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Global FDI falls in 2022 due to multiple crises - UNCTAD

Global foreign direct investment (FDI) declined by 12% in 2022 to $1.3 trillion, according to the United Nations Conference on Trade and Development (UNCTAD). The global "poly-crisis", including the ongoing war in Ukraine, high food and energy prices, risks of recession and mounting debt pressures in many countries, negatively affected global FDI in 2022, and the downward trend in FDI flows is expected to continue in 2023.

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131 Jalan Macalister
10400 Penang, Malaysia
Tel: (60-4) 2266728/2266159
Email: twn@twnetwork.org
Website: https://twn.my

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Founding Editors:
Chakravarthi Raghavan (1925-2021)
Martin Khor (1951-2020)

Editor: Kanaga Raja

Typesetter: Jessie Chan

Global FDI falls in 2022 due to poly-crisis, says UNCTAD

Global foreign direct investment (FDI) flows declined by 12% in 2022 to $1.3 trillion, driven by the global "poly-crisis", according to the United Nations Conference on Trade and Development (UNCTAD).

by Kanaga Raja

PENANG: "After a steep drop in 2020 and a strong rebound in 2021, global foreign direct investment (FDI) declined by 12 per cent in 2022, to $1.3 trillion," the United Nations Conference on Trade and Development (UNCTAD) has said.

In its World Investment Report 2023 published on 5 July, UNCTAD said that the slowdown in FDI flows in 2022 was driven by "the global poly-crisis: the war in Ukraine, high food and energy prices, and debt pressures."

"International project finance and cross-border mergers and acquisitions (M&As) were especially affected by tighter financing conditions, rising interest rates and uncertainty in capital markets," it added.

Among the other key messages highlighted are that much of the growth in international investment in renewable energy, which has nearly tripled since the adoption of the Paris Agreement in 2015, has been concentrated in the developed countries.

UNCTAD said that developing countries need renewable energy investments of about $1.7 trillion annually but attracted foreign direct investment in clean energy worth only $544 billion in 2022.

It said that total funding needs for the energy transition in developing countries are much larger and include investment in power grids, transmission lines, storage and energy efficiency.

UNCTAD also said that the investment gap across all sectors of the Sustainable Development Goals (SDGs) has increased to more than $4 trillion per year from $2.5 trillion in 2015, with the largest gaps being in energy, water and transport infrastructure.

In a foreword to the report, Ms Rebeca Grynspan, the Secretary-General of UNCTAD, said that the prospects for international investment looked extremely gloomy last year, with a cascading crisis of health, climate change and economic shocks causing investor uncertainty around the world.

"Rising inflation, fears of a recession and turbulence in financial markets put many investment plans on hold at the beginning of the year. In the end, international investment flows did suffer, but proved more resilient than expected."

Ms Grynspan said while global FDI declined by 12 per cent last year to $1.3 trillion, the slowdown was limited, investment flows to developing countries increased marginally, and investors finished the year announcing new projects in both industry and infrastructure.

"Business as usual, however, is still bad news. The major disparities in global investment patterns remained. The growth of investment in developing countries is concentrated in a small number of large emerging economies."

She said foreign direct investment flows to many smaller developing countries are stagnant, while flows to the least developed countries fell by 16 per cent from an already low base.

Similarly, Ms Grynspan said at the sectoral level, strong growth in some sectors - such as semiconductors in response to chip shortages - is accompanied by weak performance in other industries that are important for the build-up of productive capacity in developing countries.

Global FDI trends

Global foreign direct investment (FDI) flows in 2022 declined by 12 per cent to $1.3 trillion, after nosediving in 2020 and rebounding in 2021, said the report.

"The multitude of crises and challenges on the global stage - the war in Ukraine, high food and energy prices, risks of recession and debt pressures in many countries - negatively affected global FDI."

International project finance values and cross-border mergers and acquisitions

(M&As) were especially shaken by stiffer financing conditions, rising interest rates and uncertainty in financial markets. The value of international project finance deals fell by 25 per cent in 2022, while cross-border M&A sales were 4 per cent lower, said the report.

"The global environment for international business and cross-border investment remains challenging in 2023. Although the economic headwinds shaping investment trends in 2022 have somewhat subsided, they have not disappeared."

The report said that commodity prices that rose sharply with the war in Ukraine have tempered, but the war continues, and geopolitical tensions are still high.

It said recent financial sector turmoil in some developed countries adds to investor uncertainty. In developing countries, continuing high debt levels limit fiscal space, with UNCTAD expecting the downward trend of global FDI to continue in 2023.

Early indicators confirm the negative FDI outlook: FDI project activity in the first quarter of 2023 shows that investors are uncertain and risk averse, it said.

"According to preliminary data, the number of international project finance deals in the first quarter of 2023 was down significantly; cross-border M&A activity also slowed."

Global FDI trends are in line with other macroeconomic variables, which show either negative or slow growth rates, the report said.

Among the components of FDI, retained earnings remained high in 2022, it said, adding that this reflects the continued high profit levels of the largest multinational enterprises (MNEs) across all sectors, especially the extractive industries.

It said FDI flows to developed economies fell by 37 per cent, to $378 billion. Much of the decline was driven by one-off transactions and financial flows, and there were signs of investment strength in new projects. Announced greenfield projects were up 4 per cent in number and 37 per cent in value.

UNCTAD said that FDI flows to developing economies rose by 4 per cent, to $916 billion - the highest level ever recorded.

"Announcements of greenfield projects in developing countries rose by 37 per cent in number, and their value more than doubled. This increase was mostly the result of mega-projects announced in the renewable energy sector, including five of the 10 highest-value projects."

Highlighting FDI trends in geographical terms, the report said the 2022 decline in developed economies reflected the uncertainty in financial markets and the winding-up of stimulus packages, but the volatile nature of FDI flows in developed markets also continued to affect aggregate values.

It said in Europe, FDI totals were affected by fluctuations in the major conduit economies as well as by a large withdrawal of capital by a telecommunication MNE operating in Luxembourg, while in the United States, where inflows fell by 26 per cent, the halving of cross-border M&A values played a role.

FDI flows to developing economies as a group increased, it said, adding, however, that inflows to developing Asia remained flat at $662 billion.

"Those to Latin America and the Caribbean rose by 51 per cent to $208 billion - a record level. And inflows to Africa fell by 44 per cent following the anomalous peak in 2021 caused by a large corporate re-configuration in South Africa."

The report said developing countries accounted for more than two thirds of global FDI, up from 60 per cent in 2021.

The impacts of the multi-dimensional crises, especially in food and energy, and financial and debt distress hit investment flows to the poorest countries disproportionally. Flows to the least developed countries (LDCs) fell by 16 per cent; they continue to account for only 2 per cent of global FDI, it added.

It also said the number of investment projects (including greenfield projects and international project finance deals) increased by 14 per cent in 2022.

"Although more projects were announced in developed countries, the share of developing economies reached close to 40 per cent, up from an average of 33 per cent in the last two years."

Most regions, other than East and Central Asia, recorded an increase in announced greenfield projects, with the highest growth being in South Asia - the number in India more than doubled, it added.

"The number of announced projects also increased by two thirds in West Asia, mainly because of the significant rise of activity in the United Arab Emirates, which made that country the fourth largest recipient of greenfield projects in the world."

Africa also saw a jump in 2022 (39 per cent), mainly caused by a doubling of the number of projects in Egypt and increases in the number of projects in South Africa, Morocco and Kenya, said the report, adding that in East Asia, announced greenfield projects fell by 17 per cent.

The report said that the number of international project finance deals also rose in most regions, although more modestly. The most significant rise was in India, where project numbers increased by 64 per cent, making it the recipient of the second largest number of international project finance deals.

In the European Union (EU), project numbers increased by 27 per cent, with significant increases in Italy (78 per cent), Germany (57 per cent) and Spain (10 per cent), it added.

"The United States remained the largest host for announced greenfield projects and international project finance deals, followed by the United Kingdom, India, the United Arab Emirates and Germany for greenfield projects, and by India, the United Kingdom, Spain and Brazil for project finance deals."

In 2022, FDI flows to developed countries as a group fell by 37 per cent, largely in Europe and North America, while in the other developed countries, they rose, said the report.

"In the United States, flows declined by 26 per cent to $285 billion, mainly due to the halving of cross-border M&As, which generally account for a large share of inflows. Among the 10 largest sales, only one occurred in the United States."

The decrease in M&As had a direct impact on the equity component of FDI, which fell by 35 per cent. Inflows declined strongly in chemicals, computer and electronic products and finance. Information and communication remained the largest recipient industry ($51 billion) - a 21 per cent increase from 2021, it added.

"Sweden saw FDI inflows more than double to $46 billion - making it the largest EU recipient of FDI. Equity investment accounted for two thirds of total inflows, mostly the result of a steep rise in cross-border M&As, to $35 billion."

Meanwhile, in the Russian Federation, FDI flows fell to -$19 billion in 2022 from $39 billion in 2021, as more large companies divested, while flows to Ukraine fell to $1 billion from $7 billion last year.

Most other developed economies saw FDI inflows rise in 2022. In Australia, flows tripled to $62 billion as M&A sales almost tripled. In Israel, FDI continued its upward trend, to $28 billion. FDI flows to Japan also increased again, reaching $33 billion - the highest level ever recorded. Flows to the Republic of Korea fell by 18 per cent, to $18 billion, said the report.

The value of announced greenfield projects in developed economies rose by 37 per cent to a record $639 billion, while the number of projects rose by 4 per cent, it added.

The value of projects in the primary sector remained low (at $12 billion); in manufacturing and services it rose by 39 and 35 per cent, respectively, said UNCTAD.

Greenfield projects in electronics and electrical equipment grew to a record $118 billion, while automotives also saw a rise, to $37 billion.

"The value of announced projects in electricity and gas supply more than doubled, to $196 billion. The largest deal was in semiconductors, a plan by Taiwan Semiconductor Manufacturing (Taiwan Province of China) to boost capital spending in the United States to $28 billion," said the report.

The number of international project finance deals in developed economies rose by 10 per cent in 2022, reaching 1,549 projects - a record. However, the total value of deals fell by 14 per cent to $665 billion. Renewable energy remained the most important industry, with more than half the deals (855), the same level as in 2021, it added.

"FDI flows to developing economies as a group increased by 4 per cent to $916 billion in 2022. The increase was mainly the result of strong growth performance in Latin America and the Caribbean. FDI flows continue to be an important source of external finance for developing economies compared with other cross-border capital flows."

The report said FDI flows to Africa fell by 44 per cent to $45 billion, following a record year in 2021 that was due to a single intra-firm financial transaction in South Africa. Excluding this deal, the change in FDI flows to Africa in 2022 would have increased by 7 per cent.

The value of greenfield projects announced in Africa almost quadrupled, to a record $195 billion (from $52 billion in 2021), while the number of projects also rose, by 39 per cent, to 766, said the report.

"The biggest increases were in energy and gas supply (to $120 billion), construction ($24 billion) and extractive industries ($21 billion). Six of the top 15 greenfield mega-projects announced in 2022 were in Africa."

In contrast, the report said international project finance deals in Africa showed a decline of 47 per cent in value ($74 billion, down from $140 billion in 2021), but a 15 per cent increase in project numbers to 157. Decreases in values were registered in renewables, mining and power.

It said European investors remain, by far, the largest holders of FDI stock in Africa, led by the United Kingdom ($60 billion), France ($54 billion) and the Netherlands ($54 billion).

The report said FDI flows to developing Asia remained flat at $662 billion. The region is the largest recipient of FDI, accounting for half of global inflows.

"The number of announced greenfield projects and international project finance deals in the region increased by 45 and 20 per cent, respectively."

In East Asia, FDI decreased by 3 per cent to $324 billion in 2022. Flows to China rose by 5 per cent, to a record $189 billion, said the report.

The increase was concentrated in manufacturing and high-tech industries (mainly electronics and communication equipment) and came mostly from European MNEs, while cross-border M&A sales tripled to $15 billion.

The report said flows to South-East Asia increased by 5 per cent to $223 billion - the highest level ever recorded. The values of announced greenfield projects and international project finance deals also increased, by 28 and 49 per cent, respectively.

In contrast, it said that the value of cross-border M&As fell by 75 per cent to $12 billion. Singapore, the largest recipient, registered another record, up 8 per cent to $141 billion (accounting for almost two thirds of flows to the Association of Southeast Asian Nations (ASEAN)).

The report said flows to Malaysia rose by 39 per cent to $17 billion - a new record for the country. The number of both greenfield projects and project finance deals increased.

"The largest greenfield project announced was the plan by Bin Zayed International (United Arab Emirates) to invest $9.6 billion in developing a mixed-use real estate project in Langkasuka, following a joint venture with Widad Business Group (Malaysia)."

In South Asia, FDI flows to India rose by 10 per cent to $49 billion, making it the third largest host country for announced greenfield projects and the second largest for international project finance deals.

The report said among the largest greenfield projects were the plans by Foxconn (Taiwan Province of China) and Vedanta Resources (India) to build one of the first chip factories in India for $19 billion and a $5 billion project to produce urea from green hydrogen by a joint venture of TotalEnergies (France) and Adani Group (India).

In 2022, FDI in Latin America and the Caribbean increased by 51 per cent to $208 billion, sustained by the high demand for commodities and critical minerals, it said, adding that in South America all major recipients saw their FDI flows rise, driven by investment in mining and hydrocarbons.

"In Brazil, flows rose by two thirds, reaching $86 billion, the second highest value ever recorded. Re-invested earnings doubled to $34 billion - a record."

The number of announced greenfield projects and international project finance deals rose by almost 30 per cent, to 242 and 138, respectively, with the country ranking fifth worldwide by number of international project finance deals, said the report.

In Central America, it said that FDI reached $44 billion - up 5 per cent from 2021. Flows to Mexico, the second largest recipient in Latin America, increased by 12 per cent to $35 billion, with a rise in new equity investment and re-invested earnings.

The value of net cross-border M&A sales jumped to $8.2 billion (from less than $1 billion in 2021). The value of announced greenfield investment more than doubled to $41 billion. Tesla (United States) is planning to invest $5 billion in a plant in Mexico, it added.

UNCTAD said in the Caribbean, FDI increased by 53 per cent to $3.9 billion, mainly driven by growth in inflows to the Dominican Republic, to $4 billion.

On the other hand, the report said

that flows to a group of 84 structurally weak, vulnerable and small economies declined by 4 per cent to $41 billion. Inflows to the least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing states (SIDS) combined accounted for 3.2 per cent of the world total in 2022, up from 2.9 per cent in 2021.

"FDI in LDCs declined by 16 per cent to $22 billion. Flows remained concentrated, with the top five recipients (Ethiopia, Cambodia, Bangladesh, Senegal and Mozambique, in that order) accounting for about 70 per cent of the total."

FDI in the 33 African LDCs accounted for 58 per cent of all LDC inflows. Inflows exceeded $1 billion in seven of them. Ethiopia was the largest recipient of FDI in the group, with $3.7 billion - a 14 per cent decrease from 2021, said the report.

It said that although the number and value of greenfield project announcements in LDCs increased in 2022, they remained depressed: they were below their 10-year average, at about half in number and a quarter in value.

"International project finance deals targeting LDCs decreased by 9 per cent in number and by 68 per cent in value to $20 billion."

In 2022, MNEs from developed economies decreased their investment abroad by 17 per cent to $1 trillion. The trend was distorted by the withdrawal of capital by a telecommunication company in Luxembourg (excluding that, FDI outflows would have increased by 9 per cent).

The share of developed economies in global outward FDI remained stable, at two thirds, said the report.

Aggregate outward investment by European MNEs fell by 61 per cent to $224 billion, down from $573 billion in 2021.

The report said MNEs from the United States increased their investment abroad by 7 per cent, to $373 billion. Cross-border M&A purchases from the United States rose by 21 per cent to a record $273 billion. The biggest increases were in information and communication and in administrative and support services. Among more than 40 global deals worth more than $5 billion, 15 originated in the United States.

The value of investment activity abroad by MNEs from developing economies decreased by 5 per cent, to $459 billion, it added.

"Flows from developing Asia fell by 11 per cent, but the region remained an important source of investment, accounting for a quarter of global FDI. FDI from China fell by 18 per cent to $147 billion. Nevertheless, it was the third largest investor home-country in the world."

The value of cross-border M&A purchases rose to $10 billion from $1 billion, and announced greenfield FDI reached $41 billion, a 24 per cent increase, said the report.

It said that outward investment by Indian MNEs fell by 16 per cent to $15 billion. However, greenfield project announcements by Indian MNEs more than tripled to $42 billion.

"Overseas investment by MNEs in ASEAN rose by 6 per cent, mainly due to the increase of FDI from Malaysia (from $5 billion to $13 billion) and Indonesia (from $4 billion to $7 billion)."

The report said that both cross-border M&A purchases and greenfield projects announced by Malaysian MNEs rose. Petronas Chemicals Group (Malaysia) acquired Perstorp Holding (Sweden) for $2.6 billion, and Petronas Hydrogen committed to invest $3.8 billion in India to set up a renewable energy plant.

Singaporean MNEs remained the largest investor in the region, with outward FDI of $51 billion - the same value as in 2021, it added.

Meanwhile, it said outward FDI from Latin America and the Caribbean continued its upward trend to $59 billion.

FDI outflows from Mexico turned positive to $13 billion from -$2 billion in 2021, while investment by Brazilian MNEs rose by 23 per cent to $25 billion. Flows from Chile also grew, by 4 per cent to $12 billion.

FDI by type and sector

The report said in 2022, international project finance deals and cross-border M&As were affected by the war in Ukraine, deteriorating financing conditions and uncertainty in financial markets.

The value of project finance deals fell by 25 per cent and cross-border M&A sales by 4 per cent. The number of net cross-border M&As also fell by 9 per cent, while the number of project finance deals rose by 8 per cent.

In contrast, announced greenfield projects rose by 15 per cent due to continued momentum in the first part of the year. The value of projects increased by 64 per cent because of several mega-projects, it added.

"In 2022, the value of announced greenfield investment projects rose by 64 per cent to $1.2 trillion - the second highest level recorded since 2008. It more than doubled in developing economies to $573 billion (with project numbers up 37 per cent) and rose by 37 per cent in developed countries (with project numbers up 4 per cent)."

Highlighting the sectoral distribution of greenfield mega-projects in 2022, the report said that of the 10 largest announced projects, 3 were in semiconductors, in response to global shortages and supply chain restructuring trends, and 5 were in renewables.

"In 2022, the number of international project finance deals rose by 8 per cent, but their value was 25 per cent lower than in 2021. International project finance in renewable energy, which has accounted for much of the growth in project finance in recent years, slowed down. While the number of deals remained stable, values fell by almost 30 per cent to $368 billion."

The report said that cross-border M&A sales reached $707 billion in 2022 - down 4 per cent. In manufacturing, cross-border M&As fell by 42 per cent to $142 billion, while deals targeting services decreased slightly, by 5 per cent, to $442 billion.

"In the primary sector, M&A values more than quadrupled to $122 billion, breaking the decade-long downward trend."

The report also said that for the third consecutive year, the number of treaty terminations exceeded that of new international investment agreements (IIAs). In 2022, countries concluded 15 new IIAs and effectively terminated 58 IIAs, bringing the IIA universe to 3,265 treaties, of which 2,584 are in force.

About 80 per cent of investor-State dispute settlement (ISDS) cases in 2022 were brought under IIAs signed in the 1990s or earlier. In 2022 claimants filed 46 new ISDS cases under IIAs, including 10 cases under the Energy Charter Treaty (ECT), with the total count of known ISDS cases reaching 1,257 in 2022, it added. *(SUNS 9818)*

Global food import bill to reach a new high in 2023, says FAO

The global food import bill is forecast to reach a new absolute high of USD 1.98 trillion in 2023, according to the United Nations Food and Agriculture Organization (FAO).

by Kanaga Raja

PENANG: The global food import bill is forecast to reach USD 1.98 trillion in 2023, representing a 1.5 percent or USD 28.9 billion increase over the previous record attained in 2022, the UN Food and Agriculture Organization (FAO) has said.

In its latest Food Outlook report, FAO said that while marking a new absolute high, the speed of expansion is anticipated to slow down significantly relative to 2022 and 2021, when growth rates reached 11 percent and 18 percent, respectively.

It said from a food group perspective, the divergent trends observed in 2022 are expected to persist in 2023.

"Overall, high-income countries (HICs) are anticipated to import a wide spectrum of food products, whereas upper-middle-income countries (UMICs), lower-middle-income countries (LMICs) and low-income countries (LICs) will focus their imports on staple foods."

Disaggregating the food import bill (FIB) to ascertain the price and volume effects of changes in expenditures at the global level and across all products, the report said that the anticipated increase in the 2023 bill reflects a combination of both, with an additional USD 18.4 billion stemming from higher international prices and USD 12.9 billion from higher volumes.

For fruits and vegetables, cereals, sugar and dairy products, the increase will primarily be price-driven, while growth in oilseeds is expected to be mostly volume-driven, it added.

For vegetable oils, higher volumes are more than offset by a negative price effect, resulting in an overall decline in their global FIB, said the report.

Disaggregating the global FIB by country groups suggests that the more vulnerable groups, notably the least-developed countries (LDCs) and the net food-importing developing countries (NFIDCs), will see their food import bills contract by 1.5 percent and 4.9 percent, respectively, it added.

FAO said the decline in food import volumes is a concerning development in both groups, suggesting a decline in purchasing capacity.

FAO said that these concerns are amplified by the fact that lower international prices for a number of primary food items have not, or at least not fully, translated into lower prices at the domestic retail level, suggesting that cost-of-living pressures could persist in 2023.

As regards related policy measures, FAO said pressures on the most vulnerable countries have been mitigated by targeted support instruments, notably the "Food Shock Window" of the International Monetary Fund (IMF).

The report said that this programme was initiated by FAO's proposal for a Food Import Financing Facility (FIFF) in April 2022.

Countries benefiting from the Food Shock Window include, inter alia, Haiti (USD 105 million), Guinea (USD 71 million), South Sudan (USD 113 million) and Malawi (USD 88 million), it added.

Food inflation in NFIDCs

Meanwhile, a special chapter in the report examines "recent changes in the food component of the consumer price index for net food importing developing countries (NFIDCs), and how currency movements, especially in relation to the US dollar in which most agrifood trade is invoiced, impact food price inflation in these countries."

Since the beginning of 2021, the consumer price index (CPI), the most widely used measure of inflation, has increased rapidly to levels not seen in several decades in all regions of the world, including advanced, emerging and low-income economies, FAO said.

It said that despite recent data indicating that inflation is abating, notably in the United States of America and the European Union, price pressures continue to occupy centre stage in many countries, where inflation rates remain stubbornly high.

"High and persistent inflation has a number of macroeconomic consequences since it distorts market price signals that reveal the changing scarcity of goods and services, leading to inefficiencies in the allocation of resources."

Importantly, FAO said it could also contribute to widening income inequalities, with the most vulnerable people bearing the heaviest economic burden.

FAO said there is a general agreement that the recent surge in inflation was driven by three main factors - rising commodity prices, supply chain disruptions and strong aggregate demand spurred by expansionary monetary policy and fiscal support implemented to address the economic setbacks caused by the COVID-19 pandemic.

While there is a general consensus about the broad causes of the inflation, much of the recent debate tends to revolve around two important issues, it added.

First, it said, questions remain about the appropriate public policy interventions and, in particular, whether and how high interest rates should be raised to rein in inflation without triggering a severe economic recession - a so-called "soft landing" scenario.

FAO said that the latest economic projections released by the International Monetary Fund (IMF) indicate that growth in the world's gross domestic product (GDP) is anticipated to reach 2.8 percent in 2023, which is down from the 3.4 percent recorded in 2022, before rising back to 3 percent in 2024.

Second, the significant increases in the food and beverage component of the consumer price index (CPI) have raised concerns around persistent inflation, and possibly a change in long-term inflation expectations, which would require stronger actions by central banks, it added.

Importantly, rising food prices can lead to social unrest and increased financial risks, undermining efforts to fight poverty and food insecurity and wiping out any progress achieved so far, said FAO.

It noted that the IMF estimates that global inflation will decline from 8.7 percent in 2022 to 7 percent this year and 4.9 percent in 2024.

While international food commodity prices have generally declined since reaching their highest levels in March 2022, domestic food prices in many countries remain high or continue to increase, it further said.

It said that the FAO food price index (FFPI), which captures price movements of some of the most traded staple foods, reached 159.7 points in March 2022 and then declined for 12 consecutive months to 127.0 points in March 2023, corresponding to a 20.5 percent decline, before a slight increase in April, which was more than offset by a 2.6 percent decline in May 2023.

It noted that the value of the United States dollar versus a broad basket of currencies appreciated by 8 percent between March 2022 and September 2022.

"The sustained appreciation of the United States dollar began much earlier, in May 2021. The strength of the United States dollar, and the resulting depreciation of the real exchange rate of other currencies against the dollar, means that the increase in international commodity prices tends to be exacerbated in domestic currency terms."

FAO said it also means that declines in world commodity prices denominated in United States dollars are not proportionally transmitted in local currency terms when the dollar is appreciating.

It said during the 2007-08 global food price crisis, the depreciation of the United States dollar helped many food-importing countries offset the increase in international food prices in domestic currency terms.

"The current context seems to have created the opposite scenario," it added.

Analysing the extent to which changes in the international prices for wheat, maize and rice have impacted the NFIDCs, taking into account movements in exchange rates, FAO summarized that while food inflation in the NFIDCs has accelerated over the past 18 months, data up to September 2022 seems to indicate that the pace of acceleration has weakened since reaching a peak in April 2022.

The observed disinflation is mainly a reflection of falling energy and non-energy commodity prices, the easing of supply chain bottlenecks and improvements in global food supplies, as well as the expected restraining impact of monetary tightening on commodity prices and on global economic activity, it said.

"However, there are still sizeable risks associated with this somewhat positive pattern. Food inflation growth can pick up again and remain sticky for some time because of a number of local and international factors."

FAO said these include stronger global demand than anticipated, a sudden surge in energy prices, an upturn in fertilizer prices, and adverse weather shocks that compromise crop harvests and reduce supplies.

"National policy measures can also play a major role when countries implement export restrictions or subsidize food imports to contain domestic price surges. Clearly, persistent or emerging geopolitical tensions can also fuel new rounds of inflation."

FAO also said a sustained real appreciation of the United States dollar against other currencies, including those of NFIDCs, renders food imports more expensive in local currency terms and contributes to domestic inflation.

Effect of US dollar

It is estimated that over the period of 1999 to 2019, the United States dollar accounted for 96 percent of trade invoicing in the Americas, 74 percent of trade invoicing in the Asia-Pacific region and 79 percent in the rest of the world, while the Euro was the dominant currency in Europe, said FAO.

The relative importance of the dollar means that dollar currency fluctuations directly affect the cost of imports in local currency terms, it added.

Measuring the changes in world market prices expressed in real domestic currency (DC) terms for wheat, maize and rice in NFIDCs, FAO said the results show that world wheat prices went up by 163.2 percent between June 2020 and May 2022 and, when expressed in real local currency terms, prices rose by an average of about 169.2 percent in the NFIDCs.

Hence, the real appreciation of the United States dollar resulted in an additional 6 percentage points increase in the price of wheat when expressed in real local currency terms, it said.

Likewise, international maize prices went up by 135.2 percent, and by 139.4 percent in real domestic currency equivalent.

On the other hand, FAO said world rice prices decreased by 0.3 percent between June 2020 and February 2021, but when converted into real local currency terms, the decline was comparatively stronger at 0.6 percent, as the United States dollar depreciated during that period.

FAO made several observations in light of its analysis.

First, the real appreciation of the United States dollar meant that the increase in international cereal prices was generally much higher when prices were expressed in local currency terms, it said.

"For the group of NFIDCs, the analysis showed that, over the period from June 2020 to May 2022, world wheat prices in real local currency terms rose, on average, by as much as 6 percentage points more than the increase in world wheat prices expressed in United States dollars."

On the other hand, at the height of the COVID-19 pandemic (April 2020-January 2021), the depreciation of the United States dollar cushioned some of the increase in world prices (expressed in local currencies).

Second, the sustained fall in world cereal prices, after reaching a peak in mid-2022, was not fully transmitted to NFIDCs in real domestic prices, said FAO.

Changes in real exchange rates are only one component of food import costs, which also include elements such as transportation, insurance, financing and other retailing fees, it added.

"Increases in these costs constitute a burden, particularly on the poorest and most vulnerable people, with serious implications for their food security."

Third, while food inflation in the NFIDCs rose in mid-2020 for several successive months, data up to September 2022 seems to indicate that the pace of inflation has abated since reaching a peak in April 2022, FAO said.

"Yet there are heightened risks linked with this somewhat encouraging prospect. Energy prices could pick up again quickly, feeding into headline inflation. Nominal wage rates could accelerate beyond current projected levels, fuelling concerns over a wage-price spiral," it added. *(SUNS 9811)*

Third World ECONOMICS No. 774, 1-15 July 2023

Employment guarantee a vital tool in the fight against poverty

A job guarantee scheme - whereby the government guarantees a job to anyone willing and able to work - can be a powerful tool in the fight against poverty, a United Nations human rights expert has said.

by Kanaga Raja

PENANG: The introduction of a job guarantee - whereby the government guarantees a job to anyone willing and able to work - can contribute to "the full realization of the right to work, transforming it from a policy objective into an enforceable legal right," according to a United Nations human rights expert.

In a report (A/HRC/53/33) to the 53rd regular session of the United Nations Human Rights Council, the Special Rapporteur on extreme poverty and human rights, Mr Olivier De Schutter, said that conceived of as a permanent feature of employment policy that contributes to social protection, a job guarantee scheme can contribute to income security, work experience and skills development for the participants, at the same time strengthening the bargaining position of workers across the economy.

"It can also support a just transition to a green economy and provide services to the population that are currently under-supplied. It can make the right to work an enforceable human right and a pathway to escape poverty."

"With miserable working conditions and low pay affecting the majority of the world's workers, and disruptions and job losses in labour markets we can expect to see from the rise of AI, it is clear that the world of work needs an urgent rethink," said Mr De Schutter ahead of presenting his report to the Human Rights Council.

"It is no longer enough for governments to merely try to create the right conditions for job growth," he added.

Instead, he said, they should guarantee a secure and socially useful job at a living wage for anyone who wants one. "Properly understood, this is what the right to work is truly about."

"For too long exploitative employers have had the upper hand, knowing workers will choose poorly-paid and insecure work over destitution," the UN expert said.

"A job guarantee would turn the tables, with workers being able to fall back on government jobs that offer decent conditions and wages."

"The global employment paradox is that while there are too few decent jobs, there is certainly no shortage of work to be done," Mr De Schutter said.

He said: "Spurred largely by our obsession with economic growth at all costs, jobs in the care, education and health sectors are woefully under-supplied by the market despite being of immense value to society - no doubt because they don't churn out obscene profits."

"A job guarantee could fill the roles we so desperately need, but that the private sector has no financial incentive to provide," Mr De Schutter emphasized.

Paradox of too few jobs

According to the report by the Special Rapporteur, the idea of a job guarantee is not new.

The report said that in the United States, the Works Progress Administration was part of the New Deal response to the depression of the 1930s.

"Public employment schemes have been a common response to structural unemployment in member countries of the Organisation for Economic Co-operation and Development (OECD), though with less use in recent decades."

They have also been a widely used strategy in low- and middle-income countries, often as a short-term reaction to mass unemployment, it added.

The UN expert said that among the most famous examples are the Productive Safety Net Programme in Ethiopia, which covered about 10 per cent of the population in 2018; the Mahatma Gandhi National Rural Employment Guarantee Act in India, with 76 million beneficiary households in the financial year 2020/21; or the Expanded Public Works Programme in South Africa, which created a million job opportunities in 2021/22.

The job guarantee is an answer to a paradox, said Mr De Schutter, adding that on the one hand, many people are jobless or can only work part-time. Globally, 473 million people are seeking employment.

The UN expert said that official unemployment rates do not include all those who have abandoned the search for employment as a result of a lack of opportunities, or because, for instance, due to insufficient provision of childcare or support for dependent persons, they cannot reconcile paid work outside the home with often unpaid work within the household.

For example, he said that in the European Union and in the United States of America, only around half of those seeking employment are officially unemployed.

"In low- and middle-income countries, moreover, assessments are especially difficult due to the importance of informal work and the prevalence of under-employment, in the form of involuntary part-time or seasonal work or low-paying jobs under-utilizing skills."

More jobs will have to be created in the future, said the Special Rapporteur, adding that an additional 470 million people will be looking for work in developing countries between 2019 and 2035, with a particularly fast growth in sub-Saharan Africa.

"This is why the creation of 400 million decent jobs is such an important component of the Global Accelerator on Jobs and Social Protection for a Just Transition announced in September 2021 by the Secretary-General and the ILO Director General. Growth alone will not suffice."

The UN expert also said not all growth is job rich: automation may in fact result in strong growth (supported by productivity gains) going hand in hand with net job losses; and in situations in which growth is primarily explained by the exploitation of natural resources, as in Africa, there is only a weak association between gross domestic product (GDP) and employment - this is one reason behind calls for the introduction of a job guarantee in the African region.

Unemployment or under-employment significantly increases the risk of poverty, since social protection against this life risk remains highly uneven, he added.

"Globally, only one in five people who are unemployed receive cash benefits: the others are excluded because no scheme exists or because they are ineligible under existing schemes."

The UN expert said that even in high-income countries, only 52.2 per cent of unemployed people receive cash benefits, with figures lower still in less developed regions - 17.5 per cent in upper-middle-income countries; 5.5 per cent in lower-middle-income countries and just 0.8 per cent in low-income countries.

And even where they exist, unemployment benefits are often inadequate.

He said that as a tool of employment policy, public employment programmes can provide jobs to those who are jobless, adding that they can bring back into the active labour force individuals who are considered to have become "inactive": of those reached by the Argentinian Jefes y Jefas de Hogar Desocupados programme, set up to provide work for cash during the 2002 economic crisis, half were previously thought to be inactive.

They can also provide employment to those who are involuntarily working part-time or who depend on seasonal work, said Mr De Schutter. "This is a powerful tool against poverty," he underlined.

"Employment was the most important contributor to poverty reduction in a set of 16 low- and middle-income countries in which substantial poverty reduction occurred in the period 2000-2010: in 14 out of 16 countries, labour income explained more than 40 per cent of the change in "poverty" (and 50 per cent in 10 countries). And job retention schemes played a crucial role during the COVID-19-induced economic crisis."

Yet, although there is too little employment, many societal needs remain unfulfilled and much work needs to be performed to meet them, he added.

"The greening of the economy and the growing recognition of the importance of the care economy - care to older or dependent persons, early childhood education and care, and health care - are opportunities in this regard."

In highlighting the existence of the paradox, the UN expert said that there may be a shortage of decent jobs, but there is no shortage of work: the problem is that markets under-supply the public goods that are needed for the greening of the economy and for a thriving care economy, and that governments have too little public revenue to invest in creating the jobs needed for these transitions.

"It is against this background that the introduction of a job guarantee is proposed," said Mr De Schutter.

Benefits of job guarantee

According to the Special Rapporteur, access to decent work provides income, reducing poverty, but it also allows individuals to gain self-confidence and to gain a sense of purpose.

For instance, Mr De Schutter said the female participants in the Jefes y Jefas de Hogar Desocupados programme mentioned participation in social life and the learning of useful skills, rather than just income earned, as the main benefits of participation.

Long-term unemployed people taking part in the Marienthal pilot in Austria reported improvements in subjective well-being, reduced stress levels and a range of other benefits, including improved social recognition.

He said that similar results were achieved by the Kinofelis programme set up in Greece as part of the response to the debt crisis in 2011, which had offered eight months of employment to 45,000 participants by 2017, to create useful work and to improve skills to favour the reintegration of unemployed people in the labour market.

"While employment creation has been a powerful tool to reduce poverty, it does not always provide a safeguard against poverty: while, globally, half of women (47 per cent) and three quarters of men (74 per cent) of working age do some form of income-generating work, not all wages are living wages and not all jobs are decent jobs."

For many, precarious working conditions and a lack of decent pay characterize the work experience, said the UN expert.

"The "gig economy", casualized labour contracted through digital platforms, has rapidly emerged as an important employment category, yet also one with less social protection and less scope for collective bargaining than more traditional employment forms: rich countries are now confronted with forms of precariousness that have long existed in low- and middle-income countries and regulatory regimes are trying hard to catch up."

Precarity is also particularly widespread among the 2 billion informal workers, forming 60 per cent of the global workforce, said Mr De Schutter.

"While conventional active labour-market policies aim at integrating job-seekers into regular employment after programme participation, job guarantee schemes aim at employment through programme participation, thus improving the economic and social situation of participants."

Job guarantee schemes provide an opportunity to equip participants with new skills, including informal skills derived from work experience, thus improving the prospects of the beneficiaries to find a job after leaving the programme or to start successful businesses, said the Special Rapporteur.

In this context, he said that while a meta-analysis of 200 studies of different active labour-market policies (most of which were in OECD countries) found no impact on employment rates from public employment programmes, it did confirm the positive effects of training programmes, defined as classroom and on-the-job training - the probability of finding employment increases by 6.7 per cent after two years.

"Similarly, a study of active labour-market policies in Latin America and the Caribbean concluded that training encouraged formalization and improved employment prospects, although short duration training programmes (lasting four months or less) were less likely to show positive results than other programme designs."

A job guarantee scheme, paying at least a living wage and open to all who wish to work, should be of the greatest benefit to those most at risk of under-employment or of having to accept poor quality jobs, said the UN expert.

He said that it can therefore contribute to a "just transition" by providing options to the workers displaced by the decarbonization of the economy.

In addition to these workers, the Special Rapporteur drew special attention to three other groups - youth, women and the long-term unemployed.

He said globally, more than one in five of those aged 15-24 years are not engaged in education, employment or training, with women twice as likely to be so than men (31.5 per cent compared with 15.7 per cent).

"The pandemic increased the numbers of those not engaged in education, employment or training by close to 20 million, from 21.8 per cent (2015-2019) to 23.3 per cent in 2020."

Youth unemployment rises faster in downturns. In OECD countries, for every 1 per cent increase in adult rates, youth unemployment rises by 1.79 per cent, said the UN expert.

He added that the COVID-19 pandemic provided a powerful illustration of this vulnerability across the globe: before the pandemic struck, 13 per cent of all those employed were young persons, yet they made up a third (34.2 per cent) of the 2020 employment loss.

He also said in 2022, 43.8 per cent of women were in paid employment, compared with 67.9 per cent of men.

"Women are also disproportionately represented in informal work and they earn on average 16 per cent less than men (and 35 per cent less in some countries)."

Many public employment programmes therefore specifically seek to support women's participation and since they provide equal wages to women and men, they can help to address wage discrimination, he underlined.

As for the long-term unemployed, the UN expert said that the longer a person is without a job, the more difficult it becomes for that person to gain access to employment: the probability of finding work is 0.3 in the week after unemployment, 0.08 after eight weeks and down to just 0.02 in the year after unemployment.

"Participation in a public employment scheme may therefore help overcome the high barriers the long-term unemployed face," he added.

The Special Rapporteur said that by creating jobs in times of economic downturn, and supporting the transition to jobs in times of growth, a job guarantee scheme can act counter-cyclically, maintaining income levels and demand during downturns and reducing the wider consequences of unemployment.

Mr De Schutter said job guarantee schemes can also serve to supply goods and services under-supplied by the markets either because they are public goods, such as infrastructure works, or because of the limited ability to pay of the potential beneficiaries, for instance, those in need of care services.

"In the past, public works schemes have focused on heavy (and relatively labour-intensive) infrastructure works, such as building roads or improving water management. Such schemes have become more diversified in recent years, a trend that the COVID-19 pandemic accelerated."

For instance, the UN expert said that the South African Presidential Employment Stimulus, an additional scheme to the Extended Public Works Programme, created 795,151 jobs between October 2020 and December 2022, two thirds of which (596,109) were in basic education sector, providing teaching assistants and support for schools.

In Pakistan, the 10 Billion Tree Tsunami project employs 65,000 workers a day to plant 10 billion trees to adapt to climate change, he added.

"A job guarantee can improve resilience to shocks and contribute to social stability. Public employment improves local resilience both by protecting income security at household level and by maintaining economic demand, thus avoiding the cascading damage the spread of unemployment would otherwise produce."

Moreover, said Mr De Schutter, "where such schemes allow investment in better environmental management (such as of soil and water), these can also improve productivity and reduce the effect of climate disruptions and biodiversity loss on food security."

For instance, he said in Ethiopia, the Productive Safety Net Programme generated improvements in irrigation, leading to a 12 per cent increase in vegetable yields.

The UN expert said while the proportion of households reporting food insecurity increased by 11.7 percentage points in 2020 as a result of the COVID-19 pandemic, the increase was only 2.4 percentage points for households participating in the Productive Safety Net Programme.

The households were also less likely to reduce spending on health and education (7.7 percentage points) and agricultural inputs (13 percentage points) than other households.

The UN expert said provided that inclusive decision-making processes are put in place, ensuring that women and socially marginalized groups participate effectively, the establishment of a job guarantee can provide an opportunity for local engagement, where the projects to be supported by public employment are identified by the communities of users.

"Effective participation also ensures that the projects supported contribute effectively to local development: in general, active labour market policies are only effective when designed with the involvement of social partners."

Noting that "a large panoply of job guarantee schemes exist", the UN expert said there is no single best model: each scheme should take into account local conditions and be co-designed by social partners, civil society and public authorities.

The Special Rapporteur identified a number of questions that such co-construction processes should address, namely, universal versus targeted approaches, setting the pay, and duration of scheme participation.

The UN expert also addressed the issue of objections to the job guarantee, noting that it is sometimes argued that job guarantee schemes are costly.

For example, spending on the Argentinian Jefes y Jefas scheme during the 2001/02 financial crisis was 1 per cent of GDP, while the introduction of a job guarantee in the United States would represent 1.33 per cent of GDP.

However, the UN expert said that such investments should be assessed against the huge costs of unemployment, which go far beyond the loss of tax revenues and the social protection provided to job-seekers by the State in countries in which unemployment benefits exist.

He said that in 2021, OECD countries spent an average of 0.58 per cent of GDP on unemployment assistance.

"With joblessness comes poorer health, shorter lives, psychological distress and reduced future employability and earnings."

Long-term unemployed persons lose social networks; they express lower levels of life satisfaction and social integration; and they are stigmatized as not contributing to society, said Mr De Schutter.

Unemployment is also corrosive within families - it increases domestic violence, and reduces children's chances of entering tertiary education, he added.

For instance, he said in Germany, long-term unemployment of fathers reduces the chance of children staying on in tertiary education by 17 percentage points.

"Youth unemployment also reduces later employment chances and pay: in the United Kingdom of Great Britain and Northern Ireland, early experience of youth unemployment results in a 12-15 per cent penalty on wages at age 42; in the United States, a six-month spell of unemployment when young equates, on average, to a loss of $22,000 of later earnings over the following 10-year period."

Conversely, ensuring full employment results in reduced health costs for the working-age population, higher tax returns from full employment and from the increased formalization of the workforce, and multiplier effects from spending in local economies and the value of public works, said Mr De Schutter.

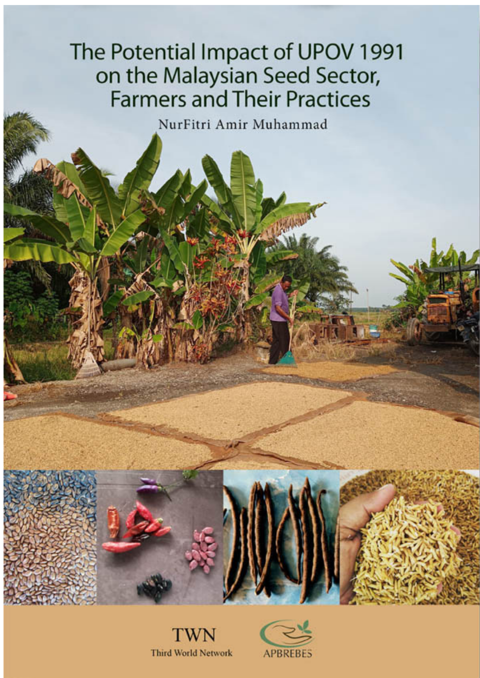
"Any assessment of the benefits of a job guarantee should also capture the productivity returns of a more skilled and healthy workforce, which would be expected to grow over time."

He said that considering the important benefits to society of tackling unemployment and of providing goods and services under-supplied by the market, financing from general taxation would be fully justified.

"Some schemes may, moreover, pay for themselves, where they are financed from ring-fenced unemployment insurance funds," said the Special Rapporteur. *(SUNS 9817)*

The Potential Impact of UPOV 1991 on the Malaysian Seed Sector, Farmers and Their Practices

NurFitri Amir Muhammad



Malaysia has a unique and functional system in place for protecting intellectual property on plant varieties. Its Protection of New Plant Varieties Act 2004 provides for the granting of rights to plant breeders while also recognizing farmers' innovations and safeguarding exceptions for their rights to save, use, exchange and sell seeds.

This delicate balance could however be upended if Malaysia signs on to the 1991 Act of the International Convention for the Protection of New Varieties of Plants (UPOV 1991). Designed to further the interests of commercial breeders in developed countries, the UPOV 1991 regime will severely restrict the age-old farming practice of seed saving and promote corporate seed monopolies in its stead, thereby undermining farming livelihoods, food security and agricultural biodiversity.

Drawing on rigorous research and interactions on the ground with domestic food farmers, this report sounds a clarion call to resist pressures for Malaysia to join UPOV 1991, and makes the case for a plant variety protection framework that is more attuned to the needs of the country's agricultural system.

Available at https://twn.my/title2/books/pdf/Potential%20Impact%20UPOV%20Malaysia.pdf

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Retreat provides impetus to WTO reform work, says GC chair

An informal retreat held on 16 June has provided "an impetus to WTO reform work" and could clarify the roadmap towards the World Trade Organization's 13th ministerial conference (MC13), to be held in Abu Dhabi in February next year, according to the chair of the WTO's General Council (GC).

by D. Ravi Kanth

WASHINGTON DC: The chair of the World Trade Organization's General Council (GC), Ambassador Athaliah Lesiba Molokomme of Botswana, said on 20 June that the retreat held on 16 June provided an "impetus to WTO reform work", hoping that it would clarify the roadmap towards the WTO's 13th ministerial conference (MC13), to be held in Abu Dhabi in February 2024.

But much clarity on the roadmap will only emerge if reforms in the other two pillars - the negotiating function and the reform of the dispute settlement system (DSS), especially the restoration of the two-tier DSS with the Appellate Body at its helm - proceed at the same pace as the institutional issues and the strengthening of the WTO committees and the General Council, said people who took part in the retreat.

The industrialized countries including the United States and the European Union, which are apparently pushing for bold and brisk reforms, must also show the same spirit when it comes to the reform of the dispute settlement system, said people, who asked not to be identified.

Clearly, at present, there are asymmetries in the progress of the WTO reforms as envisaged in the Outcome Document issued by trade ministers at the WTO's 12th ministerial conference (MC12) held in June last year.

Unless there is a holistic effort by all members, the WTO reforms could fall prey to "cherry-picking" by powerful members, said people familiar with the discussions.

In a restricted document (Job/GC/346) issued on 20 June, seen by the SUNS, the GC chair said that it is key that the General Council effectively performs its oversight and decision-making role.

She said "the TNC [Trade Negotiations Committee] must utilize its oversight function to provide results-oriented momentum to ongoing negotiations," adding that "making our meetings more meaningful is part of ensuring that the WTO remains fit for purpose."

Ambassador Molokomme assured members that she "will continue to provide detailed convening notices in the IC/TNC series indicating the topics to be taken up including matters I will raise solely for information purposes as many of you have suggested."

She said, "I will also continue the practice of holding meetings only when necessary."

In addition, the GC chair said that there seems to be "emerging convergence around the idea mentioned this morning on extending the Informal HODs (Heads of Delegations) as needed in order that Members have more detailed exchanges on other issues including Secretariat reforms and other matters."

Stocktaking on 20 July

Ambassador Molokomme said that she will convene "our Formal TNC and Informal HODs meeting on 20 July since we postponed the Senior Officials Meeting to October," adding that "I hope this meeting will provide the opportunity for proper stocktaking and identifying issues to be taken up at the Senior Officials Meeting prior to the summer break."

"In this regard, the July GC meeting will be an important marker for achieving this clarity that will assist in focusing the Geneva process from September until senior officials meet in October," she emphasized.

She expressed confidence in the Senior Officials Meeting in October, which would provide an impetus "to our Geneva efforts to follow up on MC12 results, deliver outcomes in areas of importance to all and have further clarity on Ministerial deliberations and deliverables at MC13."

Much would depend on the Senior Officials Meeting, she said, adding that "Ministers in Abu Dhabi would be able to endorse deliverables that you would have finalized while also having a more open-ended discussion about other pressing global issues as many of you have indicated you want to take up and based on the Australian and other proposals to enhance the deliberative function."

As regards stakeholder engagement as suggested by several members, the GC chair said: "I seize the opportunity to remind you that the Secretariat, as earlier announced, is going forward with some stakeholder engagement advice to the Secretariat with Business and Civil Society Advisory Groups ..."

In her concluding remarks, the WTO Director-General, Ms Ngozi Okonjo-Iweala, said that members "have demonstrated this in our efforts to respond to the pandemic, address supply chain bottlenecks, agriculture and food security, trade facilitation, and development initiatives, among others."

The DG said "we will continue with the coherence mandate that we have to collaborate with other international organizations."

However, there are mixed views on collaboration with external actors and even international organizations.

The DG, who is facing "rough weather" over her budgetary demands and also on Secretariat reform, particularly her proposal to create some new divisions, said that she hopes that "you will also take into account our various constraints which are becoming very evident - including budget and staffing. Rest assured that the Secretariat is always committed to assisting Members, in the best possible way we can, to achieve our collective objectives."

Assessment of breakout sessions

The four facilitators of the breakout sessions provided their respective assessments.

Highlighted below is the GC chair's summary of the sessions:

"1. Common themes — Breakout Session I

1. Members likewise found value in the need to improve engagement with external stakeholders in deliberations. It was pointed out that regional balance had to be taken into account and they should be chosen in an open and transparent manner without politicization. At the same time, it has been noted that this engagement should preserve the Member-driven nature of the organization and that WTO Members should be the only ones taking part in decision-making.

2. Another issue that was discussed was the role or contribution of international intergovernmental organizations (IGOs) to Members' deliberation of the issues identified. Members found merit in bringing together WTO Members' expertise in trade policy and the knowledge of other relevant IGOs to help develop coherent and mutually supportive approaches. Some suggestions include inviting them to thematic and informal discussions or continuing collaboration on research and analytic work as well as technical assistance and capacity building programmes.

   Some pointed out that work with regional organizations such as the African Union, the Inter-American Development Bank and ASEAN should be enhanced so that Members' deliberations take account of realities on the ground. At the same time, Members again stressed the importance of preserving the Member-driven nature of the WTO and respecting the IGO's respective competences, mandates and limitations.

3. Members also explored how to improve opportunities and mechanisms to address trade concerns and shared the desire to ensure that the deliberative function facilitates Members in effectively addressing trade concerns. In this regard, the need to effectively consider trade concerns in a solutions-oriented manner while taking account of capacity constraints and preserving the right to raise trade concerns was reiterated.

3.11. Other matters raised included the importance of transparency - which some pointed out could be better built through in-person as opposed to virtual meetings; being results-oriented and cooperating towards results; prioritization of issues and faithfulness to mandates; need for broader crosscutting discussions and balanced reach in WTO discussions and a need for a proactive interaction between Members and the Secretariat on reform by doing.

3.12. With regard to the second breakout session which addressed effective oversight and decision-making in the Ministerial Conference and the General Council and ensuring that the TNC effectively plays a supervising role of the overall conduct of negotiations - the common themes that emerged were the following:

3.13. First, the importance of ensuring the WTO's Member-driven nature as well as transparency and inclusiveness at Ministerial Conferences and in decision-making was underscored in all breakout sessions. While concerns were raised about the use of small group configurations, Members still found utility in this - particularly in convergence building - for as long as the groups were representative of the Membership, transparency was ensured and that all 164 Members had the right to participate in the decision-making process.

3.14. The question of the periodicity of holding Ministerial Conferences was also discussed. Views were shared on the idea of having annual Ministerial Conferences - with merit seen on making the meeting more business-like and taking off pressure given the increased frequency. At the same time, concerns were expressed about capacity constraints, scheduling conflicts with other annual Ministerial meetings and overloading Ministers' calendars.

3.15. Several delegations noted that recent Ministerial Conferences had come with a lot of pressure to deliver big outcomes and noted that such Conferences could also simply be an opportunity for further high-level deliberative discussions. In this context, some delegations also mentioned the various proposals to review the regularity and frequency of Ministerial Conferences. Members suggested having deeper policy engagement at Ministerial Conferences on emerging policy issues facing the global trade regime on a thematic basis. Members particularly welcomed the idea of using Ministerial Conferences as a platform for Ministers to have frank, solutions-oriented conversations on issues that directly affect their constituencies. Some considerations noted were (i) ensuring that the interests of all WTO Members are taken into account, (ii) the need for sufficient preparations both in Geneva and in capitals so that Ministers can meaningfully engage, and (iii) that the process to lay down such Ministerial dialogues would be transparent, inclusive and Member-driven.

3.16 Common themes — Breakout Session II

3.17. To ensure productive Ministerial Conferences, Members highlighted the importance of engaging capital-based officials in Geneva work in the lead up to a Ministerial Conference including Vice Ministers and Senior Officials. In this regard, reference was made to the Senior Officials Meeting in October - with some suggesting having another one a few days before a Ministerial Conference. Members welcomed the planned Senior Officials' meeting and recalled the importance of ensuring a transparent, inclusive, and predictable preparatory process vis-a-vis MC13. In this regard, a clear agenda should be set and any texts to be considered by Vice Ministers should be shared well in advance, and remaining differences on the draft texts clearly identified. Concluding work in Geneva, wherever possible, to ensure that Ministers play their decision-making role rather than negotiating technical issues during Ministerial Conferences was also emphasized.

3.18. The importance of having certainty on the Ministerial Conference agenda was also underscored. One point that emerged in the discussions in some groups was the possibility to introduce an annotated agenda for Ministerial Conferences. This annotated agenda should not only list matters that are to be taken up by Ministers but should also indicate the expected outcomes or actions to be taken. It was also noted that long-standing and/or unresolved issues should not be forgotten. In this regard, delegations discussed the prioritization of issues, as well as the potential bundling of matters to ensure a focused and output-oriented approach.

3.19. In terms of "lessons learned", from past Ministerial Conferences, the importance of better communication with all Members was underscored. While delegations recognized the need for meetings in various configurations and formats, including the "Green Room"-type meetings, they stressed that more ought to be done to ensure transparency and inclusivity. Several specific suggestions were made: (i) the inclusion of regional group coordinators or a representative group of Members from the various regions should be ensured, (ii) ensuring sufficient time for group coordinators/representatives to consult constituencies on the informal, small group processes, and (iii) providing ample time for the full membership to review any draft texts/outcomes that emerge from a small group meeting before they are put for decision, so as to ensure that consensus decision-making is upheld. Members also noted that, more generally, it may be useful to review what type of issues are taken up in Green Room-type meetings and how it is decided that an issue/matter is the focus of a Green Room-type meeting.

3.20. Members also mentioned the utility of digital tools - such as an alert app for meetings and documentation. Another example was to use the digital infrastructure to ensure inclusivity - and to allow for listening mode online where physical participation is limited in numbers. Another point on inclusivity related to extending the Ministerial Conference. If a Conference has to be extended, sufficient notice should be afforded to delegations to adjust Ministers' agendas - and with regard to LDCs, their funding should be also extended automatically to ensure full participation and inclusivity.

3.21. In this regard and taking into account the organizational structure of the WTO, it was also noted that Members should reinvigorate decision-making in the General Council - in the intervals between meetings of Ministerial Conferences. The importance and utility of implementing bottom-up approaches was noted - that is, starting work and discussions in the relevant technical bodies with a view to forwarding matters to the General Council only once they were mature and ready for decision. In recent years, the General Council has been frequently used as a forum for first readings/exchanges on various proposals, including of atechnical nature ("top-down approach") - not always conducive for decision-making. Enabling more open, frank, and free-flowing engagement in the General Council and improving its agenda setting and time management to (i) effectively take action, as appropriate, and (ii) provide political direction was also raised. It was further underscored that matters should be taken up first in technical committees and councils before they are brought before the General Council, to ensure a bottom-up approach. In addition, it should be avoided to place items on the agenda that have already been discussed repeatedly but where there were no developments to report.

3.22. As General Council Chairperson, I would like to recall that the General Council is also reforming by doing and has put in place some measures to improve its functioning such as timing of interventions; an overall calendar of meetings; and will soon start testing an e-agenda for General Council meetings. Efforts are also being made to further speed up the production of minutes and let me stress in this regard, that given the complexity and length of General Council meetings, the timely submission of copies of Member' statements is essential. Let me also take this opportunity to remind delegations about the General Council ePortal, which is on the WTO's public website. It lists all matters that have been taken up in General Council meetings since 1995 by calendar year. Each matter includes links to relevant documents, minutes of meetings and, where applicable, decisions adopted by the General Council. This is a useful tool both for Members and the public at large.

3.23. On the Trade Negotiations Committee (TNC), Members noted the importance of effective engagement with the Director-General, including as TNC Chairperson, and with the Membership on negotiations and other important matters in TNC/HODs meetings. Ensuring that Members can have the frank conversations necessary to provide impetus to ongoing multilateral negotiations and WTO work was also a shared objective in this regard. Members also recalled the distinction between the General Council and the TNC and that the latter should provide a forum for deliberative discussions, including on matters that do not have a natural home in other WTO bodies. A duplication of discussions in the GC and TNC should be avoided. Others recalled the specific mandate contained in the Doha Declaration with respect to the TNC.

3.24. Concerning the way forward, the following common trends were distilled:

a. Establishing a roadmap to guide Members' work from now until MC13.

b. Appointment of facilitators or Friends of the Chairperson to assist, as appropriate, with the common emerging issues and horizontal procedural reforms.

c. Having retreats, dedicated sessions, working groups or joint sessions on identified themes where the mechanism would be set in motion in July and work starting in Mid-September or Early October. The July General Council will be an important marker in this process.

d. The Senior Officials Meeting in October has been repeatedly noted as another marker to endorse this deliberative roadmap - in the lead up to MC13. This would also shape the MC13 format - allowing deeper policy engagement at Ministerial Conferences on emerging policy issues facing the global trade regime on a thematic basis.

3.25. In terms of next steps, I am considering holding consultations with all interested Members before the July General Council with a view to finalizing what seems to be an emerging roadmap to MC13 on the deliberative function (proposed by the European Union). This roadmap will include the topics to be taken up, when and how the issues will be taken up. My intention is to share this roadmap at the July General Council meeting - which is scheduled for 24-25 July.

3.26. Given the time left to MC13 and the amount of work to achieve the objectives you outlined today - I hope that we start to implement the roadmap early in the fall - also as delegations prepare for the Senior Officials Meeting to be held on 23-24 October. Several of you have pointed out that this could be an occasion to endorse work undertaken and provide further political impetus as we draw closer to MC13.

3.27. The Director-General and I will also reflect further on the suggestions made regarding appointing facilitators or Friends of the Chairperson for specific topics and inform Members of any decisions by the time of the General Council." *(SUNS 9809)*

South pushes back against North's overarching WTO reform proposals

A retreat on 16 June apparently saw many developing countries pushing back against the proposals tabled by the European Union and the United States along with other industrialized and some developing countries at the World Trade Organization to radically overhaul the functioning of the WTO committees and the WTO's General Council.

by D. Ravi Kanth

WASHINGTON DC: The European Union and the United States along with other industrialized and some developing countries on 16 June apparently intensified their efforts to push through overarching reforms at the World Trade Organization that could transform WTO committees and the General Council into allegedly taking bold plurilateral decisions, said people familiar with the discussions.

At an informal day-long retreat convened by the WTO's General Council chair, Ambassador Athaliah Lesiba Molokomme from Botswana, the Northern countries and some of their developing-country allies apparently pushed hard for comprehensive WTO reforms on a fast track.

On the face of it, the WTO Secretariat appears to have supported a gradualist approach, said a participant, who asked not to be quoted.

As predicted at the time of the WTO's 12th ministerial conference (MC12) in June last year, the industrialized countries have used paragraph three of the MC12 Outcome Document (WT/MIN(22)/24), especially the footnote attached to it, to bring in their controversial plurilateral agenda.

Paragraph three of the MC12 Outcome Document states: "We acknowledge the need to take advantage of available opportunities, address the challenges that the WTO is facing, and ensure the WTO's proper functioning. We commit to work towards the necessary reform of the WTO. While reaffirming the foundational principles of the WTO, we envision reforms to improve all its functions. The work shall be Member-driven, open, transparent, and inclusive, and must address the interests of all Members, including development issues. The General Council and its subsidiary bodies will conduct the work, review progress, and consider decisions, as appropriate, to be submitted to the next Ministerial Conference."

Accordingly, proposals to reform the WTO committees and the General Council to consider decisions were circulated by the EU, the US along with several other countries, and Australia with the "Friends of the System", said people, who asked not to be quoted.

Once there is agreement on these proposals, the proponents could then use the footnote attached to paragraph three of the MC12 Outcome Document, which states: "For greater certainty, in this context, this does not prevent groupings of WTO Members from meeting to discuss relevant matters or making submissions for consideration by the General Council or its subsidiary bodies."

It is against this backdrop that the day-long informal retreat was hosted by the General Council chair on 16 June.

In what appeared to be somewhat like a confusing muddle of the WTO reforms, whose discussions were held under Chatham House rules that allow participants to discuss issues freely without being specifically identified/quoted, it appears that the powerful group of industrialized countries led by the EU and the US and their developing-country allies have apparently sought a radical overhaul of the functioning of the WTO committees and the General Council.

South pushes back

However, many developing countries seem to have pushed back against attempts being made to set aside the mandated ministerial decisions/outcomes while proposing new issues that were not mandated by the previous ministerial conferences, said several people, who asked not to be quoted.

Ahead of the informal retreat, the General Council chair circulated on 2 June, a 23-page restricted document, titled "State of Play - In WTO Councils, Committees and Negotiating Bodies - "Reform by Doing".

The document, seen by the SUNS, "provides a state of play regarding practices and measures to facilitate the participation of Members in WTO Councils, Committees and Negotiating Groups."

According to the chair, the document suggests what respective bodies may decide, and which practices and/or measures are suitable in light of their respective mandates, terms of reference, or functioning.

The document is a "work in progress" and indicates the state of play with regard to practices and measures implemented or under consideration in WTO bodies, she suggested.

Modalities for the retreat

The retreat, convened in a "Davos-type" of plenary and breakout sessions, sought to address several themes for improving the WTO committees and the General Council.

The opening plenary session, for example, focused on the issue of "facilitating Members' participation in WTO Bodies."

Subsequently, members held breakout sessions in four different groups to discuss two major issues.

They include:

1. Engagement on cross-cutting issues, trade concerns, and other trade-related matters; and
2. Effective oversight and decision-making in the Ministerial Conference and the General Council and ensuring that the Trade Negotiations Committee effectively plays its supervising role in the overall conduct of the negotiations.

Significantly, the themes suggested for the plenary session and the breakout sessions seem to have been borrowed from proposals submitted by the EU, the US along with several other countries, Australia along with a group of countries, and Brazil with five South American countries, said people familiar with the proposals.

It is not clear yet as to why several other proposals submitted by developing countries such as India and South Africa were not included in the list of issues, said a person who asked not to be quoted.

The process decided for the retreat includes a plenary meeting on "Reform by Doing".

In her note to members, the General Council chair said: "Members have identified certain challenges with regard to their participation in WTO bodies such as overlap of meetings, better appreciation of meeting agenda, ability to better prepare for meetings, support for follow-up and support to delegations."

For the first breakout session, the General Council chair suggested that members discuss "engagement on cross-cutting issues, trade concerns, and other trade-related matters".

She said that they should answer the question, "How can the work of WTO bodies be organized to allow productive engagement to support deliberations and better serve Members' objectives?"

The second breakout session focused on "effective oversight and decision-making in the Ministerial Conference and the General Council, and ensuring that the Trade Negotiations Committee effectively plays its supervising role of the overall conduct of the negotiations."

The General Council chair urged members to answer the question, "How can it be ensured that the deliberations in the MC (ministerial conference), GC (General Council), and TNC harness this potential, [and] in so doing, contribute to the realization of the goals of the WTO?"

The chair also appointed four facilitators for the breakout sessions: Ambassador Maimuna Tarishi of Tanzania; Ambassador Clare Kelly of New Zealand; Ambassador Manuel Teehankee of the Philippines; and Ambassador Federico Villegas of Argentina.

"Hidden" design

While the discussions seem to have touched on several procedural issues raised by the EU, the US, and the "Friends of the System" led by Australia, several developing countries apparently echoed divergent views on some of the questions raised by the General Council chair, said a person, who asked not to be quoted.

The EU apparently touted its proposal on how to enhance the deliberative function, particularly its transparency proposal.

The EU apparently suggested that its transparency proposal leads to different steps, said people who asked not to be quoted.

However, several members expressed concerns about the EU's proposal on enhancing the deliberative function in the WTO committees.

It appears that the developing countries also seemed concerned about the dilution of the principle of consensus-based decision-making.

Apparently, one South-East Asian country, which exercises considerable power in the WTO meetings regardless of its small size as an island state, is understood to have said that it is important to make progress in the WTO committees by limiting the role of consensus-based decision-making, said another participant, who asked not to be quoted.

Several developing countries complained about the specific difficulties faced by the small delegations, who are poorly resourced with few officials to participate in all meetings held almost simultaneously.

Apparently, a suggestion was made at the meeting that the General Council chair must convene a meeting along with the chairs of the different committees every month to apprise them of what was discussed in each meeting.

Another suggestion that was also made at the meeting was that the General Council chair as well as the chairs of the other bodies must circulate the notes of the conclusions and of the proceedings (of meetings) within two or three days, said people, who asked not to be quoted.

Significantly, there was a suggestion made to record the meetings in order to share with those members who were unable to attend these meetings.

Ironically, on the day that the retreat was held, i.e. on 16 June, there were three other meetings being held, thus making it difficult for small delegations to participate simultaneously in all these meetings, said people, who asked not to be quoted.

Several developing countries insisted that the ministerially-mandated issues should be given priority over the new issues.

Apparently, several industrialized

countries suggested that priority should be given to discussing the new issues.

On a suggestion by the EU that international organizations should be called in for discussing non-contentious issues, the developing countries apparently called for caution in addressing this issue, suggesting that only bodies of the United Nations should be given priority, said people familiar with the discussions.

Until the General Council chair issues her authoritative note on how different members responded to the issues, it is difficult to make any evidence-based judgment, said several participants, who asked not to be quoted.

Apparently, members largely discussed procedural issues, including: (1) Do members need facilitators to address (some) substantive issues? (2) Does external engagement need to be enhanced? (3) Should ministerial conferences occur on a yearly basis as proposed by Brazil? and (4) Do agendas need to be better coordinated?

Apparently, sharp differences cropped up on issues concerning focus and speed, as well as on issues such as industrial subsidies or the ambition for WTO reform and so on, said people, who asked not to be quoted.

Clearly, there are asymmetries in prioritizing issues concerning WTO reforms, said a trade envoy, who asked not to be quoted.

While the level of ambition in setting right the institutional practices and issues is high, the same appears not to be the case with the dispute settlement reform where one major member appears bent on "asphyxiating" the Appellate Body in the two-tier dispute settlement system, said people, who asked not to be quoted.

Interestingly, the Northern countries, who had earlier called for reforming the WTO's negotiating function to bring in their plurilateral issues, seem to have remained silent on this issue.

Perhaps, they may have realized that they can foist their plurilateral issues without reforming the negotiating function. *(SUNS 9808)*
