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LDCs should channel aid towards economic transformation – UNCTAD

The world's least developed countries (LDCs) should make use of external development finance to structurally transform their economies. According to a report by the United Nations Conference on Trade and Development (UNCTAD), structural transformation would in turn pave the way for the LDCs to escape aid dependence and achieve sustainable development.

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LDCs need to use external aid to transform their economies

The world's least developed countries should harness development finance to effect the structural economic transformation that would bring about sustainable development and eventually remove their aid dependency, says a UN report.

by Kanaga Raja

GENEVA: The least developed countries (LDCs) need to use external finance to structurally transform their economies, in order to manage their aid dependency and eventually escape from it, according to the United Nations Conference on Trade and Development (UNCTAD).

In its *The Least Developed Countries Report 2019*, released on 19 November, UNCTAD said that the LDCs account for 15 of the 20 most aid-dependent countries in the world due to persistent shortfalls in their domestic savings, among other factors. It said that the LDCs should take ownership of their development agenda and manage the allocation of external development finance in alignment with their national development priorities. The international community also needs to step up its support towards their common goal, it added.

In this context, UNCTAD called for the revitalization of the traditional aid effectiveness agenda through an "Aid Effectiveness Agenda 2.0." It said that the implementation of an "Aid Effectiveness Agenda 2.0" should contribute to the deepening and acceleration of structural transformation, which would thus allow LDCs to eventually escape their current dependence on official development assistance (ODA).

"For LDCs to attain the Sustainable Development Goals and escape aid dependency, they need external finance that is targeted at the structural transformation of their economies," said UNCTAD Secretary-General Mukhisa Kituyi.

According to the UNCTAD report, dependence on external resources to finance fixed investment and, more generally, sustainable development is a crucial feature of the economies of the LDCs. Consequently, such dependence has a determining impact on the ability of these countries to reach their development goals, especially the Sustainable Development Goals and the objectives of the Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action).

For LDCs, said UNCTAD, undergoing structural economic transformation is ultimately a condition to both escape aid dependence and realize the right to development.

To achieve the structural transformation of their economies, LDCs need to mobilize and allocate the financing required for long-term investment in new productive sectors and activities, as well as investment in the technological and organizational upgrading of existing sectors and productive units. They also need to mobilize and allocate financing to current expenditure related to structural transformation.

These financing requirements exist at the micro, meso and macro levels. State capacity is crucial to ensure, directly or indirectly, the availability at reasonable conditions of financing at these three levels. Ensuring availability at the micro level is the task of financial policies and, possibly, monetary policies. In contrast, at the macro level, it requires the capacity to put in place development-friendly macroeconomic policies, to formulate national development finance plans and strategies, and to consider the options available to finance different areas, types of projects and Sustainable Development Goals-related activities.

Stark difficulties

According to the UNCTAD report, with the world fast approaching the end of the period for implementing the Istanbul Programme of Action and one-third of the time elapsed to pursue achievement of the 2030 Agenda for Sustainable Development, LDCs continue to face stark difficulties in reaching their development goals.

In this context, taking stock of their

dependence on external development finance, a key facet of the development challenges of LDCs, is useful. This issue has long been discussed as both a symptom and a cause of sluggish structural transformation. Such dependence is one reason for international support mechanisms for LDCs, said UNCTAD.

Midway into the implementation of the Istanbul Programme of Action, in 2015, the international community adopted the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. The Addis Ababa Action Agenda points to vastly expanded financial resources to finance the investment and expenditures required to reach the Sustainable Development Goals. “The outcome to date, however, has been disappointing,” said UNCTAD.

The required additional financing to be made available to developing countries has not materialized, and total external finance declined by 12% in real terms between 2013 and 2016. Inflows of foreign direct investment (FDI) to developing countries in 2018 were 3% lower than in 2015, while LDCs suffered a much sharper contraction of FDI inflows, at 37%, over the same period. At the same time, the foreign debt levels of many countries have risen to critical levels. By mid-2019, one-third of LDCs were in debt distress or at high risk of debt distress. The challenging financing landscape is compounded by deceleration in world economic growth and world trade, as well as lingering global trade tensions.

According to UNCTAD, together with rapid population growth, environmental degradation and persistent fragility and conflicts, difficulties in financing the development of LDCs could jeopardize the realization of the Sustainable Development Goals. This negative external landscape is a major obstacle to sustainable development, given the ongoing strong dependence of LDCs on external resources.

Such dependence on external resources to finance development, deriving from the continuous failure of domestic savings to finance these countries’ fixed investment needs, is common to most developing countries, both LDCs and other developing countries. The crucial role of ODA in development financing is, however, the major specificity of LDCs that renders many of them dependent on this particular external resource. In contrast, other developing countries rely much more on external finance sources other than ODA.

At the same time, the landscape of official external finance for development has undergone radical changes in recent years, currently comprising not only ODA but also financing from sources other than traditional donors.

According to UNCTAD, structural transformation is a sine qua non for developing countries – and especially LDCs – to reach the Sustainable Development Goals. Therefore, structural transformation is the critical link between dependence on external resources and the pursuit of sustainable development.

Structural transformation will eventually allow LDCs to escape from their dependence on ODA, while allowing them to reach their development goals sustainably. The ultimate goal of mobilizing and allocating development finance is not only to attain sustainable development, but – much more crucially – also to be a means of realizing fundamental human rights.

According to the UNCTAD report, barely four years have gone by since the international community adopted the 2030 Agenda for Sustainable Development. Yet, with little more than 10 years to the 2030 deadline, the mood has shifted markedly.

Despite the rhetoric of “leaving no one behind”, rising disengagement has hit LDCs hard, jeopardizing the prospects of achieving the objectives of the Istanbul Programme of Action and the more recent Sustainable Development Goals. LDC stakes in the global economy continue to be marginal, with over 13% of the world’s population and barely 1% of global GDP. Moreover, progress towards meeting the various Sustainable Development Goals targets specific to LDCs has been sluggish at best.

One major reason for the slow pace of progress towards achieving the 2030 Agenda and the subsequent sluggish implementation of the Sustainable Development Goals in LDCs is the international community’s lack of decisive action to make the international environment – including issues of financing for development – in which these countries’ economies evolve more amenable to sustainable development, and the persistence of barriers to the structural transformation of their economies.

The pursuit of the Sustainable Development Goals in developing countries requires heavy investments in economic, social and environmental infrastructure (capital expenditure), as well as raising levels of current expenditure (i.e., operating expenditure). Current expenditure is especially crucial in the areas of health, education and social services.

UNCTAD has estimated that, for LDCs, investment needs (i.e., capital expenditure) amount to $120 billion annually between 2015 and 2030, a quantity three times higher than current investment in the Sustainable Development Goals, calculated at $40 billion annually. These capital investment figures include domestic and foreign, as well as public and private, investment.

Need for external finance

LDCs need significant amounts of external finance to accelerate the process of structural transformation, given the lower levels of development and productivity of these countries, said UNCTAD.

The issue of financing the expenditures required to achieve the Sustainable Development Goals is directly related to two structural features of these economies: first, their dependence on external sources of financing; and, second, the early stage of structural transformation at which these economies find themselves.

In general, financing investments mainly through domestic – rather than foreign – savings remains the preferable option, often entailing more stable growth dynamics and somewhat greater policy space. This underscores the importance of effective domestic resource mobilization, said UNCTAD.

Yet the option of financing investments through domestic savings is often not feasible at low levels of income, as is the case for LDCs. This is due to the limited scale of domestic resources and ineffective resource mobilization (caused by failings in domestic fiscal and financial systems), as compared with the much larger investment needs of these countries. Additionally, many LDCs suffer from large volumes of illicit financial outflows, which undermine efforts in domestic resource mobilization.

Worldwide, the volume of external financial flows to developing countries expanded significantly since the turn of the millennium, but experienced a decline in recent years. Simultaneously, the array of instruments used – from FDI, debt and traditional ODA to blended finance, remittances and portfolio investment – have continued to increase the potential availability, and complexity, of the development finance landscape.

In the context of the balance of payments, FDI, traditional ODA, official financing stemming from South-South cooperation, remittances, external debt and portfolio investments all represent potential sources of external finance, as do emerging instruments such as the distinct forms of blended finance and public-private partnerships, said UNCTAD.

The availability of external finance to LDCs has increased significantly since the beginning of the century, from $24 billion in 2000 to $163 billion in 2017, largely because of the rising weight of remittances, FDI and external debt.

Nonetheless, LDC specificities emerge quite starkly in the composition of external finance. Unlike for other developing countries, ODA remains the most important source of external finance for LDCs, underscoring the challenges in attracting market-based external financial resources. ODA accounted for one-third of total external development financing of LDCs in 2014-17, as compared with just 4.5% for other developing countries. In contrast, the importance of FDI as a source of external finance was the reverse for these two groups of countries. While in LDCs it accounted for one-fifth of the total, in other developing countries, it contributed almost half of total external finance.

LDCs' reliance on external finance, and the persistence of their relative position in terms of aid dependence, points to a continuous need for support, which is widely acknowledged in the Addis Ababa Action Agenda and within the framework of the 2030 Agenda for Sustainable Development (target 17.2).

The state of LDC aid dependence depicted so far is worrisome in itself. The situation has become even more challenging for LDCs as the aid landscape has changed considerably in recent years. It has become more complex and less transparent since the early 2000s, which further challenges the already constrained capacities of LDC policymakers to manage the financing of sustainable development in their countries, said UNCTAD.

Over the last 15 years, the aid architecture has been transformed, due especially to the following developments: changes in the aid policies of traditional donors that affect their aims, priorities, modes of delivery and partnerships; shifts in the relative importance of actors, including particularly the changing role of non-governmental organizations and new forms of private sector engagement; (re) emergence of new actors and sources of development finance, especially in relation to the strengthening and broadening of South-South cooperation; entry of philanthropists, who have come to play a major role in some fields (e.g., health); and development of new modalities and instruments of raising and delivering aid in the wake of innovations in global financial markets, e.g., blended finance and public-private partnerships. These crucial developments are transforming the global scene of official development financing, which is becoming far more fragmented, complex and opaque.

Such changes present challenges to the limited institutional capacities of LDC policymakers and other domestic economic agents, said UNCTAD. As they strive to mobilize the much higher financing necessary to launch the structural economic transformation required to achieve the Sustainable Development Goals, these changes add to the challenges that LDCs have traditionally faced.

At the same time, these changes provide opportunities, given the possibility of accessing a wider array of sources and modalities of financing, said UNCTAD. This has been dubbed the "age of choice" for development finance. However, the extent to which the selection of options has widened depends on countries' creditworthiness. If it is low or lacking, access to private funds on commercial terms in international capital markets (e.g., by emitting bonds) is excluded, or at least more difficult and costly, as an option.

Aid Effectiveness Agenda 2.0

According to the UNCTAD report, the present relationship between traditional donors and beneficiary countries is largely a result of two factors, namely, lingering issues on the original aid effectiveness agenda on which progress has been limited or incomplete; and rapid changes in the aid architecture, which present new challenges to recipient countries.

To take into account both lingering and emerging issues, traditional donors and beneficiary countries are advised to launch a new agenda, namely, Aid Effectiveness Agenda 2.0. This agenda should have two components, namely, addressing the unfinished business of the original agenda and dealing with the challenges that have emerged from ongoing changes in the aid architecture.

The implementation of an Aid Effectiveness Agenda 2.0 should therefore effect changes to the existing aid architecture and correct for many of the challenges faced by LDCs under the traditional system, said UNCTAD.

It noted that over 10 years after the signing of the Paris Declaration and the Accra Agenda on aid effectiveness, their principles remain relevant, as does the principle of putting recipient countries and their priorities at the centre of the aid system. This is consistent with the role attributed to states by the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda.

Developing-country policymakers still place a higher priority on ownership, alignment with national priorities and effective delivery, for example, the speed of project delivery, in raising project finance. Yet, to a great extent, these principles have not been implemented and have decreased priority in mainstream aid policymaking.

Therefore, a core element of an Aid Effectiveness Agenda 2.0 is to reaffirm these principles and address the unfinished business of the original aid effectiveness agenda. There is a need to fully implement international commitments made following previous negotiations and affirmed in major international declarations.

Private sector engagement implies an increased reliance on FDI and public-private partnerships. Negative experiences with such partnerships are common in both the global North and South, said UNCTAD. It noted that many of the donor countries championing such partnerships abroad through the strategies of their development finance institutions are changing their approaches to domestic public-private partnerships, but similar developments are lagging in recipient countries.

Giving primary consideration to the singular issue of accountability can help LDCs affect private sector engagement in ways that enhance its contribution to structural transformation and sustainable development.

Regardless of the outcomes of the modernization of the ODA architecture, the redefinition of what counts as

ODA warrants a careful assessment of development impacts, to determine whether the evolving notion of ODA is appropriate in the era of the 2030 Agenda.

For an Aid Effectiveness Agenda 2.0 to be meaningful, it is important that the OECD's Development Assistance Committee (DAC) members strengthen ODA-linked private sector engagement accountability in beneficiary countries including, in particular, LDCs, which are the most dependent on ODA among all beneficiary countries.

UNCTAD also noted that the relevance of South-South and triangular cooperation has increased in recent years and could have a critical role with regard to sustainable development prospects in both LDCs and other developing countries. Given the development needs of the former, increased South-South development cooperation by non-traditional partners in a position to do so could bring considerable benefits. It is critical to adequately reflect LDC needs in existing frameworks for economic integration among developing countries at regional or inter-regional levels.

UNCTAD said that challenges remain, in particular with regard to regional imbalances in access to development finance by beneficiary countries, along with the need for increased clarity in the definition of concessional and non-concessional lending, given the present lack of a common definition among sources of development finance in the South. These issues should be addressed through the revamping of development partnerships and enacting of general precepts, including mutual accountability and development impact evaluations.

According to UNCTAD, it is crucial for LDCs to place the strengthening of their fiscal systems at the centre of their development strategies, for two main reasons.

First, building fiscal systems is an integral part of state-building and there is a reciprocal relation between the quality of a fiscal system and state capacity. In order to finance the building of institutions and the formation of bureaucratic capabilities, states need to mobilize resources. Along the development trajectory of countries, there is typically a transition from dependence on external finance towards domestic resource mobilization.

In addition, state capacity to raise and allocate fiscal revenue in a sustainable way depends on a social contract that confers legitimacy to the fiscal system, in both developed countries and as part of the ongoing development process in developing countries. State-building and the strengthening of state capacity is in turn required for a state to be able to steer the process of structural transformation and, thereby, sustainable development.

Second, there is a relationship between taxation and aid dependence, said UNCTAD. It is often argued that aid dependence prevents the development of fiscal capacity in recipient countries, as well as state capacity more generally, and that it tends to perpetuate a low-level equilibrium that characterizes under-development traps. Aid and taxation are often seen as imperfect substitutes, on the grounds that the availability of ODA is a disincentive to the construction and strengthening of a domestic fiscal system.

However, the extent of such negative side-effects is questionable and, moreover, they may be the consequence of problems in the system of aid itself. In addition, multilateral and regional development banks have traditionally been active in the fiscal field through the implementation of capacity-building programmes on fiscal policy and budget management, which have resulted in building islands of high-level bureaucratic competence in LDCs, typically within ministries of finance and central banks.

Yet such capacity-building activities have often largely been oriented towards fiscal prudence and decreased expenditure, rather than raising taxes and managing the longer-term development impacts of fiscal policy, said UNCTAD.

Preserving multilateralism

According to the UNCTAD report, with regard to broader issues on the international agenda, LDCs have a particularly strong vested interest in preserving and strengthening multilateralism. This is the sphere where the voice and interests of smaller countries and weaker actors in the international community are best represented and defended. Multilateralism is, moreover, a means of pursuing the realization of human rights, including the right to development.

Yet the current economic and geopolitical conjuncture is placing an enormous strain on the multilateral system and it has recently come under criticism in the fields of trade, finance and geopolitics.

UNCTAD said that with regard to specific issues on the aid effectiveness agenda, the UN system has effectively promoted the Paris Declaration principles of ownership and alignment, with a commitment to promoting state capacity and decision-making on development priorities and strategies, in contrast to the shifts in the priorities of traditional donor countries away from a beneficiary country-centric approach.

It noted that this broader movement away from multilateralism seems to be reflected in the current trend in the aid architecture to target the increased use of bilateral development finance institutions. This may ultimately elevate bilateral engagement and intensify unilateral action by a variety of actors that are not necessarily equipped to address all or any development challenges.

This change should not come at the expense of the multilateral sector, including the critical role of the UN in providing concrete evidence-based guidance on development cooperation for policymakers and practitioners at all levels. The UN development system constitutes an essential forum to create greater solidarity across all countries and sectors and to ease tensions between competing national interests.

The LDCs have a limited voice at key discussions at which systemic issues are treated and limited chances to articulate their needs and see them adequately considered. Based on historical experience, this lack of representation is unlikely to be addressed in the near future, yet it is important that LDC concerns be adequately taken into account, if the pledge to leave no one behind is to be taken seriously.

The need to reinvigorate multilateralism and strengthen global cooperation is increasingly being recognized, not only by the UN and UNCTAD but also by the International Monetary Fund (IMF) and OECD, said UNCTAD.

With regard to aid allocation and delivery, it is crucial to reinforce the role of the UN in the evolving aid architecture, given that development is one of the three pillars of the UN and given its strong track record with regard to ownership and alignment with national priorities, UNCTAD concluded. *(SUNS9025)*

Developing countries face major vulnerability challenge

An UNCTAD document looks at different dimensions of vulnerability confronting developing countries in the international trading environment.

by Kanaga Raja

GENEVA: Vulnerability, with its facets of exposure and dependence, represents a major challenge for the sustained and beneficial integration of developing countries into international trade, the UN Conference on Trade and Development (UNCTAD) has said.

This assessment is in a Secretariat Note presented at the eleventh session of UNCTAD's Trade and Development Commission held here on 25-29 November.

According to the UNCTAD Note, as countries open up and deepen their integration into the global economy, their economies become interdependent but also exposed to external risks. Combined with the absence of alternative means, the process of integration could lead to a state of vulnerability for countries dependent on particular forms of trade, finance, products, markets, suppliers, transport routes and infrastructure, due to their natural endowments and specialization patterns, which could have profound implications for their economic welfare and development paths.

There is a need to effectively address the causes and effects of multi-faceted vulnerabilities, including the imminent threats posed by climate change, to buttress economic resilience for sustainable development, said UNCTAD.

The UNCTAD Secretariat Note addressed the issue of trade and vulnerability with focus on the sub-themes of small countries and big challenges, specifically small island developing states (SIDS); commodity dependence as a vulnerable state; and multi-faceted vulnerability, in particular trade and transport facilitation.

Vulnerability of SIDS

UNCTAD noted that SIDS are a heterogeneous group of countries. Despite being "small" and islands, the size and economic profile of these countries differ significantly on several measures. For example, as a group, SIDS include nine least developed countries (LDCs) and extend to all income categories, including six countries classified as high-income by the World Bank.

For instance, Nauru covers 20 sq km while Solomon Islands covers 28,000 sq km in land area. In 2017, the total population ranged from 11,000 both in Nauru and in Tuvalu, to 2.9 million in Jamaica. Gross domestic product (GDP) was the lowest in Tuvalu at $65 million and the highest in Trinidad and Tobago at $21 billion. Per capita income ranged from $1,330 in the Comoros to $29,825 in the Bahamas.

Despite the asymmetries, SIDS face special development needs arising from their unique vulnerabilities, including in the context of achieving the Sustainable Development Goals (SDGs).

"Smallness" carries implications of scarce land areas and limited labour and capital for agriculture and manufacturing production, and, consequently, high production costs and low output volumes. The small market size of SIDS does not allow these countries to benefit from economies of scale, which severely constrains their productive and export capacities, with knock-on effect on the entire economy.

Insularity often implies remoteness from major markets, import sources and transport hubs. The transport and mobility costs for SIDS are high, as they are excluded from major transport networks. Located in the Caribbean Sea, the Mediterranean Sea, the South China Sea and the Atlantic, Indian and Pacific Oceans, SIDS are at high risk of extreme weather events and natural disasters and of the effects of climate change in the long term.

SIDS are generally open to and highly dependent on international trade, said UNCTAD. As their domestic markets cannot afford large-scale industries subject to economies of scale, SIDS tend to lack competitive export products that could drive an entire economy. Conversely, they tend to rely heavily on imports of energy and a wide range of food, capital and consumer goods to fuel their economies and meet subsistence needs.

The trade-to-GDP ratio reaches 100% in half of these countries and is above 90% in 75% of SIDS. Consequently, SIDS register large current account deficits. In 2016, SIDS ran current account deficits of 5.8% of GDP on average, reaching 20% in some cases.

Persistent deficits translate into external finance needs, which have mainly been addressed through external debt. Debt dependence and sustainability are indeed a common and longstanding issue in SIDS, particularly in the Caribbean. In 2014, the debt-to-GDP ratio of SIDS stood, on average, at 57% of GDP; the majority of this debt-to-GDP ratio (45%) was external.

While concessional loans are vital sources of development funding, the share of official development assistance flows to SIDS has steadily declined as the relatively high income level of many SIDS has made them ineligible for concessional finance. In the absence of concessional finance, non-eligible SIDS have relied heavily on private finance and capital markets. This has exposed them to market volatility and the risk of reversals in financial flows.

Lack of economic diversification, and dependence on a few export commodities and markets, has gradually compromised the participation of SIDS in international trade. Since 2000, their share in world merchandise exports fell from 0.15% to 0.10%. Exports of traditional cash crops such as coffee, fruits and sugar, as well as apparels, dwindled as new competition emerged and preferential market access conditions gradually eroded. This has happened despite the continued importance of these products, for several SIDS, as a source of foreign exchange.

With geographical conditions discouraging agriculture and manufacturing activities, many SIDS have become remarkably focused on services, UNCTAD noted.

In 2017, services represented on average 70% of GDP across SIDS, accounting for more than 85% in the Bahamas, Palau and Saint Lucia. In 2018, services were the major export sector for many SIDS and represented more than 80% of total exports of half of these economies.

Within the predominant services exports, tourism services are the most important category for almost all SIDS. In 2018, travel services accounted for 75% or more of total services exports in half of SIDS and reached more than 90% in the Bahamas, Grenada, Maldives, Saint Lucia and Timor-Leste.

SIDS are intrinsically disadvantaged in international trade owing to their insularity and remoteness. Many SIDS are located away from main transportation routes and face significant challenges in connectivity, as they have to rely on infrequent transport services for their small-volume shipments. Such constraints arising from remoteness are particularly pronounced in SIDS in the Pacific, such as Fiji, Samoa, Tonga, Tuvalu and Vanuatu.

The inherent vulnerability of SIDS has intensified with greater threats of extreme weather events and natural disasters in a changing climate. For many SIDS, their territorial waters and exclusive economic zones far exceed their land mass. With populations, agricultural lands and infrastructures tending to be concentrated in coastal zones, any rise in sea levels will have significant and profound effects on settlements, living conditions and island economies.

These socioeconomic situations make SIDS even more vulnerable to climate change. Rising sea levels have submerged five islands of Solomon Islands, an archipelago in the Pacific Ocean, with six more islands under threat.

The effects of climate change pose significant risks to biodiversity, including changes in fish migration paths, and threaten coral reef species, while eroding the valuable buffer that coral reefs provide, protecting coastal communities. Rising sea levels result in displacement of coastal communities and increase the risks of salinization of fresh groundwater.

The vulnerabilities of SIDS are significant and represent constraints on their development, UNCTAD said. Lack of diversification in production, high degree of trade openness and dependence, heavy indebtedness and excessive reliance on a few export categories and transport routes make SIDS highly vulnerable to exogenous shocks. The critical dependence of SIDS on tourism and marine resources, and on long-distance shipment and coastal transport infrastructure, compounds these vulnerabilities in the face of environmental risks.

Reducing the risk of vulnerabilities to foster economic resilience is critical for beneficial integration of SIDS into the global economy, it said.

Uncertainties regarding the functioning of the multilateral trading system created by heightened trade tensions are therefore a cause for concern for SIDS. These countries have major stakes in a robust and functional rules-based system. The recent debate on World Trade Organization reform to modify the design of the special and differential treatment principle could have an important bearing on SIDS. At issue is whether or not to limit the eligibility for special and differential treatment provisions by the application, inter alia, of the criterion of a country's per capita income.

This is a reminder of the important policy question of how the special vulnerabilities of SIDS should be measured and addressed in international policymaking processes, said UNCTAD.

UNCTAD also said that opportunities exist for SIDS, given their specialization in services, to capitalize on this vital sector to promote diversification and structural transformation. In addition to tourism and financial services, telecommunications and information and communications technology (ICT) services are particularly important for SIDS, as these services help mitigate physical distance, reduce transaction costs and enhance productivity in all economic sectors where they are used as inputs. ICT-enabled business services could also facilitate the integration of SIDS in production processes in global value chains, while ICT-enabled digital trade could promote trade by small and medium-sized enterprises.

In view of their rich endowment in ocean-derived resources, SIDS could consider exploring the concept of a blue economy to foster economic diversification, capitalizing on the sustainable use and management of marine and coastal biodiversity, ecosystems and genetic resources. UNCTAD said that it has identified 12 promising ocean economic sectors, including fisheries, seafood manufacturing, maritime transport, port and logistics services and coastal and maritime tourism, as well as aquaculture, fisheries services and blue bio-trade.

In addressing particular trade logistics constraints, efforts are warranted for SIDS to foster the efficiency and connectivity of their ports, including ports' liner shipping connectivity through, for example, digitalization and port modernization; advance trade and transport facilitation; factor in sustainability concerns; promote low-carbon and sustainable shipping; and monitor transport performance, it said.

As ports and coastal airports are lifelines for external trade, food, energy and tourism for SIDS, climate change adaptation for coastal transport infrastructure is critical, in particular in the light of projected impacts of future climate change, it added.

Commodity dependence

According to UNCTAD, primary commodity-producing countries that face declining and often volatile prices on the one hand, and have to import manufactures produced in high-wage countries and in industries where entry barriers are high, on the other, could suffer from decreasing terms of trade and be trapped in a state of commodity dependence characterized by an "unequal exchange" with commodity-importing industrialized nations.

According to the most recent UNCTAD data, 102 countries were commodity-dependent (at least 60% of the value of their merchandise exports is accounted for by commodities) in 2013-17, an increase from 92 in 1998-2002.

Two-thirds of developing countries' exports are dependent on commodities. Commodity dependence is almost exclusively a developing-country phenomenon that especially affects vulnerable country groups. It affects 85% of LDCs, 81% of landlocked developing countries and 57% of SIDS. Geographically, 89% of countries in sub-Saharan Africa are commodity-dependent, making it the hardest-hit region.

Empirically, evidence shows that commodity dependence can have a negative impact on development through terms-of-trade shocks and price volatility, with macro and micro effects, particularly at the household level for small-scale farmers, miners and the poor.

At the macroeconomic level, commodity-dependent developing countries are vulnerable to negative commodity price shocks and commodity price volatility. Commodity price volatility comes from a succession of shocks that are asymmetric and unpredictable. This leads to random fluctuations in supply (e.g., agricultural products) and random fluctuations in demand for industrial products (used in primary commodity production).

The impact of these fluctuations can be amplified when commodity prices exhibit a high frequency of sharp positive shocks (peaks) and long bottoms, or downward trends. These price shocks and volatility are detrimental to exporters.

For example, average commodity price levels in 2013-17 were substantially below their peak of 2008-12. This contributed to an economic slowdown in 64 commodity-dependent developing countries, with several going into recession.

As growth decelerated, the fiscal situation in many commodity-dependent developing countries deteriorated, resulting in the accumulation of public debt, often in the form of an increase in external debt. The external debt of 17 commodity-dependent developing countries increased by more than 25% of GDP between 2008 and 2017.

Also, a commodity export earning boom could lead to real exchange appreciation, which in turn creates a situation of inefficient resource allocation and a loss of competitiveness of non-commodity sectors, often described as "Dutch disease", said UNCTAD.

While the share of natural resources in GDP has been found to have a positive impact on growth performance, volatile commodity prices lead to volatile output and investment, which in turn depresses per capita GDP growth.

At the microeconomic level, export earnings uncertainty has an impact on savings and investment decisions. In developing countries, investors are often risk-averse and face liquidity constraints amid poorly functioning capital markets. This could force economic agents to make precautionary savings. Through this channel, income instability could negatively impact investment. Risk occurring from instability in export revenues is likely to modify long-term growth, as economic agents could refrain from investing in technical progress.

For example, during the period of structural adjustment programmes implemented in Latin America and Africa in the 1980s and 1990s, marketing boards and stabilization funds for agricultural commodities were dismantled, while export taxes were removed. The phase-out of marketing boards, by removing price guarantees, increased exposure of these regions' countries to international market shocks. Public services were abandoned, without private sector takeovers. This led to production instability amid variable yields and product quality. Farmers reduced adoption of new technologies and control of agricultural processes, leading to lower product standards, said UNCTAD.

UNCTAD found that the countries most vulnerable to climate change are commodity-dependent developing countries (including many SIDS and LDCs). They are also among the countries least prepared to adapt to climate change; thus, climate change reinforces the need for economic diversification and transformation in commodity-dependent developing countries.

Climate change affects mostly agricultural producers and their capacity to produce for markets. The impacts of global warming are adding to the pressures on agriculture. There is evidence that climate change is affecting food and feed crop yields and water availability. Meanwhile, yields in low-latitude regions are projected to decrease with higher temperatures, exacerbating poverty and food insecurity in many developing countries. Climate change is also expected to increase the likelihood of extreme weather events such as floods and droughts, which increase the risk of crop and livestock losses.

Farming communities will have to adapt to events that are likely to increase food insecurity. The abundance and distribution of harvested aquatic species are highly affected by increasing temperatures, even shifting national rights over stocks of different species. Changes in sea water chemistry, sea water warming, competition for water and changes in the water cycle will affect fisheries and aquaculture as well as whole ecosystems.

Climate change also creates new risks to production sites and related infrastructure in the energy and mining sectors.

Trade and transport facilitation

According to the UNCTAD Secretariat Note, transport and logistics are the backbone of globalization. They drive international trade and service value chains, while enabling deeper market integration.

However, this strategic sector is increasingly at the forefront of the vulnerability debate. Its heightened exposure to disruption factors undermines the ability of transport and logistics to effectively support a trade-led sustainable development path.

Over recent years, multiple, interconnected concerns have arisen that have heightened the vulnerability of transport infrastructure and transport and trade facilitation services. These concerns include varied risks that span economic, social, environmental, regulatory, technological and market-related factors. Concrete examples include rising geopolitical risks, environmental degradation, fossil fuel dependence, climate change, security threats, disruptive technologies, new demands on cross-border trade facilitation and cybersecurity.

Many developing countries and LDCs are faced with persistent transport challenges that could be further exacerbated by heightened vulnerability. These include infrastructural transport deficits, limited connectivity to transport networks, lack of investment and of access to finance and prohibitive transport costs that weaken their trade competitiveness, economic development and social progress.

The vulnerability of transport and logistics is particularly apparent in many SIDS and landlocked developing countries, which are heavily challenged by their unique geographical, economic and logistical profiles. Additional constraints facing these countries result from their geographical disadvantage, small size, limited trade volumes, limited transport options and, often, trade flow imbalances that raise transport costs and further increase the vulnerability of the transport sector to external shocks.

Currently, freight transport, i.e., the transport of goods, accounts for 27% of all transport energy use and is responsible for about 7% of the global economy-wide greenhouse gas emissions, driven in particular by growing global trade and transport activity.

At the same time, trade-related international freight volumes are expected to grow by a factor of 4.3 by 2050 compared with 2010. One-third of trade in 2050 will occur among developing economies, compared with 15% in 2010. World road and rail freight volumes are expected to increase more than three-fold and over five-fold, respectively, by 2050.

These trends underscore the challenges facing the transport sector and heighten its vulnerability to unsustainable patterns. Addressing these issues requires mainstreaming sustainability considerations into relevant planning and policymaking decisions.

Mitigating the vulnerabilities weighing on transport and logistics requires, among other things, measures and actions that promote economically efficient, competitive, affordable and socially inclusive (multi-modal) transport systems, while at the same time achieving greater energy efficiency and environmentally friendly objectives.

Designing and implementing sustainable transport and logistics systems, especially in developing regions, is crucial to tackling the varied vulnerabilities facing the transport sector. Multi-pronged approaches are required to help developing countries build capacity to ensure that their transport and logistics are better prepared to respond to multi-faceted vulnerabilities. Areas of intervention include improving understanding of risks, exposure and implications for the transport and logistics of developing countries.

UNCTAD also said that trade facilitation remains ever important for developing countries, including LDCs, in an increasingly interconnected world. Efficient trade facilitation reforms are key to both reducing a country's exposure to vulnerabilities in trade and the country's development when implemented successfully.

The benefits of trade reforms to developing countries are substantial. Efficient and simplified trade procedures not only reduce cost and time to trade, they also lower the barriers of inclusion of small and medium-sized enterprises in global value chains and improve government revenues. Trade facilitation reforms could also help prepare countries for the growing digital economy and e-commerce, which are expected to dominate the global trading system in the coming years.

At a time when trade facilitation reforms have now become an obligation for the 164 members of the World Trade Organization under the Agreement on Trade Facilitation, developing countries, including LDCs, will need to pay even more attention to trade facilitation gaps in their national trade reforms, including SIDS that are in particular need of reforms of trade facilitation and port management systems and landlocked developing countries that are particularly vulnerable in border cooperation and transit.

In order to do so, trade facilitation reforms need to be implemented and applied correctly. It is important that countries implement their obligations according to their individual commitments.

Even though there are visible signs of progress in trade facilitation across developing countries, including LDCs, challenges remain. Emerging threats and vulnerabilities in the multilateral trading system present both challenges and opportunities to developing countries, including LDCs.

Rising protectionism as well as heightened trade tensions in major economies put developing countries, including LDCs, in an increasingly uncertain position. As most of these countries are increasing trade in intermediate goods, tariffs could heighten prices and render products from developing countries uncompetitive.

On the other hand, these emerging threats could present unique opportunities for developing countries to increase market share through favourable trading environments, improved trade procedures and other relevant trade facilitation reforms.

Implemented appropriately, trade facilitation reforms could ensure that developing countries, including LDCs, facilitate imports and exports, generate revenue for investments, eliminate poverty and trade into prosperity.

Thus, advancing trade is a precondition for realizing the development agenda and must be included in national development agendas, said UNCTAD. *(SUNS9025)*

Major North countries bringing about state of exception at WTO

A former South African trade minister has called for unity among developing countries in facing developed-country attempts to constrain their scope for policymaking under WTO rules.

by D. Ravi Kanth

GENEVA: Major developed countries are attempting to bring about a state of exception at the World Trade Organization for suspending the fundamental flexibilities availed of by developing countries such as special and differential treatment (S&DT), non-discrimination and the consensus principle for decision-making (on this issue), former South African trade minister Rob Davies has cautioned.

Speaking at the South Centre here on 7 November during the release of his book *The Politics of Trade in the Era of Hyperglobalization: A Southern African Perspective*, Davies urged developing countries to join forces to adopt common positions to enhance their "policy space" that is now under threat due to the escalating intransigent positions of the developed countries.

He expressed sharp concern over the lack of unity among developing countries in confronting the multi-pronged challenges at this juncture.

Even though some developed countries such as the European Union and Japan express concern over US President Donald Trump's trade policies, they wholeheartedly support Washington's initiatives to bring about differentiation in availing of S&DT or suspend the principle of consensus-based decision-making on this issue, Davies suggested.

According to participants present at an informal trade ministerial summit convened by China in Shanghai on 5 November, the EU has suggested that WTO members need to discuss the continuation of the consensus principle for decision-making at the multilateral trade body. South Korea among others has supported the EU's call, said a participant who asked not to be identified.

Davies, who was the trade minister of South Africa till June 2019, said he has argued in his book that outcomes in trade negotiations reflect "power", which depends on a number of factors such as the size of the economy, the presence of a country in international trade, the ability of a country to mobilize its "bureaucracy" of trade diplomats in the negotiating processes, as well as the ability of a country to drive the narrative process backed by a series of think-tanks.

"Trade negotiations, in short, have been driven by short-term self-interest, reflect power relations and are characterized by relativism," Davies argued in his book.

"These realities in the era of globalization and neo-liberalism contributed to growing unevenness and increasing inequality both within and between countries," he said.

"The new trade order driven by these processes did, however, have another result, namely, the emergence of China first as a major exporter of manufactured products and later as a serious innovator and competitor in the technologies of the 4th Industrial Revolution," Davies argued.

Much of the success of China during this period was largely due to the fact that it did not conform to the policy "advice" proffered to a host of other developing countries, Davies said. "Its progress was the product of a deliberate state-led industrial policy," he argued in his book.

"Like other industrializers before it, it took advantage of export opportunities open to it, while carefully calibrating the opening up [of] its own economy," he said.

In the face of threats to close export markets to its products, China became a proponent of "free trade", Davies added.

"Its prudent strategic decision in the past few years to turn to domestic consumption as a driver of development and its energetic drive to become a significant player in the technologies of the 4th Industrial Revolution have resulted in that country becoming the second largest economy," he said.

"This, plus the growing political influence of 'discontents' in the developed world has dramatically changed the political economy of the global trade landscape," he added.

Consequently, "we are now at a point where the crisis of neo-liberalism, evident at least since the onset of the global recession, has now become an existential crisis for the rules-based multilateral trading system itself," Davies said.

He said it would be the worst prospect for any country to be at the bottom of the global division of labour in the evolving Information Age.

From Seattle to Doha

The former minister also spoke about the developments that unfolded from the WTO's third Ministerial Conference in Seattle (in 1999) to the Doha Round (in 2001), in which he played a major role articulating the interests of developing countries in agriculture and market access for industrial goods.

While the negotiations in the Doha agriculture package on domestic support focused more on substantial reduction in trade-distorting domestic subsidies, the outcome on industrial goods was aimed at harmonizing the industrial tariffs in the developing countries with the existing levels of tariffs in the developed countries through the controversial "Swiss formula", Davies said.

The Swiss formula required developing countries to cut tariffs sharply as compared with the developed countries, thereby undermining the principle of S&DT and the principle of "less than full reciprocity" (LTFR) as agreed in the Doha Round.

Little wonder that while the proposed outcomes on agriculture for developed countries were replete with carve-outs, the developing countries were presented with a "one-size-fits-all" approach in relation to market access for industrial goods, said Davies.

Ironically, even the G20 coalition of developing countries "did not shoot for the moon", Davies said, implying that the developing countries were offering flexibilities to the developed countries even though they were denied the mandated LTFR on market access for industrial goods.

Davies said that erroneous estimates of gains from trade agreements were constantly manufactured to entice developing countries into signing agreements such as the Trade Facilitation Agreement. On the "$1 trillion value" projected from the Trade Facilitation Agreement that was signed at the WTO's ninth Ministerial Conference in 2013, he asked, "Where is the one trillion?"

From hegemonic multilateralism to hyper-mercantilism now, the developing countries have paid for trade liberalization without securing commensurate gains, he suggested.

The developed countries are now resorting to "*post hoc ergo propter hoc*" ("after this, therefore because of this") logic to deny S&DT to developing countries since China benefited most from S&DT in its industrialization strategy, said Davies.

Effectively, the ladder that enabled China to adopt a developmental path of incremental and progressive changes is now being kicked away by the developed countries so as to deny other developing countries the opportunity to adopt the Chinese strategy, he added.

In short, the developing countries are now being denied "policy space" through the proposed WTO reforms involving differentiation in availing of S&DT, he suggested.

The developing countries should be careful about what they agree to at trade ministerial meetings, he said, pointing to the two-year moratorium on customs duties on electronic transmissions agreed at the WTO Ministerial Conference in Buenos Aires in 2017. He said the moratorium is a form of special and differential treatment for the tech giants.

In a similar vein, Davies said that while decisions taken at ministerial meetings may not be legally binding, they may be politically binding, like paragraph 30 of the Nairobi Ministerial Declaration adopted at the WTO's tenth Ministerial Conference in 2015.

The controversial paragraph 30, which is often used by the US, the EU and Japan among others to declare the Doha Round dead, says: "We recognize that many Members reaffirm the Doha Development Agenda, and the Declarations and Decisions adopted at Doha and at the Ministerial Conferences held since then, and reaffirm their full commitment to conclude the DDA on that basis. Other Members do not reaffirm the Doha mandates, as they believe new approaches are necessary to achieve meaningful outcomes in multilateral negotiations. Members have different views on how to address the negotiations. We acknowledge the strong legal structure of this Organization."

The 4th Industrial Revolution, based on big data, artificial intelligence and non-regulation of the global Internet of things, might offer benefits but they will sharply widen inequalities and cause unmitigated disruption in economic and political spheres, said Davies.

Effectively, the developing countries are forced to confront "asymmetries" of knowledge and power in the global trading system, where the winner takes all while a large majority of the world population remain locked up in poverty and inequality, Davies argued succinctly. *(SUNS9016)*

US offers quid pro quo on e-commerce moratorium

The US has sought an extension of the current WTO ban on imposition of customs duties on electronic transmissions, suggesting it would agree to a workshop discussing the scope and effects of the freeze if an initial six-month extension is approved.

by *D. Ravi Kanth*

The United States has offered a quid pro quo for extending the e-commerce moratorium by six months until the WTO's twelfth Ministerial Conference (MC12) in Nur-Sultan, Kazakhstan, in June 2020.

In return, the US will agree to convene a workshop early in 2020, as demanded by India and South Africa, for assessing the scope and potential revenue implications of electronic transmissions, trade envoys told the *South-North Development Monitor* (*SUNS*).

Earlier, the US had vehemently blocked the proposal from India and South Africa for convening a workshop with experts drawn from the United Nations Conference on Trade and Development (UNCTAD) and the Brussels-based European Centre for International Political Economy (ECIPE) to present their conflicting assessments on what would constitute e-commerce transmissions and their potential revenue implications.

At an informal WTO General Council meeting on 18 November, the US offered, for the first time, a quid pro quo on the e-commerce moratorium by suggesting that it would agree to convening the workshop in January or February 2020 provided India and South Africa agree to an extension of the moratorium until June 2020, said trade envoys who wished to remain anonymous.

The moratorium for not levying customs duties on e-commerce transmissions will expire in December 2019 unless WTO member states agree to extend it.

The US and other major developed countries seem to be panicking over the tough stand adopted by India and South Africa, which are demanding a rethink of the existing moratorium due to lack of clarity on what would constitute electronic transmissions and their potential revenue implications, said participants who asked not to be identified.

The US along with the European Union and several other countries have said they would prefer a permanent moratorium.

At the informal General Council meeting, Switzerland and 15 other countries circulated a proposal for extending the moratorium by six months until MC12.

"No common understanding"

In response to this, India's ambassador to the WTO J.S. Deepak said the "most critical issues relating to the definition and scope of electronic transmissions" remain unaddressed.

"Despite a recent spate of research papers on this issue, the latest being a report by the OECD released last week, there is still no common understanding amongst the membership," he said.

He provided an account of various developments on the definition and scope of e-transmissions since 2003, including:

1. A 2003 WTO background note identified electronic transmissions (ET) as "digitized" products. The products

covered as ET consisted principally of sound recordings, audiovisual works, video games, computer software and literary works.

2. A number of subsequent studies, including a study by UNCTAD in 2019, estimated the implications of the moratorium with this definition.

3. However, in a 2016 WTO note, ET was defined as "digitizable products" and the study identified 30 such products.

4. In 2017, in a proposal for MC11, Indonesia noted that "it is our understanding that such moratorium shall not apply to electronically transmitted goods and services. In other words, the extension of the moratorium applies only to the electronic transmissions and not to products or contents which are submitted electronically."

5. In February 2019, using the WTO definition of "digitizable products", an UNCTAD study identified 49 6-digit HS codes as digitizable products and estimated tariff revenue losses for developing countries. The study estimated a per annum loss in fiscal revenue of more than $10 billion globally, 95% of which was borne by developing countries, only on these 49 product lines. These estimates were also confirmed by UNCTAD's *Trade and Development Report 2019*.

6. In August 2019, an ECIPE study, which was endorsed by the International Chamber of Commerce, identified four broad categories of services as ET: wholesale and retail trading services; recreational and other services; communications; and business services. Arbitrary tariffs were applied on these services and, assuming that domestic services in developing countries cannot substitute imported services, GDP losses and employment losses were estimated.

7. Finally, in November 2019, an Organization for Economic Cooperation and Development (OECD) study described the scope of ET as "digitally delivered trade" and covered services like business services. Interestingly though, said Deepak, when it estimated tariff revenue losses, it did not include tariff revenue losses from forgone tariffs on services. Neither did it include services when estimating the share of digitizable trade in total trade.Against this backdrop, the Indian envoy asked "whether ET includes only digitized products or digitizable products or whether it includes services as well, and if services are to be part of ET, which services should be covered or whether all services should be treated as ET".

Clearly, WTO members need to "come to a common understanding on the definition and scope of ET", Deepak emphasized.

Members need to know the impact of "digital technologies like 3D printing, robotics and artificial intelligence" on their tariff schedules and built-in flexibilities under the WTO's General Agreement on Trade in Services (GATS), he argued.

Deepak said India could not agree with the OECD assessment that technologies such as 3D printing are unlikely to have far-reaching implications on trade in the near term. "To the contrary, it is estimated by other studies that if current growth of investments in 3D printing continues, 50% of the manufactured goods will be 'printed' in 2060 and if investments in 3D printing double, this target will be achieved in 2040."

Effectively, the new developments in the digital world "will wipe out almost 40% of cross-border physical global trade", he said.

Further, due to the moratorium, "foreign firms will be able to export duty-free any software to developing countries to 3D print the currently manufactured products, which will severely affect sectors [that] will include textiles and clothing, footwear, auto-components, toys, mechanical appliances and hand tools, etc. that generate large scale employment for low skilled workers in most developing countries", he added.

Deepak said customs duties on digitizable products will increase the costs of software imported by developing-country exporters to improve their production and export of many products and services. However, removal of the moratorium in no way means that WTO members will necessarily impose customs duties across the board, he maintained.

"The key is policy space and to use such policy space appropriately for domestic digital industrialization and generation of local jobs in the era of Industry 4.0," he said.

He also challenged the ECIPE and OECD findings that tariffs will be a "deadweight loss". "[I]t is a time-tested finding that tariffs have been effectively used by many developed countries in the past and even now to stimulate domestic production," he said. He added that "one major developed country believes in the overriding effectiveness of this instrument", without naming the US, which imposed unilateral tariffs on steel and aluminium in 2018 to revive its domestic production.

Deepak argued that "the key requirement which remains for taking a decision on the moratorium is clarity on the definition and scope of electronic transmissions, as many have pointed out."

"Only a clear understanding of these [issues] and an appreciation of its impact on policy space for digital industrialization and sacrifice of revenue would help Ministers take a well-considered and wise decision on the moratorium at MC12," said the Indian envoy. "And this understanding will come by accelerating the 1998 [WTO] Work Programme [on e-commerce] in the next six months up to June 2020."

"Profound implications"

In her intervention, South Africa's ambassador to the WTO Xolelwa Mlumbi-Peter said the decision on the moratorium "should be driven by concrete facts and analysis as it has profound implications for the WTO membership."

"The loss of tariff revenue due to rapidly increasing product digitalization has been one of the main reasons we have argued for the need to rethink further the extension of the moratorium and thoroughly examine the implications of the moratorium under the Work Programme," she said.

Besides, "the scope of the moratorium remains undecided and members have different views on what the moratorium is applicable to: is it to the transmission or is it also applicable to the content, is it applicable to goods or services."

Therefore, "a conclusive analysis of the implications" arising from the moratorium is difficult to reach, she pointed out.

Mlumbi-Peter suggested that there is a constant attempt at shifting the goalposts with regard to the scope of electronic transmissions, including in the recent OECD study.

"More importantly, the development implications of the moratorium in the digital era remain unclear," she said.

She noted that in 1998, when the decision on the moratorium was taken, the scope of ET was identified as "digitized products". Accordingly, five categories of digitized products were identified, namely, sound recordings, audiovisual works, video games, computer software and literary works.

With the digital revolution, the scope

of ET was widened and the WTO note of 2016 identified ET as “digitizable products”, she said. “Digitizable products were identified as those products which are traded both in the physical form as well as ‘online’, i.e., downloaded from the internet.”

In 2019, ECIPE identified ET as “digitizable products and services”, listing four broad categories of services as ET: wholesale and retail trading services; recreational and other services; communications; and business services.

Subsequently, the OECD further extended the scope of ET by identifying ET as “digital deliveries”, which covers, along with digitizable products, digitally delivered business services.

Therefore, said Mlumbi-Peter, “it is clearly in the interest of the membership to engage in a structured discussion within the work programme and clarify the definition and scope of ET to enable members to fully assess the implications and to enable decision making.”

India and South Africa, she said, “have called for the membership to examine the implications of the moratorium not just from a revenue perspective but also its impact on digital industrialization” in developing and least developed countries.

She said that “while the studies may differ on the quantum of revenue implications, they all reflect that the e-commerce moratorium is asymmetrical for developing countries.”

“This is because developing countries are mainly net importers of ET and have higher tariffs compared to developed countries and thus bear the brunt of the moratorium,” she emphasized.

The South African envoy referred to UNCTAD’s *Trade and Development Report 2019* which showed a loss in fiscal revenue of more than $10 billion globally as a result of the moratorium, 95% of which was borne by developing countries. “Since this estimate is based on only a small number of products and digitalization is rapidly affecting an increasing number of products, this estimate of forgone fiscal revenue could rapidly multiply,” she said.

Members need to “take a long-term view as we engage on the implications of the moratorium, including how we create a level playing field in a market of digital products that is characterized by concentration, abuse of market dominance, tax avoidance and unfair competition,” she emphasized.

With the growth of 3D printing, the moratorium “may have implications for negotiated tariffs on industrial products under GATT [General Agreement on Tariffs and Trade] which cannot be taken lightly for countries already struggling to effectively participate in global trade and are at a lower end of the value chain”, said Mlumbi-Peter. Moreover, “the protection given by developing countries to some of their services sectors under GATS may also be lost”.

In short, “it is increasingly difficult to agree to the extension of the moratorium when there is no agreement on what [it] covers and what it does not”, she said.

“Most importantly, we continue to ask ourselves what the impact of the extension will be, will it result in winner takes most markets and what would this mean for the long-term development trajectory of our economies?”

There are also different views on the technical feasibility of levying customs duties on ET. An extension without a structured discussion and approach to resolve these important issues postpones the problem and will not result in predictability in trade.

“The scope and definition of ET is the most urgent issue that needs to be resolved,” she said, suggesting that “more understanding is required amongst members to engage on policy responses on other trade-related aspects of e-commerce.”

Mlumbi-Peter said “there is a need to continue the work under the Work Programme on Electronic Commerce based on the existing mandate and guidelines” and examine the revenue implications of the moratorium in more detail given the different perspectives on this issue.

Sri Lanka also demanded more clarity on the scope of electronic transmissions, while Indonesia raised several issues concerning the moratorium.

It appears that the tough stand adopted by India and South Africa seems to have forced the US and other developed countries to the negotiating table on addressing the e-commerce moratorium. *(SUNS9023)*

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Trade liberalization for development?

There is no simple, direct relationship between trade liberalization and economic growth, write *Jomo Kwame Sundaram* and *Anis Chowdhury*.

The International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO), all dominated by rich countries, have long promoted trade liberalization as a "win-win" solution for "all people – rich and poor – and all countries – developed and developing countries", arguing that "the gains are large enough to enable compensation to be provided to the losers".

Yet, the IMF's 2016 World Economic Outlook report has warned that free trade is increasingly seen as only or mainly benefiting the well-off. The help and compensation needed by those disadvantaged by trade liberalization has rarely if ever been forthcoming, even in most developed economies.

Dubious claims

In 2001, World Bank research papers claimed a strong positive effect of trade for growth, arguing that globalization would accelerate growth and poverty reduction in poor countries.

Similarly, a November 2001 IMF brief noted, "Integration into the world economy has proven a powerful means for countries to promote economic growth, development, and poverty reduction".

Earlier, the IMF's 1997 World Economic Outlook claimed, "Policies toward foreign trade are ... promoting economic growth and convergence in developing countries."

A host of Fund research papers likewise advocated trade liberalization.

However, surveying a large body of influential early research, Rodriguez and Rodrik concluded "we are skeptical that there is a strong negative relationship in the data between trade barriers and economic growth..."

Likewise, the historical record since 1870 offers no support for claiming a positive growth-openness relationship before the 1970s – the correlation was, in fact, negative during 1920-40.

Similarly, during 1990-2003, growth was not significantly correlated with any measure of national trade openness.

After all, the effects of any national trade policy also depend on the trade policies of others, especially existing and potential trading partners.

Baldwin observed that general policy advice of openness should not imply that "no government interventions, such as selective production subsidies or controls on short-term capital movements, are appropriate at certain stages of development." He cautioned, "we must be careful in attributing ... lowering of trade barriers as being a sufficient government action for accelerating the rate of economic growth."

Trump backlash

With US President Donald Trump attacking trade liberalization, the nature of the debate has changed. For him, trade liberalization mainly benefits large corporations which profit from producing abroad, depriving American workers of jobs and decent remuneration.

Trump's trade restrictions have reversed decades of uneven trade liberalization. By insisting on bilateral over plurilateral and especially multilateral free trade agreements (FTAs), he has undermined trade liberalization's advocates and their claims. With Trump, the US, erstwhile champion of freer trade, has become its nemesis.

This policy U-turn has strengthened earlier doubts about the ostensible benefits of trade liberalization, not only for American workers but also for developing countries, which have long insisted that international trade gains and costs are unequally distributed among nations.

Growing scepticism about trade liberalization, even before Trump's election in late 2016, had rekindled the IMF-World Bank-WTO advocacy, e.g., in their paper "Making Trade an Engine of Growth for All", despite its acknowledgement that "trade is leaving too many individuals and communities behind, notably also in advanced economies."

Another IMF-World Bank-WTO report, "Reinvigorating Trade and Inclusive Growth", is also unpersuasive, with poorly substantiated patronizing assertions, as if preaching to the converted.

For the trio, the backlash is due to ignorance and failure to better advertise the benefits of free trade. Their touching faith remained unshaken despite considerable evidence, including their own, qualifying their advocacy claims.

Instead of more nuanced and credible advocacy of multilateral trade liberalization, unencumbered by intellectual property, investment and other non-trade agreements, they can only recommend targeted "safety nets" and proactive "labour market programmes" (e.g., retraining).

By contrast, the United Nations Conference on Trade and Development (UNCTAD)'s *Trade and Development Report 2018* focused, inter alia, on the "free trade delusion".

The World Input-Output Database suggests trade liberalization has favoured capital at the expense of labour. Capital's share of export value added in manufacturing global value chains (GVCs) rose from 44.8% in 2000 to 47.8% in 2014. Exceptionally, China's labour share rose from 43.0% to 50.4%, underscoring how government policy can influence distributional outcomes.

Besides exporting primary commodities, by participating in GVCs, some developing countries now produce intermediate manufactures, typically with imported inputs and equipment. Meanwhile, South-South trade has also increased.

From the 1980s, much of international trade growth was contributed by East (including Southeast) Asia, accounting for growing shares of world output and manufactured exports. By 2016, East Asia accounted for over two-thirds of manufactured exports by developing countries.

"Asia alone accounted for about 88 per cent of developing country gross exports of manufactures..., and for 93 per cent of South-South trade in manufactures, while East Asia alone accounted for 72 per cent of both."

UNCTAD's report acknowledges that services, particularly those enabled by digital technologies, offer new opportunities for development.

However, while the IMF-World Bank-WTO trio claim that opening up e-commerce would generally lift living standards, ostensibly because small and medium enterprises would benefit, UNCTAD notes that e-commerce is dominated by a few giant transnationals.

The advantages conferred by intellectual property monopolies, incumbency, resources, name recognition and "network effects" favour "winner-takes-all" outcomes, strengthening domination of e-commerce, software, payments and others by a few large corporations.

In 2014, for example, the top 1% of exporting firms accounted for 57% of exports (besides oil, gas and services), the top 5% for more than 80%, and the top quarter for almost all.

"Big data", secured by providing services to users, have been very profitably used by "free" digital service providers.

By 2015, 17 digital giants accounted for a quarter of the market capitalization of the top 100 transnational corporations.

The UNCTAD report suggests three policy measures to address digital service providers' profitable abuse of "big data". First, privacy laws must require "informed consent" before collecting and using data from digital users. Second, appropriate "anti-trust" and competition policy measures should minimize "restrictive practices" and other such abuses by monopolies and oligopolies. Third, effective digital policies involving data localization, data management, technology transfer, customs duties on electronic transmissions and other such measures can help increase gains.

Development, not liberalization

Trade liberalization has undoubtedly had varied consequences, and may well undermine a country's development prospects, food security and more.

With trade liberalization, the main benefits often chiefly accrue to powerful transnational corporations and their business partners. Meanwhile, employment generated in developing countries has often been seen as being at the expense of rich-country workers displaced by the internationalization of GVCs.

In the face of such challenges, appropriate and pragmatic government interventions have helped increase gains, reduce costs and develop economies. As UNCTAD highlights, "Developing countries will need to preserve, and possibly expand, their available policy space to implement an industrialization strategy."

But such options for development diminish as economies liberalize indiscriminately, praying for the best. *(IPS)*

Jomo Kwame Sundaram, a former economics professor, was Assistant Director-General for Economic and Social Development, UN Food and Agriculture Organization (FAO), and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

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The accomplices to austerity are also responsible for human rights violations

International financial institutions can be held responsible for the human rights impacts of the economic austerity policies they push on debtor countries.

by Juan Pablo Bohoslavsky

Adjustment and austerity measures are often among the conditions associated with multilateral loans and have been widely recommended, advocated and even imposed, in recent years, by international financial institutions (IFIs), such as the International Monetary Fund (IMF). The number of countries implementing austerity policies and the areas covered by these measures are, in fact, still growing.

Austerity, as a good housekeeping rule, could, in itself, be deemed commendable, as opposed to wastefulness, but it means very different things to different people, depending on which social groups have to adjust their incomes and expenditure. The austerity advocated by the IMF and other IFIs is not austerity for all. No restrictions are placed on the national debt service payments received by local and foreign rentiers; quite the reverse, restrictive monetary policies raise interest payments. Cuts are, however, generally made to food subsidies and basic public services, real wages, investment in housing and infrastructure, and spending on research, health and education. It is not difficult to show the human rights implications of that kind of austerity and its negative impact on economic growth, debt sustainability and economic equality.

The negative repercussions such policies have had on human rights in many parts of the world are well known and have been widely documented by international and regional bodies protecting human rights: they impact a broad range of human rights and population groups, especially those exposed to cumulative or intersectional inequalities.

The question is not whether austerity plays a role in violating human rights but how big a role it plays: how much of an impact it has on indicators such as mortality rates, employment, equality, health, housing, and levels of violence, social protection and education.

It comes as good news, therefore, that the United Nations Human Rights Council, following an open public consultation process, decided to debate the "guiding principles for human rights impact assessments for economic reform policies" and to put them to a vote in March 2019. A majority decision was taken to encourage governments and intergovernmental organizations to take stock of these principles.

Austerity measures, called on to correct macroeconomic imbalances over the short term, are often combined with institutional changes seeking to give permanence to the income redistribution brought about by these measures. In several countries of the South and the North, for example, labour reforms applied in the context of structural adjustment programmes have contributed to eroding individual and collective labour rights, and the right to fair and favourable conditions. Working conditions have been affected by restrictions placed on pay or employment. These reforms can also have a disproportionate impact on women's human rights, such as equality.

Women, people with disabilities, children, single-parent families, migrants, refugees and other groups vulnerable to marginalization are often disproportionately affected. Cuts to public services, for instance, especially those affecting care, have an unequal impact on women, as does privatization, which can hinder access to a range of services, such as water or electricity.

Similarly, job cuts imposed on public sectors have contributed to increased informal employment, reduced unemployment benefits and social protection, and an increase in unpaid care work, the burden of which falls unequally on women.

The right to life and personal integrity are not immune to this phenomenon. Economic crises, further exacerbated by austerity policies, have triggered a rise in suicide rates in certain countries, have led to the exclusion of certain people from access to public healthcare, and have stripped some public health systems so bare that they no longer have the resources to cope with epidemics.

IFI complicity

As argued in a report presented on 21 October 2019 to the UN General Assembly – regarding which the IFIs had the opportunity to express their opinions – there is a solid legal basis to make the case for inconsistency between the implementation of austerity policies in times of recession and the obligation to protect the enjoyment of human rights.

There is no evidence, in economic terms, that the so-called expansionary austerity often invoked by governments implementing it actually exists. There is much clearer evidence that structural adjustment programmes (both temporary and structural) are linked to reduced economic growth, unemployment, unsustainable debt and growing inequalities. It comes as no surprise that the combination of economic recession and contractionary fiscal policy affect a wide range of human rights, especially the rights of the most vulnerable. Cuts to public spending, when and where it is most needed, clearly carry a high risk of violating human rights.

Not all economic reform policies responding to economic crises are intrinsically contrary to the protection of human rights, but there are no theoretical and empirical grounds for austerity from a human rights perspective. Given the well-established human rights violations resulting from or exacerbated by austerity policies, it is striking that the economic reforms and measures adopted by states to implement the conditionalities imposed by international financial institutions (chiefly the IMF) are rarely preceded by human rights impact assessments.

Whilst responsibility for protecting rights principally falls on states, IFIs can nonetheless be deemed responsible for complicity when prescribing policies with clear potential human rights impacts and/or contributing to human rights violations in times of crisis.

The fact that IFIs neither conduct nor commission human rights impact assessments is inconsistent with the albeit imperfect practice of conducting environmental and social impact assessments in the context of project financing. If they can be held responsible for the avoidable harm done to those affected, for example, by a dam they finance, why not for the avoidable human rights damage produced by retrogressive economic reforms?

The aforementioned report develops the argument that, according to international law standards, IFIs can be deemed responsible for complicity with economic reforms that violate human rights.

The causal link between the assistance provided (loans, surveillance and technical assistance, and the conditionalities attached to them) in the commission of a wrongful act (complicity) and the harm done (human rights violations) is clear and well documented. Knowledge of the wrongful nature of the act could be presumed if no ex ante impact assessment is undertaken even when advocating the implementation of economic reforms that usually lead to human rights violations. Legal responsibility for complicity entails obligations in terms of cessation, non-repetition and reparation.

Human rights impact assessments

Given the circumstances in which states usually find themselves when seeking assistance from IFIs, conditionalities are often imposed and are not necessarily negotiated with borrower states, not to mention their populations, who are even less involved in the associated consultations, discussions or negotiations. Furthermore, the scope of the conditionalities has been continuously expanding in recent decades. All this helps to provide an understanding of the pervasiveness and omnipresence of conditionalities in key sovereign matters, even in spite of overwhelming public opposition in the countries affected.

Would the recommendations arising from a proper human rights impact assessment of economic reforms be utopian? International financial institutions should learn from the successful implementation of both counter-cyclical measures and adjustment programmes that are largely human-rights-compliant, such as those in Malaysia (1997-98), which imposed capital controls on short-term outflows; Iceland (2009-10), which also included capital controls, the protection of the social welfare system from cuts and a strong focus on revenue generation and redistribution through progressive taxation policies; or Bolivia (as of 2014), which continued to increase public and social investment despite the fall in earnings resulting from the fall in international oil and gas prices.

The duty to conduct assessments of the human rights impact of economic reforms also applies to the field of public debt. In accordance with the abovementioned guiding principles (principle no. 12 in particular), independent debt sustainability analysis should incorporate human rights impact assessments. Their findings should be used to inform debt strategies, debt relief programmes and debt restructuring negotiations.

Public debt is often considered "sustainable" even though its servicing entails the state's failure to comply with its human rights obligations because the resources necessary for servicing its debt deprive it of the financial means to realize human rights.

Debt servicing should not compromise the promotion and fulfilment of human rights. The "debt or life" dilemma sometimes takes a very explicit and drastic turn.

The experience of Greece should serve as a lesson: in a country forced to make debt repayments that were well beyond its ability, forcing the country to cut its health budget by 42.5% between 2009 and 2013, it is hardly surprising that people intentionally infected themselves with HIV to receive social security benefits.

If we fail to recognize that human rights should constitute a limit when it comes to debt, we have to accept the real possibility that those living in debtor states may have to sell their organs or blood to honour payments to creditors. The export of organs and human blood is, in fact, a highly profitable and growing business.

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