to rising demand without excessive pressure on domestic prices or trade balances.

Developing countries will also have to face the challenge of persistent instability of the international financial system. This should involve prudential macroeconomic and regulatory policies, mainly applied at the domestic level, but also better regulation at the global level.

"In this respect, it is evident that, despite the generally favourable trends in recent years, the present framework for sovereign debt restructuring is inappropriate," said UNCTAD, adding that this is well illustrated by the legal obstacles currently faced by Argentina in the normal servicing of its restructured sovereign debt.

"Argentina's experience shows that this framework not only discourages new debt restructuring, but that it may even jeopardize successful past restructurings. Establishing a multilateral structure for dealing with sovereign debt restructuring that would take into consideration general interests, and not just the private ones – a proposal made by UNCTAD two decades ago – appears more pertinent and urgent than ever."

Subdued international trade

The *TDR* further found that six years after the onset of the global financial crisis, international trade remains lacklustre.

Merchandise trade grew slightly above 2% in volume in 2012-13 (and was even slower if measured in current dollars), which is below the growth of global output. Trade in services increased somewhat faster, at around 5.5% in 2013 at current prices.

International trade in goods has remained subdued. Following its post-crisis rebound in 2010, it slowed down to around 2% in 2012 and 2013, said UNCTAD, adding that this trend is expected to continue into 2014.

All regions have experienced a deceleration in their volume of trade in varying degrees, the greatest slowdown being in the developed countries, the transition economies and Latin America.

Slow output growth is the main reason for virtually stagnant trade, especially in goods. Subdued international trade, in turn, is likely to hamper global economic growth in the long run, to the extent that the lower incidence of scale economies and specialization gains holds back the productivity frontier, said the report.

Given the insufficiency of global demand, it is anyway unlikely that international trade alone will be able to kickstart economic growth. Whatever the desirability of facilitating trade flows by modernizing customs procedures or further lowering tariffs, these would not, by themselves, be able to significantly change the situation, since they do not address the immediate main constraints on trade. International trade has not decelerated or come to a virtual standstill because of higher trade barriers or supply-side difficulties; its slow growth is the result of weak global demand.

In this context, said UNCTAD, a lopsided emphasis on the cost of trade, prompting efforts to spur exports through wage reductions and an "internal devaluation", would be self-defeating and counterproductive, especially if such a strategy is pursued by several trade partners simultaneously.

The way to expand trade globally is through a robust domestic-demand-led output recovery, not the other way round. Moreover, if an individual country or group of countries were to try an exit from the crisis through net exports, this strategy would create a fallacy of composition if followed by many trading partners. A wider revival of economic growth and trade could conceivably follow from surging demand in a number of systemically important economies.

However, demand must also be geographically distributed in a way that is consistent with the reduction of global imbalances. This requires that surplus countries take the lead in expanding domestic demand, so as to enable an expansionary adjustment, in contrast with the recessionary bias of balance-of-payments adjustments, which, typically, place the entire burden on deficit countries.

Vulnerabilities

To many observers, said UNCTAD, the improvement, albeit small, of the growth performance of some of the major economies in 2013 came as a pleasant surprise. That momentum is expected to continue through 2014.

"Overall, there is likely to be some improvement in global growth performance in 2014. At an initial glance, this would appear to be a welcome trend, but a deeper look at the nature of this growth revival raises concerns," the report cautioned, saying that its analysis suggests that the recent growth in a number of important economies may not be based on sound policies.

"Thus, even if the current pace is maintained for some time, vulnerability to financial shocks persists, due to a repeat of the policy failings that led to the 2008 global crisis."

In most developed economies, there was a sharp turnaround of fiscal policy in 2010, with the apparent withdrawal of fiscal stimuli, but which was effectively a contraction of government spending.

However, this may not be the ideal measure, since it assumes that zero growth of government spending is a neutral stance. In fact, after extraordinary measures, such as a fiscal stimulus, are removed, a truly neutral stance would be to return to a "normal" growth path of real spending, which can be estimated in the form of a long-term trend.

The report said that the most pronounced cases of fiscal austerity have been in the peripheral countries of the euro area. The negligible size of the European budget and the reluctance of the ECB to assume the role of lender of last resort affected the degree and timing of fiscal adjustments in these countries.

Due to such institutional flaws, national governments had to absorb the costs of the crisis, in many cases leaving them little alternative but to subsequently squeeze public spending. By the last quarter of 2013, real government spending on goods and services in Greece, Ireland, Italy, Portugal, Slovakia and Spain was below the level of 2010, showing shortfalls in the range of roughly 1% to 2.5% of GDP over this period (2010 Q2-2013 Q4).

Several developed economies outside the euro area followed a similar path, prompted by the threat that fiscal deficits, whatever their cause, may be viewed as a sign of economic "indiscipline" and result in credit downgrades.

On the whole, governments in developed countries adopted contractionary fiscal stances from mid-2010 to the end of 2013, compared with the long-term trend. Only Japan and France maintained the trend growth of spending over this period.

In the aftermath of the financial crisis it is normal to expect subdued spending by households, affected by a fall in asset values and heavy debt burdens. This narrows the options for policymakers in attempting to revive aggregate demand. But if public sector demand is also suppressed, the only remaining alternatives are net export recovery or a revival of "animal spirits" that trigger a push in private investment, said the report.

Over the years, UNCTAD said, its *Trade and Development Reports* and other studies have argued that relying on an export-led recovery cannot be a solution for all countries at the same time. Yet, in the current circumstances of minimal global coordination, aggregation issues are not a primary concern of policymakers; each country, individually, expects to become a winner.

Imbalances

The report also said that a growing body of research has shed light on the global implications of worsening income and wealth distribution on growth and stability. Based on this, it would seem that the tendency towards declining wage shares may not require an export boost to generate faster growth everywhere; as long as global imbalances are allowed to rise, a declining wage share can coexist with rising domestic demand in a number of economies where credit expansion can compensate for lower household incomes.

According to UNCTAD, this is confirmed by developments in the 1990s and 2000s, which were decades of fairly strong global growth in which wage shares consistently declined. It is the combination of these patterns which brought about the large macro-financial imbalances and the subsequent collapse in the form of the global financial crisis.

Some authors stress a more direct causal link between wage compression and the formation of credit bubbles: as the relative erosion of labour incomes creates insufficient real demand, capital is mostly diverted towards financial operations, which generate asset bubbles and volatility. This in turn becomes the source of temporary real economic expansion.

The growing financialization of developed countries and "subordinate" financialization in developing countries can be explained in these terms, said the report. As a result, economies become more prone to crises, which adversely affect employment and productive activities, and also lead to greater concentrations of wealth and income. The resulting drag on GDP growth is ameliorated only by unsustainable episodes of debt-driven consumption booms.

According to the report, it seems clear that the synchronized fiscal contraction and slow growth of labour income across many developed countries will likely lead to either of two outcomes: a protracted slowdown (secular stagnation), or a temporary growth spurt driven by an unsustainable expansion of demand through greater indebtedness in a few major economies.

The latter situation characterized the pre-crisis years, and, to a lesser degree, it has been repeated in the recent past. Moreover, it has been exacerbated by the creation of liquidity by central banks, with a direct impact on asset markets across the world.

Elements of this situation appear to be most prominent in Australia, Canada, the United Kingdom and the United States. In these economies the mechanisms at work have strong commonalities: the expansion of liquidity has generated record highs in stock markets and rapid price increases in real estate markets, particularly in the United Kingdom and, to some extent, in Canada.

"As a result, households are continuing to experience a positive shock on the asset side of their balance sheets and feel more encouraged to reduce their savings. If previous cycles are any guide, household lending capacity (total income minus total expenditure, including investment) may even turn negative, so that the additional spending will be fully financed by debt. The process can go on for as long as asset prices keep rising and liquidity is made available for the purchase of assets."

Many developing and emerging economies continued to support domestic demand after 2010, even as developed countries' policy stances shifted towards fiscal tightening. In the context of a global economy that was struggling to recover from the financial crisis, such support helped to maintain their pace of growth, which turned out to be significantly higher than that of developed economies despite a recent deceleration. To the extent that these countries as a group are becoming increasingly important in global trade, their performance contributed to global demand as well, providing growth opportunities for their trading partners.

UNCTAD said that it has often insisted on the need for surplus countries to narrow their external balances by boosting domestic demand and increasing their imports at a faster pace than their exports, instead of forcing deficit countries to adjust and to rely on the compression of labour costs in the hope that this will lead to an export-led recovery. Net import demand from surplus countries would not necessarily make them more vulnerable, particularly if their contribution succeeds in generating new sources of income in deficit countries, thereby eventually lifting global demand.

The vulnerabilities of developing and emerging economies have been heightened by weaknesses in the international financial architecture. It was hoped that the global financial crisis would give rise to sufficient political motivation and intellectual strength to address these weaknesses in a more determined manner.

But efforts in this direction, such as those promoted by the United Nations Commission of Experts of the President of the United Nations General Assembly (2009), have been stymied by pressures from global financial interests seeking new investment opportunities, particularly in emerging markets.

The report also said that the evidence confirms that many developing and transition economies have been subject to considerable cyclical fluctuations of capital flows, before and after the crisis. These flows have in turn influenced speculative behaviour, reflected in the rises and falls of stock market indices.

It further said that policymakers should be aware of possible negative shocks originating from international trade, particularly in countries that rely on exports of only a few primary commodities or low-skill, labour-intensive manufactures. It argued that proactive industrial policies need to aim at diversification and upgrading of exports. Indeed, diversification of their productive and export activities remains a pending task for many transition and developing economies.

The review of economic policies proposed suggests that there is need for caution in interpreting current developments. Contrary to the views of some observers, there is no convincing evidence that the world economy is in fact beginning a sustained recovery. The belief that growth in developed economies has finally picked up is overly optimistic; it only serves to claim success for pro-market reforms and to support arguments for a withdrawal of the precautionary measures and stimuli that still remain.

"This could have grave repercussions," said UNCTAD. For example, the recommendation that developing countries should pursue fiscal and labour market adjustments similar to those pursued in developed countries is of particular concern. Developing countries could instead consider strengthening incomes policies that still have considerable possibilities to deliver, and could also introduce more effective precautionary measures to mitigate the effects of global financialization and enhance policies aimed at diversifying their economies.

Consistency and coherence

Examining some alternative policy scenarios for the global economy, UNCTAD said that in the realm of policymaking, what the model simulations underscore is the need to ensure policy consistency and macroeconomic coherence.

Policy consistency refers to preventing policy instruments from operating at cross purposes. Current inconsistencies in the configuration of fiscal and monetary policies of many economies after 2010 have been colourfully described as "driving the economic car with one foot on the brake and one foot on the pedal".

Instead, said UNCTAD, monetary expansion should be accompanied by fiscal expansion to prevent liquidity being hoarded or channelled to speculative uses; employment promotion programmes should be accompanied by income distribution policies so that aggregate demand is sustained by rising household incomes rather than debt; and policies targeting inflation should be accompanied by policies that address the causes of inflation, which in turn draws attention to incentives to domestic production and demand.

Pro-growth and rebalancing policies need to ensure macroeconomic coherence by addressing primarily the root problems that impede a solid and sustained global recovery. Until very recently, and even now in many developed economies, policymakers have seemed to be excessively concerned with fighting the threat of inflation and have been ignoring the reality of deflation.

If the main problems of the post-crisis period have to do with insufficient aggregate demand and financial instability, the appropriate policy response should be not to inject more liquidity per se, but to encourage credit flows that generate productive activity, while boosting aggregate demand and designing income policies to make use of such credit flows in a sustainable manner, said UNCTAD.

It also said that in the absence of a truly globally inclusive financial architecture, unfettered global financial markets without adequate regulatory control can be pernicious, as the 2008 financial crisis has amply demonstrated.

The continuing inadequacy of institutions and mechanisms for international coordination of policy actions affects the rules of the game in fundamental ways, forcing policymakers to adopt strategies that may appear to be convenient for the moment but which are effectively self-defeating in the medium term.

"It is essential to continue with efforts to devise a more effective set of globally inclusive institutions to regulate markets, help correct unsustainable imbalances when they emerge, and better pursue the aims of global development and convergence," the report stressed. *(SUNS7875)* ❐

Taming modern monopolies

It's time to reverse the privatization drive, and not just in the traditional utilities sector, writes *Sam Pizzigati*.

Analysts at the OECD, the Paris-based research agency, have just shared a grim prediction: If current trends "prevail," all developed nations will show by 2060 "the same level of inequality as currently experienced by the United States."

If we let those current trends continue, that conclusion sounds about right. But why on earth *should* we let those trends continue? The trends that have made our world so unequal reflect simple political decisions, not some inevitable unfolding of globalization. We can make different decisions.

Take privatization. Over the past four decades, governments around the world have chosen to sell a broad array of public services. These privatizations have increased the concentration of wealth. Carlos Slim, one of the world's three richest men, obtained much of his $75 billion fortune by snapping up Telmex, Mexico's formerly government-owned phone company.

But privatizers today are increasingly facing as much resistance as opportunity. In many countries, John and Jane Q. Public are beginning to reject the privatization mantra. The privatizers, it turns out, have a problem with their pitch. "Privatization," as the *Guardian*'s Seumas Milne puts it, "isn't working."

Privatizers promise greater efficiency and cheaper prices. Most people have experienced the opposite, notes University of Glasgow economist Andrew Cumbers, and this perverse reality is spurring a growing global push "to take back utility sectors into public ownership."

But not just any public ownership. Instead of the old over-centralized state entities "far removed" from ordinary citizens, privatization's critics are looking at "new forms of public ownership," Cumbers says. These models "encourage broader engagement and participation in economic life by the wider public."

Denmark, for instance, is nurturing innovative "public-public" partnerships. In 2001, one of these partnerships built what then rated as the world's largest wind farm. The partners: Copenhagen Energy, the municipally owned local utility of Denmark's largest city, and a cooperative run by the over 10,000 local residents who had purchased shares in it.

A similar cooperative-local government utility model, observes Cumbers, has helped the Danish island of Samsoe "become one of the first places in the world to become 100 percent efficient in renewable energy."

Good moves. But in our new Information Age we need to do more than undo the privatization of the traditional "natural monopolies" in sectors like electricity, water and public transportation. We need to turn our *online* monopolies into public utilities.

Corporate giants like Google, Facebook and Amazon, argues analyst Richard Eskow, profit off publicly funded technologies like the Internet but operate "without regard for the public interest." And they don't even pay their own full tax share.

"Each of these Big Tech corporations has the ability to filter – and alter – our very perceptions of the world around us," relates Eskow.

The American experience

Over a century ago, Americans saw similar abuses in the new technologies of their day. The country was transforming at breakneck speed back then, from a rural to urban society. The nation's newly overstuffed cities, big and small alike, needed to move and warm and light ever-denser populations.

Private corporations rushed in with new technologies to deliver these services, and municipalities in the early 1900s showered franchises with hundreds of millions of dollars for gas and telephone lines, street railways and electricity.

In some cities, companies bid honestly against each other to win these lucrative franchises. In most, honesty would not be among the bidding criteria. Private utility companies passed politicians kickbacks. Politicians passed utilities monopoly pricing power – and signed franchise agreements that locked down exorbitant phone and gas and light rates for years to come.

"In no other way," historian Otis Pease would later note, "can wealth be obtained so easily."

Public anger at the holders of this wealth would, in city after city, turn many of these fabulously lucrative, privately provided services into public utilities. America, in the process, would become significantly more equal.

We could do the same today. ❒

Sam Pizzigati is a columnist with the OtherWords syndication service (otherwords.org), through which this article was distributed under a Creative Commons licence. An associate fellow with the Washington-based Institute for Policy Studies, he edits the inequality weekly Too Much. *His latest book is* The Rich Don't Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class.

Global summit urged to focus on trillion-dollar corruption

Anti-poverty activists are calling for action to tackle the illicit exodus of funds from developing countries – at both ends of the flow.

by Carey L. Biron

WASHINGTON: New analysis suggests that developing countries are losing a trillion dollars or more each year to tax evasion and corruption facilitated by lax laws in Western countries, raising pressure on global leaders to agree to broad new reforms at an international summit later this year.

These massive losses could be leading to as many as 3.6 million deaths a year, according to the ONE Campaign, an advocacy group that focuses on poverty alleviation in Africa.

Recovering just part of this money in sub-Saharan Africa, the organization says, could allow for the education of 10 million more children a year or provide some 165 million additional vaccines.

"Whenever corruption is allowed to thrive, it inhibits private investment, reduces economic growth, increases the cost of doing business, and can lead to political instability. But in developing countries, corruption is a killer," a report on the findings, released on 3 September, states.

"When governments are deprived of their own resources to invest in health care, food security or essential infrastructure, it costs lives, and the biggest toll is on children."

The new analysis focuses on a spectrum of money laundering, bribery and tax evasion by criminals as well as government officials.

The lost money is not development aid but rather undeclared or siphoned-off business earnings – immense tax avoidance resulting in a decreased base from which governments can fund essential services.

International trade offers a key point of manipulation, the report says, with the extractive industries particularly vulnerable. In Africa alone, exports of natural resources grew by a factor of five in the decade leading up to 2012, offering clear prospects for growth alongside lucrative opportunities for corruption on a mass scale.

"Between 2002 and 2011 we saw an exponential increase in illicit financial flows across the globe," Joseph Kraus, a transparency expert at the ONE Campaign, told Inter Press Service (IPS).

"Yet while we're all familiar with corruption in developing countries, it takes two to tango – that money often ends up in the financial centres of the Global North. Those banks, lawyers and accountants are all essentially facilitators of that corruption, so in order to get at the root of this issue we need to go after the problems there."

Advocates including the ONE Campaign are currently stepping up pressure on industrialized countries to institute a series of across-the-board transparency measures.

Some are aimed at corruption in developing countries, such as strengthening disclosure laws impacting on the extractives industry and bolstering "open data" standards to allow citizens increased oversight over their governments' dealings.

Several other reforms would need to be carried out by developed countries, particularly those housing major financial centres such as the United States and United Kingdom. These would include new standards requiring governments to automatically exchange tax information, to mandate the publication of full information on corporate ownership, and to force multinational corporations to report on their earnings on a country-by-country basis.

In certain circles, such demands have been percolating for years. But current circumstances could offer unusual opportunity for such changes.

"In the last two years we've seen an acceleration of this agenda," Kraus says. "Eighteen months ago, no one was talking about phantom firms or anonymous shell companies. But these issues have gained a lot of momentum in a short period of time, and there is real opportunity coming up."

G20 summit

This new energy has been motivated particularly by concerns in advanced economies over shrinking government budgets in the aftermath of the global economic downturn. Yet developing countries arguably stand to benefit the most from substantive reforms, provided they're structured accordingly.

Advocates of such changes are now looking ahead to a summit, on 15-16 November in Australia, of the members of the Group of 20 (G20) world's largest advanced and emerging economies as well as two major meetings of finance ministers in the run-up to that event.

The G20 represent about two-thirds of the world's population, 85% of global gross domestic product and over 75% of global trade. The members of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union.

The G20 has taken on a primary role in issues of global financial stability and, more recently, in pushing the automatic exchange of tax information between governments. A new global standard on such exchange could be approved by the G20 ministers in November, among other actions.

"For too long, G20 countries have turned a blind eye to massive financial outflows from developing countries which are channelled through offshore bank accounts and secret companies," according to John Githongo, an anti-corruption campaigner in Kenya. "Introducing smart policies could help end this trillion-dollar scandal and reap massive benefits for our people at virtually no cost. The G20 should make those changes now."

In fact, many G20 countries have instituted some of these reforms on their own. The UK government, for instance, has taken unilateral action on publicizing information on corporate ownership, while the United States was the first to pass strong transparency requirements for multinational extractives companies.

While such piecemeal national legislation can spur other countries to action, many feel only a comprehensive approach would have a chance at having a substantial impact. Further, many governments have pledged to act on these issues but have yet to actually follow through.

"Illicit financial flows are a perfect example of a transnational problem, in that you have two legal regimes in which loopholes are being exploited," Josh Simmons, a policy counsel at Global Financial Integrity, a Washington watchdog group that supplied data for the new ONE Campaign report, told IPS.

"So when an international cooperative body is able to identify these loopholes, they can get member countries to move in sync to address the situation. But if only one country tries to do so, businesses would probably just move elsewhere."

Others are looking even more broadly than the G20. A paper released in August by researchers with the Center for Global Development, a think-tank here, calls for the inclusion of anti-tax-evasion aims in the new global development goals currently being negotiated under the United Nations.

Indeed, even while there could be real movement at the G20 on several of these issues this year, the work on the other end of this equation – in developing countries – remains onerous.

"We need to get developing countries' tax systems up to speed, strengthen their financial intelligence units and get their anti-laundering laws up to code. And that is proceeding, but much more under the radar given its complexity," Simmons says.

"Still, that's where people are actually bearing the brunt of this problem. Tax avoidance in the United States contributes to the national debt, but in developing countries it's literally causing people to go hungry." *(IPS)* ❐

WTO upside down: Trade facilitation vs agriculture

Behind the current impasse in the WTO over trade facilitation and agriculture lie concerns surrounding unreformed old rules, proposed new ones and the longstanding power play in the trading system.

by D. Ravi Kanth

"A ripe pear ready to be plucked" at the World Trade Organization (WTO) cannot be picked because of India. The ripe pear is the 21st-century version of the "Open Door Policy" embodying the new Trade Facilitation Agreement (TFA). The United States and its partners in the industrialized world have invested considerable negotiating capital in the TFA since 1996. Their new trade narrative of global value chains (GVCs) as being vehicles for enhanced market access for industrial goods and services in developing countries will hinge on how rapidly the TFA is implemented.

But India has come in their way because it first wants reform of archaic rules in the WTO's Agreement on Agriculture (AoA) before the adoption of the trade facilitation (TF) protocol to commence implementation of the TFA by July 2015. The standoff between India and the US over agriculture has created an impasse for the time being.

It symbolizes, in some ways, the battle between the unfinished reform in the rules and disciplines on trade in agriculture, and attempts to foist a new trade agenda through the comprehensive TFA. It exposes the outright opposition from the US to reforming the Uruguay Round (UR) disciplines in agriculture which accommodate decades of trade-distorting policies and practices by the rich countries. [The UR of negotiations of the General Agreement on Tariffs and Trade (GATT) was conducted during 1986-93; its outcome was finalized and signed in 1994 and came into force on 1 January 1995 under the new WTO.]

The UR disciplines brought agriculture into the multilateral trading system negotiations. The AoA which incorporated the UR rules is a special arrangement worked out neatly between the European Union and the US. The two largest farm subsidizers wrapped up the AoA in what is called the 1993 Blair House Agreement after they resolved their differences on export subsidies and what they gave as domestic support. They sheltered their billion-dollar domestic subsidy programmes under income support/income insurance/income loss compensation programmes, in the supposedly non-distorting Green Box subsidies, which were exempted under WTO rules from reduction. (In the WTO, what is given as a producer subsidy is considered as distorting and is required to be reduced or eliminated while what is given as income support is considered non-distorting and is not required to be reduced.)

Boxes of subsidies

The EU, the US and other industrialized countries offered what are called outright trade-distorting support (producer subsidies) through the Amber Box, and production-limiting payments in the Blue Box. The US also provides what are called counter-cyclical payments to support its farmers when prices drop below a targeted price in the so-called New Blue Box (which was agreed in the Doha Round negotiations but the disciplines on which are not finalized). In addition, the two trade majors continue to provide export subsidies and export credits (which are prohibited under the Agreement on Subsidies and Countervailing Measures) to their farmers who would dump their products. It is little wonder that the cotton glut created by the US and the dairy and butter mountains by the EU have had enormous adverse effects on other farm exporting countries. The UR understanding also enabled them to continue to use tariff barriers such as opaque customs duties, high tariffs and tariff peaks for farm products. The EU and the US also created a special due restraint ("peace clause") in the UR agreement to safeguard their trade-distorting farm programmes for 10 years from any legal disputes arising from subsidies and countervailing measure violations that apply to industrial products.

The developing and the poorest countries, including India, were, however, mere bystanders in the UR negotiations on agriculture. They were silent participants in setting the new rules for bringing agriculture into the trading system. Also, the developing countries did not provide large-scale subsidy payments like the US, the EU, Japan, Canada, Switzerland and Norway did. Developing countries such as India, Indonesia, Kenya and Nigeria, for example, did not list any Amber Box or Blue Box subsidy entitlements in their UR commitments. These countries with massive populations that were still dependent on agriculture could only provide what is called *de minimis* support up to a minuscule 10% of the value of production of a particular crop.

In the 1994 AoA, the provision for "public stockholding for food security purposes" in developing countries [such as India's stocks for release through the public distribution system (PDS)] was included in the Green Box, which is exempt from reduction commitments, but it was treated as a subsidy and had to be included in assessment of the aggregate measurement of support (AMS), which, if it crossed 10% of the total value of production, had to be reduced.

The crucial Footnote 3 in the AoA which covers public stockholding programmes says the stocks for food security purposes are those "acquired and released at administrative prices, provided that the difference between the acquisition price and the external reference price (ERP) is accounted for in the AMS". The ERP "shall be based on the years 1986 to 1988 and shall generally be the actual price used for determining payment rates" for the calculation of the AMS. It remains a puzzle as to why this rule was incorporated for public stockholding programmes for food security in developing countries that are otherwise covered in the Green Box. Was it a surreptitious design then to force commitments on developing countries in the future, which India and other developing countries agreed to without being aware of the implications?

Burden of 1986-88 ERP

The calculation of *de minimis* support is based on a set of parameters in which the ERP prevailing in 1986-88 plays a crucial role. This effectively determines whether a country is within its overall limit or has breached the WTO disciplines on trade-distorting subsidies. Thus, while India's current minimum support prices are only slightly higher than the current market prices, as far as the WTO is concerned they appear much higher because of the AoA requirement that administered prices at which the government buys must be compared not to the current prices but to the average international prices in 1986-88. The ERP for rice or wheat is about one-sixth of the current market prices. The ERP of rice notified by India to the WTO is Rs3.52 per kg while the minimum support price was Rs19.65 per kg in 2012, resulting in a whopping subsidy of Rs16.13 per kg under the strange provisions of the UR agreement.

India's PDS has expanded substantially over the years with an increase in the population and on account of the sustained inflation in prices. The National Food Security Programme could expand it further. But all this is in jeopardy because of the archaic UR rules. In 2005, when the peace clause applicable to EU and US disputes came to an end, the WTO Appellate Body ruled against the cotton subsidies provided by the US and sugar subsidies by the EU. It found that the subsidies, including some of the Green Box support measures, provided by these two champions of global free trade lead to distortions in the global farm trade.

The UR rules framed by the leading subsidizers of the world cry out for reform but they cannot be touched because the real elephant in the room does not want to change them. Moreover, after the AoA came into force, the big subsidizers of the UR cleverly resorted to what is called box-shifting by moving their payments from the most-trade-distorting Amber Box and minimally-trade-distorting Blue Box to the Green Box over the last 10 years to avoid any legal challenges. "The WTO's 'Green Box', which is meant to hold non-trade-distorting subsidies, is now home to about $120 billion of the $130 billion in nutrition programmes and farm supports," says Timothy Wise, an academic at the Global Development and Environment Institute at Tufts University in the US. "This dwarfs India's commitments," he argues in his 2013 article, "Why WTO needs a Hypocrisy Clause".

But much water has flown into Lake Leman on the banks of the WTO since the launch of the Doha Round in 2001 to reform the UR rules. With agriculture as its driving force, the Doha Development Agenda (DDA) covers several other issues for further reform. The DDA includes the implementation issues arising from the UR agreements, reduction of tariffs on industrial goods, removal of barriers to movement of natural persons, substantial changes in anti-dumping rules, environment, and the four controversial "Singapore issues" of investment, competition policy, government procurement and trade facilitation.

Framework for agriculture

Two chairs of the Doha agriculture negotiating body – Tim Groser and Crawford Falconer from New Zealand – had, through painstaking efforts in 2004-08, created a solid framework as part of the negotiations. The December 2008 draft modalities for agriculture provided clear landing zones for a progressive reduction of trade-distorting domestic subsidies as well as phase-out of export subsidies and credits, differentiated commitments for reducing farm tariffs (including an architecture for tariff rate quotas and sensitive products), improvements in special and differential flexibilities for special products, special safeguard mechanisms for enabling developing countries to head off unforeseen surges in imports and so on.

Based on sustained negotiations, the author of the December 2008 modalities, Falconer, corrected the historic error in the UR rules with regard to public stockholding programmes. Falconer offered a clean text implying that there are no differences among members on these programmes. The December 2008 modalities proposed: "Acquisition of stocks of foodstuffs by developing country members with the objective of supporting low-income or resource-poor producers shall not be required to be accounted for in the AMS."

Further, "the acquisition of foodstuffs at subsidized prices when procured generally from low-income or resource-poor producers in developing countries with the objective of fighting hunger and rural poverty, as well as the provision of foodstuffs at subsidized prices with the objective of meeting food requirements of urban and rural poor in developing countries on a regular basis at reasonable prices shall be considered to be in conformity with the provisions of this paragraph. This is understood to mean, inter alia, that where such programmes referred to in this footnote and paragraph 4 above, including those in relation to lowering prices to more reasonable levels, involve also the arrangements referred to in footnote 5 to paragraph 4, *there is no requirement for the difference between the acquisition price and the external reference price to be accounted for in the AMS*" ("Annex B: Public Stockholding Programmes for Food Security Purposes", December 2008 revised draft modalities, emphasis added).

In short, in the December 2008 modalities there is low-hanging fruit on public stockholding programmes for food security that could have been easily harvested to allow the developing countries to continue with their programmes without interruption. But the US opposed the modalities on the ground that they undermined market access by providing special loopholes and flexibilities for developing countries. Washington then put a padlock on agriculture reform based on the 2008 modalities.

Focus on trade facilitation

If this is how things have evolved in agriculture, different standards are used when it comes to the controversial issue of trade facilitation. After fierce opposition from developing countries, the subject of TF was dropped from the Doha agenda at the WTO's Cancun ministerial meeting in 2003. But the US and the EU and their allies in this area were able to bring TF back to the DDA in the July 2004 Framework Agreement by promising substantial technical and financial assistance for implementation of comprehensive reforms of customs provisions and administration.

The Colorado Group under the leadership of the US forced members at the WTO to address wholesale changes in three Articles of GATT regarding TF, covering freedom of transit (Article V), fees and formalities connected with importation and exportation (Article VIII) and publication and administration of trade regulations (Article X). The underlying objective of these changes was to expedite movement of goods for pharmaceutical companies and courier services, release and clear goods without hurdles, including goods in transit, create smooth transit movement of goods through the territory of other members, harmonize border procedures (formalities and charges), effect prompt publication of trade laws and regulations, and put in place uniform, impartial and reasonable administration. The ultimate goal is to reduce trading costs and facilitate trade for exporters, which in turn results in import facilitation in the destination market. Effectively, the TF deal is a comprehensive market access agreement.

Even though there were some 800 square brackets (implying no agreement among members) in the TF draft in 2011, a clean text and agreement was hammered out within two years. But during the same period (2011-13), developing countries were denied correction of an archaic rule in the AoA which, if done, would have addressed the issue of public stockholding programmes not enjoying exemption. India, which is an active member of the G33 farm coalition, demanded that either the ERP be updated to reflect current global prices or the current minimum support price be deflated to bring it to the 1986-88 levels.

Herein lies the rub: the much-needed reform, including on the public stockholding programmes for food security, based on the December 2008 draft modalities was jettisoned, while a brand new agreement on TF involving comprehensive changes was worked out on a war footing. That shows the play of power politics and plutocracy in the supposedly member-driven organization that is the WTO.

Bali outcome

Indeed, there was a sea change in the negotiations between the eighth and ninth ministerial meetings of the WTO in 2011 and December 2013 (the latter held in Bali, Indonesia). Effectively, the trade majors led by the US succeeded in imposing a new dynamic between these two ministerial meetings wherein the principle of reciprocity – which is the hallmark of mercantile trade negotiations based on give and take – was effectively buried. While the developing countries were forced to accept the TF agreement, the industrialized countries chose to undertake no commitments for nine decisions in the Bali package covering issues in agriculture and development, including the public stockholding programmes for food security.

At Bali, the developing and poor countries secured only "best-endeavour outcomes" from the industrialized countries – i.e., promises to do their best – in their areas of interest. In agriculture, the Bali best-endeavour results include general services (such as land rehabilitation, soil conservation and resource management, drought management and flood control), an understanding on tariff rate quota administration, export competition, and a weak programme to address the phase-out of cotton subsidies. The developmental outcomes cover non-binding outcomes on preferential rules of origin for the export of industrial goods by the poorest countries, operationalization of a waiver on preferential treatment to services suppliers in the least developed countries (LDCs), duty-free and quota-free market access for LDCs, and a monitoring mechanism for special and differential treatment flexibilities.

The run-up to the Bali meeting as well as proceedings at the conference brought to the fore the use of divide-and-rule practices to ensure that the developing and poorest countries were prevented from adopting common positions on issues such as TF, public stockholding programmes for food security, cotton, and duty-free and quota-free market access.

The new Director-General of the WTO, Roberto Carvalho de Azevedo, played his part by creating a peculiar environment of scare-mongering and fear-psychosis among members to ensure success at the Bali meeting. Azevedo brought about a common understanding between the coordinators of the African Group, the Africa, Caribbean and Pacific (ACP) group and the LDCs with the US and the EU over the TF text, particularly Section II which concerned special and differential treatment flexibilities.

With the developing countries being neatly divided, each country was left to its own to fight the battle at Bali. So India remained without much support from developing and least developed countries on the issue of public stockholding programmes for food security, an issue that actually concerns over a dozen countries in the South. The Manmohan Singh government and its commerce minister, Anand Sharma, were also responsible for not adopting a coherent strategy before the Bali meeting. During a visit to Washington in July 2013, Sharma had readily agreed to a TF deal without securing a measureable reciprocal concession for public stockholding programmes. The minister assiduously followed a policy of not crossing swords with the US although India was likely to face serious constraints on its new National Food Security Programme. Sharma wanted his negotiators in Geneva not to ruffle any feathers with the US during the critical phase of negotiations.

At Bali, Sharma panicked when he found that there were only a few countries, led by South Africa, that were willing to support India on the food security issue. China, which would have been the biggest beneficiary of India's proposal on public stockholding programmes, was not willing to support India. Unlike his predecessor Kamal Nath, who would have stood firm in the face of intense opposition from the US as was the case in the 2008 informal ministerial meeting, Sharma was only negotiating with the WTO Director-General who was conveying the US positions.

After an exchange of initial proposals, there was a face-to-face negotiation between the US, India, the Indonesian chair of the conference, and the WTO Director-General. During that meeting, the US Trade Representative accepted the language proposed by India that "in the interim, until a permanent solution is found", members would refrain from challenging the public stockholding programmes for traditional staple food crops. The interim period would last for four years till 2017 by when the WTO members are supposed to finalize a permanent solution.

In return, the US managed to insert strong language that stocks procured under public stockholding programmes "do not distort trade or adversely affect the food security of other Members". Washington also ensured that there would be no explicit protection from the disciplines in the Agreement on Subsidies and Countervailing Measures, unlike the protection that was in the UR peace clause that the US and the EU enjoyed during 1995-2004.

Without securing a cast-iron guarantee on public stockholding programmes and by signing an agreement that was riddled with intrusive and difficult conditions, Sharma yet meekly agreed to give up India's opposition to several contentious provisions in the TF text.

Imbalance in Bali

That the Bali package is imbalanced and asymmetrical with no legally binding outcomes in agriculture and development pillars which are essential for developing countries, is written into the declaration. That it is also tilted in favour of the TFA with binding disciplines comes out as clearly as day and night. Indeed, work on the implementation of the TFA, particularly the TF protocol, progressed at a brisk pace at the WTO after the Bali meeting while the issues in agriculture and development in the package, including on food security, took a backseat.

Against this backdrop, India's course correction involving the demand for a permanent solution on support for public stockholding programmes before the adoption of the TF protocol has come as a rude shock to the US and other industrialized countries. New Delhi's demand, though not in line with what it had agreed to at the Bali meeting, has put paid to a grand design of hidden plans that the trade majors, including China, were wanting to embark on after the summer break in Geneva.

India is right to press for a permanent peace clause on the extent of support for its public stockholding programmes now as it would at least provide some parity in exchange for undertaking costly commitments on trade facilitation. By not joining the consensus on the adoption of the TF protocol, India retained its crucial negotiating leverage for the time being. It has also delayed the implementation of a grand strategy of the trade majors to pursue new agreements such as on market access for industrial goods, investment, environmental goods, services, logistics, and ultimately GVCs. ❐

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