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TRENDS & ANALYSIS

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Free trade coming under increasing challenge

Scepticism over the benefits of free trade is growing in the US, mirroring longstanding concern in the developing world about the adverse effects of trade liberalization. As opposition to the free trade logic mounts, large-scale trade agreements like the Trans-Pacific Partnership and the proposed Regional Comprehensive Economic Partnership have come under the spotlight, with critics contending that their costs may well outweigh any positive impacts.

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New US assault on South over use of valid trade policy instruments

The US has, with several other developed countries at the WTO, questioned the use by some developing countries of trade policy measures said to be within WTO rules.

by D. Ravi Kanth

GENEVA: The United States along with several other developed countries on 15 April opened a new front against developing countries at the World Trade Organization by challenging the use of legitimate trade policy instruments by India, Indonesia, Ecuador and Nigeria to address their specific domestic policy priorities, several trade diplomats told the *South-North Development Monitor (SUNS)*.

The Editor Emeritus of *SUNS*, Chakravarthi Raghavan, likened the US position at the WTO to "a kind of national schizophrenia – the US at political and strategic level is wooing all these countries to line them up behind it in its global power struggle for hegemony, while at the same time unleashing its neo-mercantilist attacks on the same developing countries."

The same schizophrenia is also seen in some of the same developing countries that try to counter the US-led efforts at the WTO while trying to hold hands with the US strategic community.

"The US neo-mercantilist attack on domestic policy space of India, Indonesia, Ecuador and Nigeria over their use of legitimate and WTO-allowed trade policy instruments was evident at the meeting of the WTO Council for Trade in Goods (CTG) on [15 April]," Raghavan added.

At the meeting of the CTG, the US expressed concern over the Indian government's decision to raise tariffs on 96 tariff lines in the recent budget. The increases, according to the US, cover items such as industrial solar heaters and solar tempered glass, and other products such as medical devices.

The increased tariff rates are below India's bound tariff rates at the WTO.

Japan along with the European Union, Canada, Chinese Taipei, Australia and Korea sought to know why India imposed minimum import prices on several steel products.

The US, the EU, Japan, Canada, Australia, New Zealand, Switzerland, Brazil and Chinese Taipei, among others, asked Indonesia to explain why it chose to implement import licensing requirements, export restrictions, local content and domestic manufacturing requirements, according to people present at the meeting.

In measured responses, an Indian official told the US that it would convey Washington's queries to the capital but suggested that governments are entitled to increase tariffs in order to address their specific policy priorities in consonance with the WTO provisions.

WTO members can raise tariffs within the bound levels depending on specific challenges faced by them, according to people familiar with the meeting. Such a step involving use of policy space within the bound tariff rates is a legitimate policy instrument, according to them.

The US sought to question the Indian government as to why it increased tariffs in the budget, which is an annual macroeconomic policy exercise by the government to set its priorities for the coming year. Increases in the 96 tariff lines as mentioned by the US are allowed under the WTO rules for pursuing policy space in areas of priority.

Further, India asked the US why it was raising the issue of increase in tariff lines in the CTG meeting instead of in the WTO Committee on Market Access, which is the appropriate body to take up concerns on the increase in tariffs, according to people present at the meeting.

As regards the safeguard duties imposed on several steel products, India informed Japan that Tokyo must raise the issue in the Committee on Safeguards instead of the CTG.

India also explained to Japan that minimum import duties on steel products are aimed at grappling with rising imports and dumping by several members, according to people present at the meeting.

India also maintained that TBT measures involving conformity procedures are legitimate policy tools and cannot be seen as trade-restrictive measures. *(SUNS8224)* ❐

Countering climate change vs neo-mercantilist goals

A trade dispute concerning India's solar energy industry constitutes a litmus test of whether WTO rules will undermine efforts to combat climate change.

by D. Ravi Kanth

GENEVA: India along with other developing countries appear now to be facing an acid test in global climate change negotiations and at the WTO on how to ensure that their efforts to build robust domestic industries for manufacturing solar cells, solar modules and other renewable energy products take precedence over profit-driven trade rules framed by the United States and other developed countries, several negotiators told the *South-North Development Monitor (SUNS)*.

On 20 April, India took the first step by challenging a WTO panel ruling in favour of the US that overly dismissed the domestic content requirements adopted by India for promoting solar cell and solar module industries for producing renewable energy.

In an appeal over the panel ruling, notified to the chair of the WTO Dispute Settlement Body (DSB), Ambassador Xavier Carim of South Africa, India maintained that the panel had erred in its interpretation of Articles III:8(a), XX(d) and XX(j) of the General Agreement on Tariffs and Trade (GATT) 1994, according to negotiators familiar with the development.

The panel's ruling is the first of its kind in which a WTO member's efforts to develop local industries for solar cells and solar modules on account of its international obligations on climate change are struck down on the ground that they violated India's national treatment obligations under GATT 1994 and the WTO Agreement on Trade-Related Investment Measures (TRIMs).

An earlier dispute which pitted the EU and Japan against Canada over two of the latter's provinces giving incentives and preferential pricing arrangements in using domestic content for power generation enterprises to sell to the particular provinces, saw the panel and Appellate Body (AB) ruling against Canada. In that dispute, however, Canada had not specifically invoked the United Nations climate change treaty and obligations of countries, as India has done for solar cell and solar module production.

During the panel proceedings after the US launched the dispute against India three years ago, New Delhi defended its local content measures by invoking the UN Framework Convention on Climate Change (UNFCCC) under the exceptions provided in GATT Article XX(d).

India justified its solar content requirements by recourse to the so-called "government procurement carve-out" under GATT Article III:8(a). This provision enables a WTO member to do away with national treatment (treating imports on par with domestically produced like products) obligations.

The US launched the dispute over certain local content requirements imposed by India under the Jawaharlal Nehru Solar Mission (JNSM), established by the Indian government in 2010.

The JNSM, India maintained, is to "establish India as a global leader in solar energy, by creating the policy conditions for its diffusion across the country as quickly as possible." India said the JNSM is "a major contribution by India to the global effort to meet the challenges of climate change."

Under the JNSM, India entered into long-term power purchase agreements with solar power-generating companies; in return, the companies are required to procure domestically produced solar cells and modules.

India had defended the domestic content requirements by pointing to its international obligations. India invoked the UNFCCC as part of its defence to continue with the requirements.

India had argued that it had an "obligation to take steps to achieve energy security, mitigate climate change, and achieve sustainable development, and that this includes steps to ensure the adequate supply of clean electricity, generated from solar power, at reasonable prices."

India argued that by producing solar energy, the dependence on oil and coal will be reduced. India maintained that it was "necessary to ensure that there is an adequate reserve of domestic manufacturing capacity for solar cells and modules in case there is a disruption in supply of foreign cells and modules."

But the panel chose to give precedence to the WTO rules over international obligations on climate change.

Indeed, the WTO rules on TRIMs, which were framed during the previous Uruguay Round trade negotiations, have clearly crushed attempts to build domestic industries in countries where industrialization lagged behind, according to several legal analysts.

At a time when the world is increasingly facing the alarming effects of climate change, which is already wreaking havoc in country after country, policies to combat climate change are trumped by mercantile rules of the WTO, according to analysts.

Against this backdrop, India's challenge before the Appellate Body against the solar panel ruling is a litmus test as to whether trade rules negotiated by the US, the EU and other developed countries in the Uruguay Round will continue to undermine global efforts to face climate change.

Dispute against the US?

It also remains to be seen whether India will, as has been recently hinted by New Delhi, take the second logical step of launching a trade dispute against the US, which provides subsidies worth billions of dollars and implements stringent domestic content requirements in several states for promoting renewable energy.

In a subtle warning on 19 April to head off the filing of disputes by India, a spokesperson from the Office of the US Trade Representative told the PV-Tech website that "tit-for-tat WTO filings will not support our [US-India] shared efforts to deepen our bilateral economic ties, nor are they a responsible use of WTO resources."

But "tit-for-tat" trade disputes are at the heart of the mercantile trading regime, which operates on the logic that "you lower your barriers in return for me lowering mine", according to Dani Rodrik, an economist at Harvard University.

It is a travesty of justice that the US can claim a right to continue to provide billions of dollars of green subsidies and pursue domestic content requirements to promote its own industries and enterprises, while other WTO members must not pursue the same measures in their efforts to switch to renewable energy industries based on domestic manufacturing facilities, said a developing-country negotiator familiar with the dispute.

India's energy minister Piyush Goyal is reported to have said, "I will soon come out with a policy to further encourage manufacturing in India. In fact, I am going to file 16 cases of their [the US] violations of WTO policies."

Aside from the WTO disputes, India and other developing countries also face a major challenge in the UNFCCC negotiations to ensure transfer of climate-friendly technologies without onerous intellectual property (IP) commitments attached.

Powerful US lobbies have already welcomed the "effective inter-agency approach" under the leadership of the US State Department to "secure a final UNFCCC text [at the UN climate conference held in Paris last December] that does not mention IP and thus removes uncertainty that could have discouraged investments by the US companies in clean technology."

The lobbies have maintained, however, that "significant challenges to IP still remain in the Paris Agreement's implementation and subsequent negotiations – especially those related to the technology development and transfer chapter."

Under the pretext of safeguarding innovation and "maintaining the ability of US innovators to develop and disseminate solutions to society's great challenges," the US wants to bring about the most burdensome and onerous intellectual property commitments to be shouldered by the developing countries.

In a nutshell, the solar trade disputes as well as the UN climate change negotiations will test the resolve of developing countries in securing policy space to promote industries aimed at generating clean energy to replace fossil-fuel-dominated industries, according to negotiators. *(SUNS8227)* ❐

Indian CSOs voice concerns over RCEP

Civil society organizations in India have warned of the dangers presented by a proposed regional pact that would purportedly create the world's largest trading bloc.

by Kanaga Raja

GENEVA: A network of over 80 civil society organizations (CSOs) in India has raised concerns over the possible negative impact that the Regional Comprehensive Economic Partnership (RCEP) will have on issues ranging from access to medicines, tax policy and investor rights to farmers' access to seeds.

These concerns were highlighted by the Forum Against FTAs, a network of civil society organizations, trade unions and people's movements in India, on the eve of the 12th round of the RCEP negotiations, which took place in Perth, Australia, in April.

The RCEP has been under negotiation since 2012 and involves 16 governments in the Asia and Pacific region: the 10 members of the Association of South-East Asian Nations (ASEAN) together with Australia, China, Japan, Korea, New Zealand and India. This mega-regional free trade agreement (FTA) is expected to be concluded later this year.

In a press release issued in New Delhi, the Forum Against FTAs believes that India can stay strong and rethink its strategy for the RCEP, while staying away from Trans-Pacific Partnership (TPP)-like agreements.

"The Government of India must not give in to any pressures, whether for tariff reduction or on any other front. Any attempts to isolate India, as in the WTO, to simply push for more trade will have grave consequences for sustainable futures of peoples not only in India, but also in the region," it said.

According to the CSOs, the RCEP, once concluded, will be the world's largest trading bloc, with its own set of rules on a broad spectrum of issues such as trade in goods, agriculture, services, investment, competition, intellectual property and other areas of economic and technical cooperation. "Thus, the extent of its coverage both in terms of the range of substantive issues and the number of peoples whose lives and livelihoods it impacts is unprecedented."

According to the press release, a major cause of concern for civil society across the region was the lack of public disclosure on what exactly was on the agenda for Round 12 of the RCEP negotiations.

It was critical that all participating member countries provide a full disclosure of their positions and relevant documents are shared with affected constituencies. Further, negotiators should brief civil society and not just industry groups prior to and after the talks.

There is a longstanding demand for transparency in treaty negotiations, the CSOs said, noting that in Europe too, the Dutch people are mobilizing for a referendum on a controversial FTA between the European Union and the United States – the Transatlantic Trade and Investment Partnership (TTIP).

Access to medicines

The CSOs said that "India has shown the way in terms of the production and availability of high quality, safe and effective drugs at affordable prices and is therefore often called the 'pharmacy of the world'. This is because India has tuned its patent law to facilitate this."

The press release quoted former UN Special Rapporteur on the right to health Anand Grover, who is now with the Lawyers Collective, as saying that flexibilities employed in Indian patent law are sought to be done away with by TRIPS-plus provisions in the RCEP which would exceed the standards enshrined in the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

"Doing so will make drugs unavailable and unaffordable to not just the poorest of patients but also to middle and upper middle class patients, not only in India but also other developed and developing nations. India must stand firm to ensure RCEP provisions do not agree to TRIPS+ and/or TPP provisions," he said.

According to the Forum Against FTAs, another controversial issue is whether the secretive investor-state dispute settlement (ISDS) mechanism is still on the table in the RCEP negotiations.

Research shows that corporations regularly use ISDS courts to avoid paying their legitimate taxes. "Corporations have sued countries ranging from India to Romania in over 40 tax-related disputes and, in some instances, have successfully challenged and lowered their tax bills."

V. Lakshmi, Regional Secretary for Asia and Pacific of Public Services International (PSI), a global trade union, underlined that corporate tax evasion is now a serious public concern worldwide.

Tax breaks cost developing countries as much as $138 billion a year, money that is much needed for healthcare and other critical public services.

For instance, Vodafone launched an arbitration claim against India that is still ongoing, after the former was ordered to pay tax on an $11 billion deal when it acquired a controlling interest in Hutch-Essar, an Indian phone company. Through its use of offshore companies, Vodafone had paid no capital gains tax on the 2007 deal.

According to Lakshmi, this is not an isolated case and trade deals will make it a systemic issue.

The fact that multinational companies would be able to challenge and undermine fair tax systems under the RCEP is testament to the terrifying extent of the corporate grab embedded in this toxic trade deal, Lakshmi emphasized.

Seed protection

The press release noted that thus far the Indian government is holding strong against demands from developed countries in the RCEP talks, such as Japan and Korea, which want higher levels of intellectual property protection in line with UPOV 1991 – the 1991 Act of the International Convention for the Protection of New Varieties of Plants.

"This would mean going against India's domestic legislation – Protection of Plant Varieties and Farmers' Rights Act, 2001, that expressly provides for farmers' freedoms over their own seeds," it said.

The key concerns of small farmers and seed savers are the availability of their own seeds and the continuance of their seed freedoms.

"Since most of them are women, this also has a gender implication, whereby their knowledge about locally adaptive varieties that is even more relevant with the climate crisis and frequent droughts, is further marginalized."

The CSOs further noted that "biopiracy" of local know-how and bioresources has and continues to be a matter of concern for India, and that for that reason it is insisting that other trading partners in the RCEP provide adequate traditional knowledge protection.

All the RCEP countries are also members of the multilateral environmental agreement, the Convention on Biological Diversity (CBD), which requires them to do so, the CSOs said.

"If the RCEP is meant to be Asia's counter to the other FTAs such as the TPP … then it must be truly responsive to Asia's realities," the CSOs concluded. *(SUNS8227)* ❐

ISDS incompatible with democracy, human rights

A UN rights expert has criticized the investor-state dispute settlement regime as being inconsonant with democracy and human rights, arguing that "the time has come to abolish ISDS".

by Kanaga Raja

GENEVA: The investor-state dispute settlement (ISDS) mechanisms incorporated into trade agreements are incompatible with democracy, the rule of law and human rights, a United Nations rights expert has said.

The Independent Expert on the promotion of a democratic and equitable international order, Alfred de Zayas (of the United States), issued this warning on 19 April in comments he submitted to the Council of Europe's Parliamentary Assembly Committee on Legal Affairs and Human Rights.

The Committee was holding a hearing in Strasbourg on "Human rights compatibility of investor-State arbitration in international investment protection agreements."

"Existing ISDS should be phased out and no new investment treaty should contain any provision for privatized or semi-privatized dispute settlement," de Zayas said. "It is wholly unnecessary in countries that are party to the International Covenant on Civil and Political Rights, which commits States to due process and the rule of law."

According to a UN news release, the Parliamentary Assembly hearing was timely as an "Investment Court System" (ICS) is being proposed for the Transatlantic Trade and Investment Partnership (TTIP) agreement being negotiated between the United States and the European Union.

"Investor-State dispute settlement is unfortunately not dead, and the proposed TTIP Investment Court System is but an extension of ISDS which suffers from many of the same fundamental flaws," de Zayas underlined.

(A report released by some 17 civil society organizations in 11 EU countries in February found that the Investment Court System – proposed by the European Commission for all of the EU's ongoing and future investment negotiations to get around the massively unpopular ISDS system – would still empower corporations to sue governments over measures to protect the environment, health, workers and other public interests. See *TWE* No. 609.)

"Regulatory chill"

"Two ontologies seem to have been lost in the ideologically-driven corporate narrative," de Zayas pointed out. "Firstly, the ontology of the State, its raison d'etre to legislate in the public interest, including preventative measures to avert potential harm to the population. Secondly, the ontology of business, which is to take calculated risks for profit."

The rights expert stressed that ISDS had created a "regulatory chill" forcing back social legislation and preventing environmental protection measures out of fear of being sued for billions of dollars before ISDS tribunals. In this context, de Zayas outlined cases in Canada, Germany, the United States and Colombia.

According to the UN news release, the rights expert also challenged claims that investors need protection. "It is States, particularly developing States, and their populations that need protection from predatory investors, speculators and transnational corporations, who do not hesitate to engage in frivolous and vexatious litigation, which are extremely expensive and have resulted in awards in the billions of dollars and millions in legal costs," said de Zayas.

De Zayas called for the inclusive participation of civil society in consultation for trade agreements on this issue, and for referenda to ensure the accountability of governments to protect against predator corporations that maximize their profits at the expense of the public interest.

"The time has come to abolish ISDS and ICS and to ensure that henceforth, trade works for human rights and not against them."

The rights expert said that the "ideological apriorisms of market fundamentalists must give way to common sense and a commitment to respect and fulfil existing human rights treaty obligations, achieve the sustainable development goals and address the urgent challenges of climate change."

According to the news release, the evidence provided by experts at the Parliamentary Assembly hearing will contribute to a report to be published in 2017. *(SUNS8225)* ❐

Tribute to Gerassimos Arsenis

Greek economist Gerassimos Arsenis, who passed away on 19 April, challenged the orthodoxies of the world economic system during his time at the UN and recognized the interdependence in global management of money, finance and trade. *Chakravarthi Raghavan* remembers a man of principle who contributed significantly to promoting an alternative perspective on global development.

GENEVA: Greek economist and intellectual, socialist PASOK party politician, minister, and former UN and UNCTAD official Gerassimos D. Arsenis (84) passed away in Athens on 19 April, according to a press release from his office.

Throughout his long political career, Gerassimos or Gerry, as his numerous friends called him, was recognized by both political friends and adversaries for his integrity and honesty, his courage and uncompromising commitment to his ideals, choosing to quit office rather than compromise his principles and serve.

He leaves behind his wife, Prof. Louka T. Katseli, former minister and presently Chair of the Greek Bank Association and the National Bank of Greece, four children, his brother, grandchildren and other relatives, and numerous friends across the world.

At the UN and UNCTAD

Born on 30 May 1931 in Lourdhata on the Greek island of Kephalonia, Gerry studied law at the National and Kapodistrian University of Athens and, after obtaining his degree, continued his postgraduate studies at the Massachusetts Institute of Technology (MIT).

He was trilingual, fluent in Greek, English and French.

In his early career, from 1960 until 1964, Gerry worked as an economist under Sydney Dell with the United Nations Secretariat in New York, and was part of the group with Raul Prebisch that began preparations for the first United Nations Conference on Trade and Development (UNCTAD) that met in Geneva in 1964.

As early as 1962, at the UN, he had done an econometric study on the capital requirements of developing countries to achieve the 5% growth target of the UN's first Development Decade. In that study he brought out that foreign exchange earnings, rather than savings, were the limiting factor in the capital needs of developing countries. He estimated the gap to be filled between their exports and imports needed for growth at $20 billion (in the dollar value of those times) – or, as he himself put it at a 2014 South Centre-organized meeting to honour Gamani Corea, the "$20 billion trade gap" (which latterly was called the two-gap model, according to his early associate in UNCTAD, Chandrakant Patel).

Gerry's model ran so much against orthodox economic theories of the day that the UN did not immediately publish it. However, when preparatory work for UNCTAD I began, Sydney Dell dusted it off and brought it to the attention of Prebisch and Gamani Corea, who adapted the theme of Gerry's 1962 paper for the preparatory work and documents for the 1964 conference.

In 1964, Gerry left the UN to join the Research Division of the OECD Development Centre in Paris as its Director, serving there till 1967, when he was appointed as senior economist at UNCTAD, and then as Director of its then Money and Finance Division. In that capacity, he engaged in research and participated in negotiations concerning reform of the international monetary system.

In the wake of the 1973-74 economic crisis in the industrialized countries, and the collapse of the Bretton Woods system, when Corea took over as Secretary-General of UNCTAD in 1974, he and Gerry, while accepting the market mechanism as a necessary ingredient of the economic system, questioned the orthodox theories of efficient markets and challenged market fundamentalism, underscoring the key role of the state in the economy.

The idea that key issues of money, finance and trade could be dealt with in separate fora in different silos was fine when the world economy was functioning smoothly, they argued, but inappropriate when the system got derailed (as in 1973), since markets do not get macroeconomic prices right.

As such, the development agenda should be considered as an integral part of global management of interdependent issues of money, finance and trade, and UNCTAD, as the principal organ of the UN General Assembly in the field of trade and development, was best suited to discussing and promoting a consensus. This was a view that generally prevailed, until Margaret Thatcher and Ronald Reagan came to power and promoted a class war of rich against poor, resulting in the current inequalities within and amongst countries and the current disarray in world order, where market and religious fundamentalisms are feeding on each other.

Trade and Development Report

Gerry was the lead author of the first edition of UNCTAD's flagship annual *Trade and Development Report (TDR)*, published in 1981. It was a report with a difference, when compared to the reports of the World Bank, IMF, GATT and OECD that had so far dominated this area and in effect set the parameters of development policy discourse.

As discussions in UNCTAD's Trade and Development Board disclosed, the *TDR 1981* opened up a wider debate on development issues from an alternative perspective. The debate revolved around evaluation of the world trade and economic situation, and the issues, policies and appropriate measures to facilitate structural changes in the international economy, taking into account the interrelationships of problems in the areas of trade, development, money and finance.

The report looked at short-term problems and the longer-run development issues of the world economy in an integrated way, underscoring that the crisis in the world economy was such that "the dichotomy between short-term and development problems or what amounts to the same, between demand management and investment policies, is no longer admissible."

At that time the dominant OECD and IMF surveys looked at the short term and emphasized demand management and the so-called supply-side economics, while the World Bank in its *World Development Report* looked at development issues from the Bretton Woods-GATT perspectives of the international capitalist system and liberal economics, viewing the crisis in the global economic situation as an exception that, with corrective reforms, could be resolved and the economy returned to the normative "golden age" of the 25 years following the war.

The *TDR 1981* took a much longer perspective, analyzing the experiences and structural changes of the now industrialized economies over the last 160 years, viewing their postwar experience up to the 1970s as an exception The Management of Capital Flows in Asiamade possible by departures favouring Europe and Japan from the Bretton Woods-GATT rules of the game.

Alas, the current dogma (the Washington Consensus, refurbished as "globalization" and its successive avatars, such as the latest slogan of "global value chains", to continue a neo-colonialist, neo-mercantilist order) now has no independent challenge in the intergovernmental arena. Voices like those of Gerry will be missed, amidst the alienation of vast segments of populations of the developing and developed world that are questioning the legitimacy of governments.

Some of the basic formulations of that first *TDR*, conveniently put on shelves to gather dust, have again assumed salience, with sharpened contours, in current public debates. These include that the gains of economic growth and development have not been shared equitably within and among countries, and without a fair distribution of income, sustained growth is impossible.

This issue, long ignored, has now come to the forefront, even in the major centres, in the focus on economic inequality – the increasing wealth of the top 1% and 0.1% as against impoverishment of the poor and the middle classes. The transnational corporations and their oligopolistic activities (and now their glaring tax avoidance and evasion schemes, connived at by those in authority) have placed the world economy in a vicious cycle of deflation and have led to delegitimization of governments.

Asking the "why not?" questions

From 1974 until 1980, Gerry Arsenis also served as an UNCTAD expert providing consultancy to the Ministerial Committee of Twenty on the Reform of the International Monetary System (later known as the IMF Interim Committee).

While serving as Director at UNCTAD, Gerry contributed to the development of numerous proposals – including the creation of special drawing rights (SDR), developmental assistance and coordination of programme assistance for the World Bank and the generation of balance-of-payments financing that the IMF subsequently used for effective stabilization and development support schemes – and took part in several debt negotiations in the context of the Paris Club.

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"Free trade" in trouble

The ongoing US presidential primaries campaign has exposed strong grassroots opposition to free trade that could lead to more protectionism in the US, with serious implications for the rest of the world.

by Martin Khor

"Free trade" seems to be in deep trouble in the United States, with serious implications for the rest of the world.

Opposition to free trade or trade agreements has emerged as a big theme among the leading American presidential candidates. Donald Trump attacked cheap imports especially from China and threatened to raise tariffs. Hillary Clinton criticized the Trans-Pacific Partnership (TPP) agreement which she once championed, and Bernie Sanders's opposition to free trade agreements (FTAs) helped him win in many states.

That trade became such a hot topic in the campaign reflects a strong anti-free-trade sentiment on the ground.

Almost 6 million jobs were lost in the US manufacturing sector from 1999 to 2011. Wages have remained stagnant, while the incomes of the top 1% of Americans have shot up.

Rightly or wrongly, many Americans blame these problems on US trade policy and FTAs.

The downside of trade agreements has been highlighted by economists like Joseph Stiglitz and by unions and non-governmental organizations. But the benefits of "free trade" have been touted by almost all mainstream economists and journalists.

Recently, however, the establishment media has published many articles on the collapse of popular support for free trade in the US.

Lawrence Summers, former US Treasury Secretary, noted that "a revolt against global integration is under way in the West". The main reason is a sense that "it is a project being carried out by elites for elites, with little consideration for the interests of ordinary people."

The Economist, with a cover sub-title "America turns against free trade", lamented how mainstream politicians are pouring fuel on the anti-free-trade fire. While maintaining that free trade still deserves full support, it cites studies showing that the losses from free trade are more concentrated and longer-lasting than had been assumed.

In his article "US politics is closing the door on free trade", *Financial Times* columnist Philip Stephens quotes Washington observers as saying that there is no chance of the next President or Congress, of whatever colour, backing the TPP. The backlash against free trade is deep as the middle classes have seen scant evidence of the gains once promised for past trade deals.

In a blogpost on the *Wall Street Journal* website entitled "The case for free trade is weaker than you think", Greg Ip concludes that if workers lose their jobs to imports and central banks can't bolster domestic spending enough to re-employ them, a country may be worse off and keeping those imports out can make it better off.

Orthodox economists argue that free trade is beneficial because consumers enjoy cheaper goods. They recognize that companies that can't compete with imports close down and workers get retrenched. But they assume that there will be new businesses generated by exports and the retrenched workers will shift there, so that overall there will be higher productivity and no net job loss.

However, new research, some of which is cited by the articles above, shows that this positive adjustment can take longer than anticipated or may not take place at all.

Thus trade liberalization can cause net losses under certain conditions. The gains from having cheaper goods and more exports could be more than offset by loss of local businesses, job retrenchments and stagnant wages.

There are serious implications of this shift against free trade in the US. The TPP may be threatened as Congressional approval is required and this is now less likely to happen during President Barack Obama's term. Under a new President and Congress, it is not clear there will be enough support.

If the US does not ratify the TPP, the whole deal may be off as the other countries do not see the point of joining without the US.

US scepticism on the benefits of free trade has also now affected the multilateral arena. At the World Trade Organization, the US is now refusing attempts to complete the Doha Round.

More US protectionism is now more likely. Trump has threatened to slap high tariffs on Chinese goods. Even if this crude method is not used, the US can increasingly use less direct methods such as anti-dumping actions. Affected countries will then retaliate, resulting in a spiral.

Ironic

This turn of events is ironic. For decades the West has put high pressure on developing countries, even the poorest among them, to liberalize their trade.

A few countries, mainly from Asia, staged their liberalization carefully and benefited from industrial exports which could pay for their increased imports. However, countries with a weak capacity, especially in Africa, saw the collapse of their industries and farms as cheap imports replaced local products.

Many development-oriented economists and groups were right to caution poorer countries against sudden import liberalization and pointed to the fallacy of the theory that free trade is always good, but the damage was already done.

Ironically, it is now the US establishment that is facing people's opposition to the free trade logic.

It should be noted that the developed countries have not really practised free trade. Their high-cost agriculture sector is kept afloat by extremely high subsidies. This enables these countries to keep out imports and, worse, to sell their subsidized farm products to the rest of the world at artificially low prices.

Eliminating these subsidies or reducing them sharply was the top priority under the WTO's Doha Development Agenda. But this is being jettisoned by the insistence of developed countries that the Doha Round is dead. In bilateral and plurilateral FTAs like the TPP, the US and Europe have also kept the agriculture subsidy issue off the table.

Thus the developed countries succeeded in maintaining trade rules that allow them to continue their protectionist practices.

Finally, if the US itself is having growing doubts about the benefits of "free trade", less powerful countries should have a more realistic assessment of trade liberalization.

As free trade and trade policy reaches a crossroads in the US and the rest of the West, developing countries have to rethink their own trade realities and make their own trade policies for their own development interests. ❒

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The empire's new clothes?: Conjuring growth from the TPP

Supporters of the Trans-Pacific Partnership have understated the costs and risks of the agreement while exaggerating its benefits, writes *Jomo Kwame Sundaram*.

While the main US motivation for the Trans-Pacific Partnership (TPP) has been to counter China's influence in the region, it has also been used to undermine the Doha 'Development' Round of trade negotiations to better advance politically influential US corporate interests. Hence, it has become all the more necessary to legitimize the TPP in terms of its ostensible benefits.

With the TPP touted as a "gold standard" 21st-century trade deal, it is nonetheless necessary to ascertain what gains can really be expected and whether these exceed its costs.

The only US government study of the TPP's likely impacts found very modest growth gains from tariff reductions of only 0.1% over a decade. In fact, all studies so far project negligible direct economic growth gains from TPP trade liberalization.

Instead, the Peterson Institute for International Economics (PIIE) has provided the fig leaf for the empire's new clothes with far more inflated projections of supposed gains. In 2012, it projected growth of 0.4% after a decade. In January, the PIIE came up with greater gains from the TPP by claiming more, albeit still modest growth gains from trade, at 0.5% after 15 years.

Incredibly, using the same PIIE study, the World Bank's January 2016 Global Monitoring Report managed to more than double the same study's growth gains to 1.1%!

If it used more conventional methods for estimating gains from trade, the benefits would have been much more modest, as in the US government study.

The PIIE studies claim greater growth gains due to "non-trade measures" (NTMs) and related foreign investment surges.

This is justified by the presumption that the TPP will place all participating countries in the top 10% of the World Bank's Doing Business ranking, despite ambiguous evidence of such effects.

The 2012 study arbitrarily assumed that every dollar of foreign direct investment (FDI) within the TPP bloc would generate additional annual income of 33 cents, divided equally between source and host countries, without any theory, modelling procedure or empirical bases for these suppositions.

Provisions allowing foreign investors to sue governments in private tribunals, or those undermining national bank regulation, become trade-promoting cost reductions, ignoring the costs and risks of bypassing national regulations and taxation.

The huge gains claimed have little, if any, analytical bases in economics, evidence or experience.

To make the case for the TPP, the PIIE understates costs and risks, while exaggerating benefits.

Very diverse TPP provisions were fed into the trade model as simple cost reductions, with little consideration of downside risks and costs. Although such costs and risks are not seriously considered, the projections are nonetheless presented as cost-benefit evaluations. By understating crucial costs, and exaggerating projected benefits, net gains are overstated.

For example, provisions to strengthen, broaden and extend intellectual property rights become simple cost reductions that will increase the trade in services. Such analysis ignores impacts on consumers or on governments subsidizing the prices of medicines to patients.

Thus, the PIIE and World Bank studies greatly overstate benefits from the TPP. Tariff-related trade benefits are the only quantifiable benefits consistent with economic theory and evidence, but make up a very small share of the projected gains.

Many benefits involve one-time gains and do not raise the economies' annual growth rates. Also, these gains need to be compared against the costs ignored by the study as well as the actual details of the final deal.

Even unadjusted, the gains are small relative to the GDPs of TPP partner economies. But these gains need to be revised downwards as many assumptions made for these projections are not realized in the final deal.

Risks and costs

While projected trade benefits will take time, not least because of the TPP provisions, the major risks and costs will be more immediate.

Also, any impact of the TPP on workers' incomes is excluded by assuming that all economies operate constantly with full employment while income distribution, trade and fiscal balances remain fixed over time.

If the paltry gains from the TPP mainly go to a few big businesses, with the losses borne by others – workers, consumers or taxpayers – the TPP would worsen inequality.

Our own study – using a Keynesian macroeconomic policy model, more realistic specifications and the PIIE's 2012 trade projections – found more modest growth, net job losses, greater pressure on wages, declining labour shares of income and greater income inequality.

The TPP goes much further to redefine the role of government than necessary to facilitate trade. TPP disciplines will significantly constrain the policy space needed for governments to accelerate economic development and to protect the public interest.

The dubious larger benefits projected by TPP advocates make it all the more critical to consider the nature and scale of costs and risks ignored by available modelling exercises.

The TPP will impose direct costs, e.g., by extending patents and by blocking generic-medicine production and imports.

The TPP's investor-state dispute settlement (ISDS) provisions will enable foreign investors to sue a government in an offshore tribunal if they claim that new policy or regulations reduce expected future profits, even if such regulations are in the public interest.

As foreign investors are already well protected by other available means, ISDS provisions are completely unnecessary. Even advocates of free trade and trade liberalization have criticized inclusion of such non-trade provisions in free trade agreements.

Instead of being the regional free trade agreement it is often portrayed as, the TPP seems to be "a managed trade regime that puts corporate interests first".

Thus, the TPP, offering very modest quantifiable benefits from trade liberalization at best, is really the thin edge of a wedge which will undermine the public interest in favour of powerful corporate interests.

Net gains for all in TPP countries are a myth. Only a full, careful and proper accounting based on the full text can determine who benefits and who loses. *(IPS)* ❒

Jomo Kwame Sundaram was an Assistant Secretary-General responsible for analysis of economics and development in the United Nations system during 2005-15, and received the 2007 Wassily Leontief Prize for Advancing the Frontiers of Economic Thought.

Voting share reform at the IMF: Will it make a difference?

Despite a recent shift in the distribution of voting shares within the International Monetary Fund, it is the US and other high-income countries which continue to call the shots in the lender institution.

by Mark Weisbrot and Jake Johnston

For more than 20 years there have been efforts to reform the International Monetary Fund (IMF) through changing its voting structure. There are structural limits to both the success, in quantitative terms, of changing these limits; and to the impact of any changes that are won. Some of these will be discussed below. Ignoring these constraints for the moment, it should in principle be possible to give more voice to the majority of the world's governments, and by extension their people, by increasing voting shares of low- and middle-income countries; and, in this way, to possibly make IMF policy better reflect and serve the interests of the majority of the world's population, especially in low- and middle-income countries.

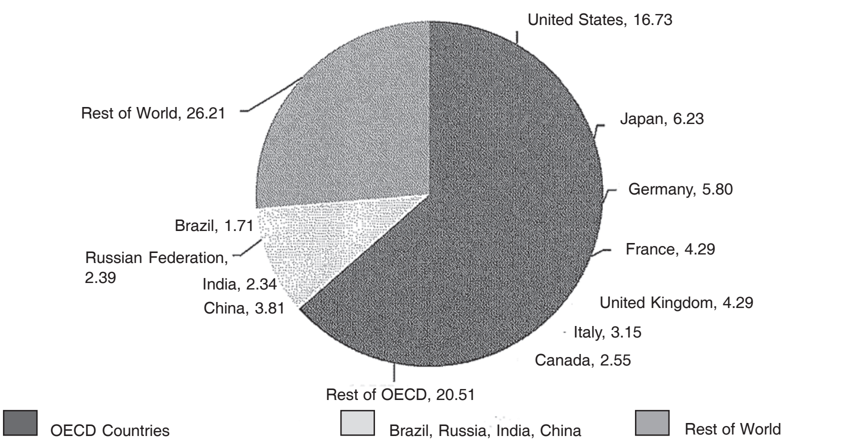
Figures 1 and 2 show the changes in voting shares that were proposed in 2010 and that have recently been made effective. The first thing to note is that the voting share of the United States did not change in the most recent reallocation,[1] and remains at 16.73%.[2] As can be seen from the figures, this dwarfs all other member countries' voting shares, both before and after the latest changes.

As can be seen in the figures, OECD (Organization for Economic Cooperation and Development) countries retain an overwhelming majority of the voting share within the IMF even after recent reforms. Further, outside of Brazil, Russia, India and China, the rest of the developing world actually see their voting share decrease by three percentage points.

More importantly, the current voting share also retains the United States' veto over some important decisions, including changes to the IMF's charter, which require an 85% majority. Ironically, it was this veto that allowed the US to block the

FIGURE 1

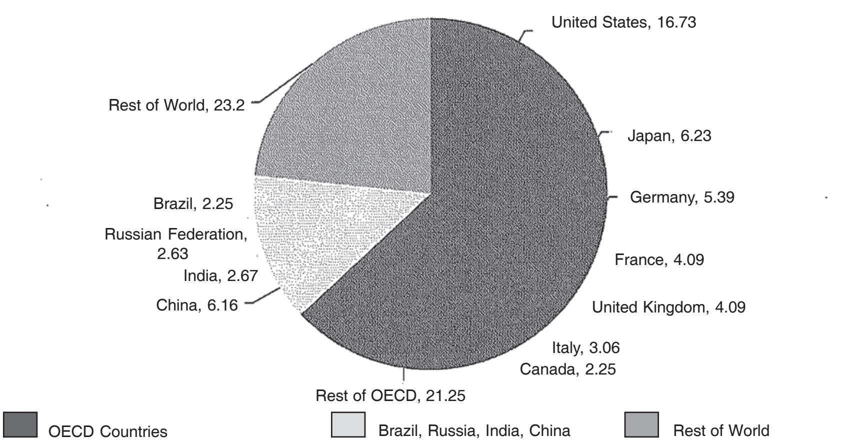
IMF Voting Shares Prior to Latest Reform



Source: International Monetary Fund (IMF), "IMF Members' Quotas and Voting Power, and IMF Board of Governors." http://www.imf.org/external/np/sec/memdir/members.aspx (accessed April 6, 2016). And IMF, 2010. "Illustration of Proposed Quota and Voting Shares." http://www.imf.org/external/np/sec/pr/2010/pdfs/pr10418_table.pdf.

FIGURE 2

Current IMF Voting Shares



Source: Ibid.

most recent changes in voting shares, which were approved by almost everyone else in the IMF in 2010 but were held up by Republicans in the US Congress for five years, until this past December. As the world economy continues to change, the same dynamic that delayed these past reforms is likely to delay or prevent further reforms in the future. The world economy has already changed quite significantly since the world financial crisis of 2008; the Chinese economy has grown by 76%, while Europe's growth has been about zero.[3]

Dominance of high-income countries

In reality, the United States' power in the IMF is vastly greater than its charter-determined right to veto decisions that require an 85% majority. The IMF was created in 1944, as World War II was drawing to a close, and the US was practically the only major industrial power in the world. Washington was able to put itself in charge of the Bretton Woods institutions (the IMF and World Bank), and although the European Union and China have both grown to have larger economies than that of the US, Washington remains the pre-eminent power within the IMF.

By an informal arrangement that is not part of any organizational charter or by-laws, the managing director of the IMF is always from Europe and the president of the World Bank is always from the United States. But even this is misleading, because the European in charge of the IMF does not mean that the Europeans' power within the Fund is commensurate with that of the US – the European who is chosen must be acceptable to the US Treasury Department. This was made clear, for example, in 2000, when Germany nominated Caio Koch-Weser, a long-time World Bank official and then German deputy finance minister, to head the IMF. The US was opposed, and the nomination did not succeed.[4]

There have been increasing efforts – the strongest in 2012 – to put someone from the developing world in charge of the World Bank, since its primary mission is to promote economic development, but these have so far failed.

Within the IMF, the US generally defers to Europe on important matters having to do with the European economy. This was not always true, but since the world financial crisis and recession, Europe has become the recipient of the vast majority of IMF loans. This is of course an enormous change in the IMF loan portfolio from the decades before 2009, when almost all of the Fund's lending went to low- and middle-income countries. Since 2010, the IMF has been part of "the troika" – the European Central Bank, the European Commission and the Fund; or more recently, for example in the negotiations between the European authorities and Greece, the troika plus the eurogroup of finance ministers. But within these groupings, the IMF is a subordinate partner and is directed primarily by its European directors.

Still, there are times when the US uses its enormous influence within the IMF to challenge Europe even on its own turf. For example, the IMF refused to participate in the last bailout loan for Greece. It also released a damning report arguing that the Greek debt was unsustainable, just before the June referendum in Greece on whether to accept the European authorities' current offer, in which the "No" vote prevailed by a large margin. And it is currently arguing with the other European authorities that Greece needs further debt relief, as well as a lower primary budget surplus than these creditors are demanding.

Presumably these actions reflect some differing political interests: while the European authorities are seeking to transform Greece (and the eurozone) into a different type of economy, and also are looking to their own domestic politics (e.g., in Germany), the United States has been primarily concerned with keeping Greece within the euro – for geostrategic reasons, since Europe is Washington's most important political ally. The US is less willing to risk the possibility that forcing Greece to maintain an unsustainable debt burden, limping along from one crisis to another without economic recovery, could eventually push the country out of the eurozone.

Outside of Europe, the major decision-maker is generally the United States Treasury Department. This means that Treasury is the main power for policy decisions affecting low- and middle-income borrowing countries, i.e., all borrowers outside of Europe. In practice, there is generally relatively little disagreement among the rich countries in these matters – the US and Europe, the two biggest stakeholders, are allies. So allowing Washington to continue to be the main decider for non-European borrowers, as it has been since the IMF's inception, does not generally matter that much to the other high-income-country governments. The IMF executive board does not generally vote on these decisions, but rather reaches agreement by consensus.[5]

Table 1 shows why the current voting structure maintains the pattern of high-income-country dominance. It shows that the combined voting share of the OECD countries is more than 63%. The OECD countries are almost all high-income countries, and the few middle-income countries there (e.g., Mexico, Poland) can be expected to vote with the US. So this is the best way to look at the voting structure of the IMF, with regard to policy decisions that affect developing countries.

Even after the latest voting share reforms, the US and its allies have a comfortable and reliable majority for almost any IMF decision going forward. There is also a significant over-representation of these countries compared to their share of the world economy,[6] as can be seen in the table. More data on over/under-representation can be seen in Table 2.

The only really significant change in the most recent reform has been in the voting share of China, which went from 3.81% to 6.16%, an increase of 2.35 percentage points. While this is a big proportional change, and represents a doubling of China's share since 2006, it still leaves China with a very small vote as compared with its size in the world economy. On a purchasing-power-parity (PPP) basis, it has 18.6% of the world economy, more than the United States; and of course it also has 4.3 times the population of the US. Yet the US has more than 2.6 times China's voting share at the IMF.

Table 1. OECD current voting share and over-representation

	Current voting share	PPP share of world economy
OECD total	63.09	45.60

Source: IMF. "IMF Members' Quotas and Voting Power, and IMF Board of Governors".

Table 2. Most under-represented countries by share of world economy

Country	Current voting share	PPP share of world economy
China	6.16	18.59
India	2.67	7.09
Indonesia	0.96	2.51
Brazil	2.25	2.84
Iran	0.75	1.22
Nigeria	0.52	0.98
Russian Federation	2.63	3.07
Turkey	0.97	1.39
Argentina	0.46	0.85
United Arab Emirates	0.18	0.57

Source: Ibid.

Reforming the IMF

From the above, it is clear that the most recent changes in voting shares will have extremely little, if any, impact on IMF decision-making; and that more significant reforms are probably beyond the foreseeable future. In the discussions of the most recent reforms in the US Congress and in the public, it was made clear that the US must retain its power in the IMF, if Congress was to approve the reforms. The US Treasury Department took pains to assure Congress and the public that "After the IMF reforms are implemented, the US will remain the IMF's largest shareholder and the only country in the world with veto authority over major decisions at the IMF" and that the reforms would "strengthen" the "structures in which the United States exercises its leadership position."[7]

But the way the IMF has operated, and currently operates, strongly indicates that we are not yet at the stage where changes in voting shares can make a difference. Currently, the non-OECD countries are not using the voice or vote that they already have within the IMF. Rather, they generally go along with decisions made by the US and its allies. By contrast, in the World Trade Organization (WTO), which was formed in 1995, developing countries have challenged the rich countries on a number of important policy issues, including public health, drug patents and access to essential medicines, and agriculture and development policy. They have won a number of successes despite the fact that the rules were written by the high-income countries and their corporations, and are heavily biased against the needs of developing countries.

While it is true that the WTO operates on a consensus basis rather than through voting shares, this is not the main difference between it and the IMF. The main difference is that the governments of low- and middle-income countries, sometimes joined by non-governmental organizations (NGOs), have organized blocs within the WTO and fought repeatedly to defend their interests. There have been some similar efforts within the IMF, but nothing comparable to what has happened at the WTO.

Without a voice for the overwhelming majority of the world within the IMF, it is not surprising that many of the Fund's policy decisions are not in their interests. For example, a review of 41 countries with IMF agreements during the world recession of 2009 found that 31 of the agreements contained pro-cyclical fiscal policy, monetary policy or both.[8]

In the 21st century, the IMF has lost most of its influence in middle-income countries. This was one of the most important changes in the international financial system in decades, and it was partly because of the Fund's policy failures in the 1990s, including the Asian financial crisis, which convinced many middle-income countries to accumulate sufficient reserves so that they would never have to borrow from the IMF again. China has also become a large alternative source of lending, as well as foreign exchange through investment and foreign aid. These trends have begun to become institutionalized, with the creation of the BRICS Contingent Reserve Arrangement (CRA) and New Development Bank; as well as the Asian Infrastructure Investment Bank, where 57 countries, including the UK, France, Germany and Italy (but not the US), joined in its launch this year.

It thus seems likely that the IMF will continue to lose influence in developing countries as more alternative sources of funding become available, although the current problems in the world economy may slow that process temporarily. It remains to be seen how the role of the new institutions and bilateral lending will play out.

In recent years there have been significant changes in the research department of the IMF, which has published studies that acknowledge a possible positive role for capital controls in developing countries;[9] questioning whether central banks were targeting too low an inflation rate;[10] and finding that the IMF had significantly underestimated the multipliers for fiscal policy. In a discussion in December, former IMF Chief Economist Olivier Blanchard said he hoped that these changes in IMF research had "moved the needle a bit" in terms of influencing policy.

It was an understandably modest hope, and one that perhaps remains to be realized. Until there is a lot more reform at the IMF, however, the most likely path towards better policy in low- and middle-income countries will be the continuation of the Fund's loss of influence. ❒

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Notes

1. For prior reallocations, see: Weisbrot, Mark and Jake Johnston. 2009. "IMF Voting Shares: No Plans for Significant Changes." Washington DC: Center for Economic and Policy Research. http://cepr.net/publications/reports/imf-voting-shares-no-plans-for-significant-changes.

2. The US share is expected to be reduced to 16.5% after full implementation of the reforms. Voting shares are being updated as countries pay their quotas, so some small changes are likely.

3. IMF. 2016. "World Economic Outlook Database April 2016." World Economic and Financial Surveys. https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx.

4. See Kahn, Joseph. 2000. "IMF Directors Fail to Rally Around Any New Leader in Poll." *New York Times*. 3 March. http://www.nytimes.com/2000/03/03/business/imf-directors-fail-to-rally-around-any-new-leader-in-poll.html.

5. References and citations for information not referenced here can be found in Weisbrot, Mark. 2015. *Failed: What the Experts Got Wrong About the Global Economy*. New York: Oxford University Press, Chapters 2-4.

6. The share of the world economy is measured on a purchasing power parity (PPP) basis, which adjusts for differences in prices between countries.

7. Wyeth Earnest, Natalie. 2014. "Myth vs. Fact: Why IMF Quota and Governance Reforms Are Urgently Needed." Treasury Notes (blog). US Department of the Treasury. https://www.treasury.gov/connect/blog/Pages/Myth-vs-Fact-IMF-Quota-Reforms.aspx.

8. See Weisbrot, Mark, Rebecca Ray, Jake Johnston, Jose Antonio Cordero and Juan Antonio Montecino. 2009. "IMF-Supported Macroeconomic Policies and the World Recession: A Look at Forty-One Borrowing Countries." Washington DC: Center for Economic and Policy Research. http://cepr.net/publications/reports/imf-supported-macroeconomic-policies-and-the-world-recession.

9. See Cordero, Jose Antonio and Juan Antonio Montecino. 2010. "Capital Controls and Monetary Policy in Developing Countries." Washington DC: Center for Economic and Policy Research. http://www.cepr.net/documents/publications/capital-controls-2010-04.pdf.

10. Blanchard, Olivier, Giovanni Dell'Ariccia and Paolo Mauro. 2010. "Rethinking Macroeconomic Policy." International Monetary Fund Staff Position Note 10/03. https://www.imf.org/external/pubs/ft/spn/2010/spn1003.pdf.

(continued from page 8)

He not only was involved in the Paris Club negotiations but achieved acceptance of a continuing role in these negotiations for UNCTAD, a role which would be the basis of the subsequent UNCTAD programme of technical assistance to developing-country participants in these negotiations.

At both UNCTAD and the OECD, he promoted development of developing countries along lines espoused by Prebisch and Corea. He was probably among the first to challenge the current world economic system by asking the "why not?" questions. As against the prevailing orthodoxy for developing countries to accept the system and "adjust" (while seeking "special and differential treatment"), he started the process of questioning the system itself and its inequities, asking why the rules of the game could not be changed.

In November 1981, he was appointed as Governor of the Bank of Greece, where he remained until February 1984. During this period, he oversaw the liberalization of the Greek financial system and modernization of its financial regulatory system.

He led the Greek delegation to UNCTAD VI in Belgrade in 1983 and was a very powerful advocate there of the need to take into account interdependence of policies and to reflect this institutionally (wide participation of UNCTAD in the deliberations of the IMF/World Bank/GATT/Paris Club).

As a prominent member of PASOK for many years, he served as Minister of National Economy (1982-85), Finance (1984-85), Shipping (1985), National Defence (1993-96) and National Education and Religious Affairs (1996-2000).

He also acted as a policy advisor to numerous governments regarding foreign exchange, external financing and debt rescheduling.

He was President of the Athens Development and Governance Institute (ADGI-INERPOST), Vice-President of the Marangopoulos Foundation for Human Rights and Honorary President of the Hellenic-Russian Society. *(SUNS8226)* ❒

Sources: official website of Gerassimos Arsenis (www.garsenis.gr/en); email communications from former UNCTAD officials, Andrew Cornford and Chandrakant Patel, who worked with Arsenis; Chakravarthi Raghavan (2014), The Third World in the Third Millennium CE, *Vol. 1, Penang: Third World Network, pp. 91-126; Gerassimos D. Arsenis (2014), "Gamani's role on global management, interdependence of money, finance and trade, and the debt burden of developing countries", in* A Tribute to Gamani Corea: His Life, Work and Legacy, *Geneva: South Centre.*