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IMF giving wrong-headed policy advice in Europe – study

An analysis of the International Monetary Fund's policy recommendations to European Union economies has found "an overwhelming emphasis on fiscal consolidation, reduction of social expenditures, as well as measures that would weaken the bargaining power and income of labour". These are the types of policies, suggests the analysis, which have contributed to the economic troubles afflicting the recession-hit EU.

- IMF policies exacerbating crisis in EU,
says paper – p2

Also in this issue:

*DSB authorizes Antigua
sanctions in US gambling dispute*
p7

*Reviving economic planning
in Africa*

p14

*Resolving the food crisis: The
need for decisive action* p10

*Firms stash tens of billions in tax
havens* p15

Contents

CURRENT REPORTS

- 2 IMF policies exacerbating crisis in EU, says paper
- 5 Missing reform deadline, IMF nears "credibility cliff"
- 7 DSB authorizes Antigua sanctions in US gambling dispute
- 9 David and Goliath
- 10 Resolving the food crisis: The need for decisive action
- 12 Water agenda at risk of being hijacked by big business
- 14 Reviving economic planning in Africa
- 15 Firms stash tens of billions in tax havens
- 16 Hogging the global pie

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IMF policies exacerbating crisis in EU, says paper

The International Monetary Fund's policy advice to European economies is unduly focused on spending cuts, smaller government and reducing social protections, according to a new study.

by Kanaga Raja

GENEVA: An analysis of the International Monetary Fund (IMF) Article IV consultations in the European Union has found that there is "an overwhelming emphasis on fiscal consolidation, reduction of social expenditures, as well as measures that would weaken the bargaining power and income of labour, and make it more difficult for governments to promote growth and employment or reduce poverty and social exclusion."

The analysis, showing "a consistent pattern of recommendations on fiscal policy as well as policies concerning employment and social protections", is in a new paper by the Washington DC-based Center for Economic and Policy Research (CEPR).

The January paper, titled "Macroeconomic Policy Advice and the Article IV Consultations: A European Union Case Study", is written by Mark Weisbrot, an economist and Co-Director of CEPR, and Helene Jorgensen, a Senior Research Associate at CEPR.

According to the paper, the findings confirm prior research on IMF Article IV consultations in other countries. That analysis, which looked at 50 Article IV consultations for developing countries, found similar predilections with regard to fiscal consolidation and other "one-size-fits-all" policies that were not necessarily appropriate for these developing countries.

"From these documents, the IMF appears to be pursuing a political and ideological agenda in Europe, with a very strong prejudice toward spending cuts and smaller government," said Weisbrot in a press release. "These are policies that have helped cause the eurozone's second recession in three years, and record levels of unemployment," he added.

According to the paper, the IMF's most recent (October 2012) *World Economic Outlook (WEO)* sees Europe's problems as perhaps the most important drag on world economic growth, which has slowed to a projected 3.3% for 2012 (as compared with 3.8% for 2011 and 5.1%

for 2010).

Many economists, including Nobel laureate Paul Krugman, have argued that the policies implemented by the European authorities have helped push Europe into recession and/or have been impeding the recovery. The IMF is part of the so-called "Troika" – with the European Commission (EC) and European Central Bank (ECB) – that has been deciding or strongly influencing economic policy in the eurozone, as well as affecting policy in the rest of the European Union, especially since the world economic crisis and recession of 2008-09.

The paper said that it is therefore worth examining IMF policy recommendations to see whether they have contributed to the ongoing crisis in Europe, and also how they might affect other EU goals such as those of Europe 2020, which seeks to reduce social exclusion, promote public investment in research and development, and promote employment and education.

Noting that the IMF makes policy recommendations to European countries through its Article IV consultations and resulting papers, the paper explained that the Article IV consultations provide recommendations on a broad range of issues including fiscal, monetary and exchange rate policy; health care and pensions; labour market policy (including wages, unemployment compensation and employment protections); and numerous other policy issues.

The CEPR paper examined the policy advice given by the IMF to EU countries in 67 Article IV consultations for the four years 2008-11. It said that it is a follow-up to an International Labour Organization study on 50 Article IV consultations undertaken for low- and middle-income countries (2012). It focuses in particular on fiscal adjustments, inflation targeting (in countries where it is relevant, i.e., outside the eurozone), employment generation and social protection.

The paper finds a consistent pattern of policy recommendations which indi-

cates: (1) a macroeconomic policy that focuses on reducing spending and shrinking the size of government, in many cases regardless of whether this is appropriate or necessary or may even exacerbate an economic downturn; and (2) a focus on other policy issues that would tend to reduce social protections for broad sectors of the population (including public pensions, health care and employment protections), reduce labour's share of national income, and possibly increase poverty, social exclusion, and economic and social inequality as a result.

The paper further finds that fiscal consolidation is recommended for all 27 EU countries, and expenditure cuts are generally preferred to tax increases. In some cases, there are targets or limits on public debt/GDP ratios or fiscal deficits that are below those of the Maastricht treaty. There is repeated emphasis on cutting public pensions and "increasing the efficiency" of health care expenditures. Raising the retirement age is a standard recommendation, without any correlation to a country's life expectancy.

There also appears to be a predilection for increasing labour supply, irrespective of unemployment or labour force participation rates. This includes such measures as reducing eligibility for disability payments or cutting unemployment compensation, as well as raising the retirement age.

"Labour market policy recommendations are overwhelmingly geared towards measures that would either reduce wages directly or – as in the efforts to increase the labour force – put downward pressure on wages. Such measures include the attenuation of industry-wide bargaining practices, and scaling back employment protections."

The authors said that the paper's findings are also consistent with other evidence of policy mistakes, including that provided by IMF research. On the macroeconomic side, the IMF's most recent *WEO* finds that the IMF (as well as other forecasters) seriously underestimated government spending multipliers in growth forecasts for countries since the beginning of the Great Recession. Instead of a multiplier of 0.5, they find a range of 0.9 to 1.7.

The paper said that this could explain some of the large gap between the IMF's growth projections and growth outcomes for countries undergoing fiscal consolidation under IMF agreements. For example, in September 2010, the IMF

projected GDP growth in Greece of -2.6% for 2011 and +1.1% for 2012. The actual results were -6.9% for 2011 and -6% (October *WEO* projection) for 2012. Similarly, in Latvia, the IMF projected, in January of 2009, -5% growth for 2009; the actual decline was 18%.

Pro-cyclical policies

The paper noted that a 2009 examination of IMF agreements and reviews made during the Great Recession with 41 borrowing countries found that 31 recommended pro-cyclical fiscal or monetary policies, or (in 15 cases) both. These were policies that could be expected to exacerbate a significant slowdown or recession. In that study, there were many cases in which the IMF's pro-cyclical policies were based on overly optimistic assumptions about economic growth.

Pro-cyclical fiscal policies have also played a major role in the deep recessions experienced by Spain, Italy, Portugal and Ireland, the paper underscored, adding that the IMF's role, together with the European authorities, in promoting these policies is only partially reflected in the Article IV papers reviewed (in the paper). "But the 'one-size-fits-all' policy of fiscal consolidation that is evident in these Article IV consultations is consistent with what the IMF recommended in borrowing countries in the eurozone."

Over the past two-and-a-half years, said the paper, as the crisis in the eurozone has unfolded, the European authorities have repeatedly intervened – even including ECB interventions or pledges to intervene in sovereign bond markets – in order to stabilize financial markets and prevent the crisis from worsening at various times, even while promoting pro-cyclical policies that have prolonged recession. However, there have been numerous press reports indicating that these authorities, including the ECB, were unwilling to take further measures to end the crisis because of a fear that doing so would remove the pressure on eurozone governments to make certain reforms.

"It is possible that the current recession and recurring crises in Europe are a result of this attempt to implement unpopular reforms in various countries – especially since the ECB has several times shown that it can easily limit, and lower interest rates on the sovereign bonds of Italy and Spain when it wants to do so."

Fiscal consolidation

In its comparative overview, the paper underlined that its content analysis examined the fiscal policy recommendations offered in IMF Article IV consultations from 2008 to 2011. The IMF consultations provided both short-term economic advice addressing the immediate economic crisis as well as medium- to long-term advice for fiscal adjustment, with the content analysis focusing primarily on the medium-term recommendations.

In a number of consultations, said the paper, IMF staff argued that the economic crisis provided an opportunity for economic reforms. For example, in the 2009 consultation report with France, IMF staff wrote that "historical experience indicates that successful fiscal consolidations were often launched in the midst of economic downturns or the early stages of recovery".

In other country cases, IMF staff made the case that the economic crisis created a necessity for fiscal consolidation. For example, the 2010 consultation with the Czech Republic stated "the crisis has highlighted the urgency of fiscal adjustment". Only a few consultations directly discussed the contractionary effects of proposed fiscal consolidation.

The IMF consultations advised fiscal consolidation for each of the 27 EU countries. The consultations generally emphasized expenditure cuts over revenue increases. An expenditure ceiling was proposed for some countries to rein in government spending. For example, in the 2010 consultation with the Republic of Ireland, IMF staff noted that "a medium-term fiscal framework incorporating expenditure ceilings is a valuable management tool".

Most consultations provided specific recommendations on expenditure reductions, and in nearly all cases included reduction in social programmes. Other areas frequently identified for consolidation were the slowing of wage growth in the public sector, public sector wage ceilings, reducing public sector employment and reorganizing public institutions.

The most commonly recommended measures to rein in expenditures related to pensions. The IMF recommended reduction in pension spending from current level or projected level in consultations with 81.5% of countries. On the other hand, revenue increases were recommended in 70.4% of countries. In two-

thirds of the countries in which revenue increases were recommended, the IMF also recommended revenue decreases. The IMF did not provide recommendations on government revenue in consultations with 25.9% of the countries.

According to the paper, the IMF consultations identified various areas for revenue increases including taxes, deductions and social security contributions. Tax policy recommendations were country-specific and often included a mixture of increases and reductions in taxes. For example, the 2008 consultation with Hungary proposed a "shift in the tax burden away from labour and to consumption and wealth".

Based on the information provided in the consultation reports, the net revenue effect could not be determined in most consultations. Tax areas identified for revenue enhancement included income taxes, property taxes, inheritance taxes, value-added tax (VAT), reducing or phasing out the mortgage interest deduction, and phasing out other deductions, exemptions and loopholes.

In a number of consultations, specific budget deficit or debt targets were identified. In some cases, the IMF staff recommended stricter targets than the ceilings set by the EU Stability and Growth Pact. For example, the 2011 consultation with Hungary stated "the constitutional mandate to maintain public debt below 50 percent is commendable".

In a few consultations reviewed, concerns were expressed about planned fiscal consolidation. The consultation with Poland warned that "aiming at a deficit of 3 percent already by 2012 is too ambitious". The 2011 consultation with the Netherlands supported the authorities' planning consolidation but cautioned that "historical experience indicates that negative effects on demand from budget consolidation are likely to be higher when monetary policy is not able to accommodate tightening, as is currently the case".

Labour market recommendations

The majority of the consultations reviewed addressed labour market policies. The content analysis uncovered five main areas of labour market recommendations: wages, employment protection and flexibility, collective bargaining, work incentives and vocational training.

The CEPR paper noted that during the period of this study, unemployment

rose in the EU countries as the recession took hold. Some countries were impacted more than others due to the severity of the recession and their specific labour market structure. By 2010, the unemployment rate ranged from 4.4% in Austria to 20.1% in Spain.

For the majority countries, the IMF provided recommendations on wage growth, and the advice overwhelmingly favoured wage moderation (18 out of 19 countries). The IMF provided advice on labour supply and/or labour force participation with 48.1% of countries. In every case, the advice promoted policies for increasing labour supply. Finally, the IMF recommended scaling back employment protections in 14 out of 14 countries receiving advice on employment protection.

In consultations with seven countries, advice on vocational training and apprenticeship programmes supplemented recommendations on weaker employment protection. Increases in labour market flexibility through scaling back of employment protection, decentralizing collective bargaining, and flexibility in overtime and work-week hours were mentioned in consultations with 15 countries.

To increase employment, IMF consultations for 18 countries advised reducing nominal or real wage growth. Specific recommendations included reducing or eliminating cost of living adjustments (COLA) (for example, Cyprus 2009), wage modification in collective bargaining (Sweden 2011), minimum wage moderation (France 2009), and containing public sector wage growth.

According to the paper, the labour force participation rate varied widely across EU countries, with Malta (60.3%), Italy (62.2%) and Hungary (62.4%) having the lowest rates and Denmark having the highest rate (79.4%). Twenty-two consultations with 13 countries recommended increasing labour force participation/labour supply.

"Interestingly, there was no apparent correlation between a country's labour force participation rate and recommendation to increase the labour force. Bulgaria and Malta had some of the lowest labour force participation rates in the EU, but the IMF did not provide specific advice on increasing the labour supply in the consultations reviewed. At the same time, the IMF recommended increases in labour supply for Austria, Denmark, Germany, and the

Netherlands, countries which had some of the highest labour force participation rates. Likewise, recommendations to increase labour force participation were not obviously correlated with the countries' unemployment rates either."

The consultations provided few specific recommendations on education. When recommendations were made, they were often brief and generic in nature, such as "improve quality of education" (Bulgaria 2010, Czech Republic 2010, Italy 2011, Latvia 2010).

The content analysis identified seven country-specific recommendations on primary, secondary and higher education in seven consultations with seven countries. Some of the recommendations focused on investment in education to increase human capital. Other recommendations were geared toward reducing expenditures.

Many EU countries experienced high unemployment during the period of study, and vocational training and apprenticeship training programmes were proposed in consultations with 10 countries to reduce mismatches in the labour market. In several cases, vocational training was advocated in combination with increased flexibility. For example, the 2011 consultation with Slovakia mentioned "sharpening the orientation of education and vocational programmes towards labour market needs," while at the same time promoting labour market flexibility to maintain competitiveness.

The paper noted that EU countries have some of the highest life expectancies in the world. It said that long life expectancies combined with low birth rates have resulted in an "aging of population" in EU countries, adding that the aging population was a recurrent theme in the IMF consultations with EU countries. Most consultations reviewed explicitly addressed the economic ramifications from an aging population in terms of pension and health care expenditures.

The IMF offered advice on pensions for 22 out of 27 countries reviewed. Pension recommendations were frequently referenced in the context of fiscal consolidation and focused on reducing pension spending in every single case. For example, the 2010 consultation report with Poland noted that "the substantial fiscal adjustment needed over the medium term will require changes in entitlement programmes". The 2009 Austrian consul-

tation identified “key areas for consolidation to include ... pensions, and education and health”.

“Without exception, the pension recommendations focused on scaling back programmes by tightening eligibility, raising retirement ages, increasing service period, reducing benefits levels (often through tightening pension indexation), and phasing out early retirement programmes. Several consultations advocated expansion of private pensions to supplement cuts in public pension.”

Interestingly, the paper stressed, there did not appear to be a correlation between life expectancy and recommendations to scale back pension programmes. The Republic of Ireland and Sweden had some of the highest life expectancies, but reviewed consultations did not provide recommendations on increasing the retirement age. On the other hand, consultations with Hungary and Lithuania, countries with some of the lowest life expectancies at birth, recommended increasing the retirement age and/or reducing benefit levels.

A total of 26 consultations for 15 countries explicitly mentioned health care policies. As in the case of pensions, health care policy advice was frequently framed in terms of budget consolidation. For instance, the 2008 consultation with Germany warned of “the risks associated with healthcare costs due to an aging population”.

Generally, the health care policy recommendations were generic in nature, such as “continued efficiency gains ... in health and long-term care spending” (France 2011); “the large efficiency gains that are possible in the health care sector should be promptly reaped” (Austria 2011); and “a comprehensive health care reform, with the view to improve the efficiency and quality of the health care system is needed” (Bulgaria 2010).

Social policy recommendations included both recommendations for expansion of social programmes as well as shrinking programmes. The IMF consultations provided few recommendations on alleviating poverty and increasing the standards of living through social programmes. Most welfare policy recommendations were centred on cutting expenditures.

Recommendations on unemployment benefits focused on reducing the level and duration of benefits in order to strengthen job search incentives, reduce public expenditures and increase labour

supply. The consultations rarely addressed poverty directly, though some consultations suggested that authorities better target programmes to vulnerable populations as the expenditures are being reduced.

Policy mistakes

According to the paper, the IMF Article IV consultations underestimated the severity of the recession in consultations with a number of countries. In the 2009 consultation with Greece, IMF staff predicted that “Greece’s growth decline from peak to trough would still be milder than for the euro-area as a whole”. Moreover, “staff projects some recovery in the late 2010”. In fact, real GDP declined by 6.9% in 2011, and was projected to decline by an additional 6.0% in 2012.

“The unanticipated severity and duration of the economic downturn means that a number of IMF country consultations conducted in 2008 and 2009 did not modify advice to reflect actual economic circumstances.”

Overall, it added, “there was no discernible change in medium and longer-term recommendations in the four policy areas of fiscal adjustment, inflation targeting, labour market policies and social policies identified in the content analysis.”

The review of Article IV consultations also supports the view that policy mistakes by the European authorities – including here the IMF’s overwhelming priority of fiscal consolidation – have

unnecessarily prolonged and deepened the crisis in Europe, and contributed to a reform agenda that worsens the impact of the crisis on vulnerable parts of the population.

According to the authors, the content analysis in their paper suggests that the IMF might wish to engage in an Independent Evaluation Office review of its policy advice in Europe, similar to the IEO’s review of IMF surveillance in the run-up to the Great Recession and its review of the IMF’s policies during the Asian economic crisis of the late 1990s.

“Both of these reports found serious mistakes and led to significant changes in both research and policy at the IMF. Given the urgency of the present situation in Europe, an expedited review of current policy might enable the IMF to play a constructive role in Europe’s recovery.”

“The IMF is of course the junior partner in the troika, with the European Commission and European Central Bank calling the shots,” said CEPR Co-Director Weisbrot. “But they are still an important influence, and these consultations show that their influence, together with their partners, has been unnecessarily harmful for the people of Europe, who are struggling with unemployment and recession.”

“As weak as the US economy is, we are very fortunate that our government has not implemented the kinds of policies that we have seen in Europe since 2008,” he added. (SUNS7519) □

Missing reform deadline, IMF nears “credibility cliff”

A move to give developing countries a greater say in the running of the IMF has stalled.

by Carey L Biron

WASHINGTON: The International Monetary Fund (IMF) has announced that it will miss an internal deadline to agree on a new formula by which to apportion voting rights in the 188-member institution.

According to a report by the Fund’s Washington-based executive board made public on 31 January, discussions over the past year “have provided important building blocks for agreement on a revised quota formula that better reflects members’ relative positions in the

global economy.”

But a deadline to agree to a new formula by end-January has now passed.

The announcement marks a potentially significant stumbling block in a two-year campaign to increase the voice of emerging economies, rebalance the institution’s governance structures to take into account a new global economic order, and re-establish a level of legitimacy that many observers say the Fund has lost in recent years.

The results of those two years of

work have been "meagre", Paulo Nogueira Batista, IMF executive director for Brazil and 10 other countries, said on 31 January in a statement sent to Inter Press Service (IPS).

"Since 2011, IMF reform has practically ground to a halt," Batista warned, speaking in his own capacity. "Now, we have an attempt to paper over the fact that the review of the quota formula has not been completed either. The IMF is approaching what we could call a 'credibility cliff'."

He places particular blame for the hold-up in the reforms process on European members of the Fund, noting in addition that "the fundamental problem in IMF governance is the glaring overrepresentation of Europe."

Emerging economies are calling on the Fund to rework its voting shares to be based more on gross domestic product (GDP) and less on a vague notion of an economy's "openness", as pushed by Europe.

The European Union's share of GDP is around 20% "and falling", Batista notes, even though EU members continue to hold nearly a third of total voting shares.

More specifically, he points out that under the current formula, the Netherlands and Spain, for instance, both have voting shares similar in size to Brazil's, despite the fact that the Spanish economy is less than two-thirds the size of the Brazilian.

"We are disappointed that an agreement on the quota formula has not yet been reached," Amar Bhattacharya, director of the Group of 24 (G24) bloc of developing countries, told IPS from the group's Washington secretariat.

"The reform formula must reflect changes that are taking place in the global economy. It must be equitable in that it enhances the voices of emerging markets and especially of the poor, and that it should not produce the kind of outcome as in the past where a significant part of the adjustment came on the back of other emerging countries."

Bhattacharya suggests that the current deadline is far less important than the final cut-off date for putting the new formula into effect, in January 2014.

Still, he stresses that the failure to reach agreement underlines that much work – both technical and political – remains to be done in proving that the IMF remains a relevant institution.

(continued on page 13)

Reaffirming the Environment-Development Nexus of UNCED 1992

By Martin Khor

The 1992 United Nations Conference on Environment and Development (UNCED) ended with mixed feelings of euphoria, deep disappointment, concern about the future, and stirrings of hope.

Many of the Agenda 21 actions were not new but it was significant to collate together a comprehensive range of environment and development issues, put action programmes to them, and attach cost estimates for their implementation. Government leaders morally committed themselves to implement the agreed measures. In addition a finely balanced set of environmental obligations and development rights was achieved in the Rio Declaration on Environment and Development.

Implementation was estimated at US\$600 billion for the South alone, of which the external aid component was US\$125 billion. The South regained a high-profile place on the international agenda for development assistance and technology transfer. However, as the Earth Summit ended, there were doubts that the promises would be fulfilled. Today it is undeniable that the North has failed to deliver on the means of implementation: finance and technology.

Nevertheless UNCED saw the first global discourse on the environment-development nexus in the context of North-South relations.

In the current debate on "a green economy in the context of sustainable development and poverty eradication", one of the two themes of the 2012 UN Conference on Sustainable Development (Rio+20), there are concerns that lack of clarity and common understanding of the term "green economy" risks the substitution of the framework of sustainable development adopted at UNCED and a marginalisation of the social and economic dimensions. This booklet provides an account of the evolution of the UNCED approach to this nexus, and recalls the necessity of the integration of the three dimensions of sustainable development.

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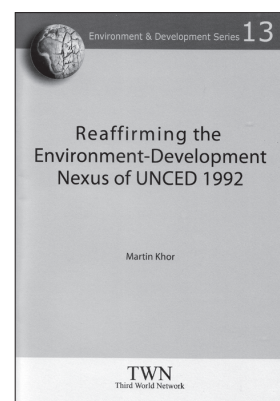
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DSB authorizes Antigua sanctions in US gambling dispute

The WTO has given Antigua and Barbuda the greenlight to suspend measures protecting US intellectual property in retaliation for the US' non-compliance with a WTO ruling on Internet gaming services.

by Kanaga Raja

GENEVA: The Dispute Settlement Body (DSB) of the World Trade Organization (WTO) on 28 January agreed to the request by Antigua and Barbuda for authorization to suspend concessions or other obligations under the WTO's TRIPS Agreement with respect to the United States in an amount not exceeding \$21 million annually.

The dispute concerns US measures affecting the cross-border supply of gambling and betting services, with Antigua seeking recourse to Article 22.7 of the WTO Dispute Settlement Understanding on 13 December 2012.

The authorization request follows the award of the arbitrators and in terms of Article 22.7, the DSB authorization is automatic, unless the DSB by consensus decides otherwise.

The authorization request had highlighted several sections of Part II under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) with respect to the suspension of concessions or other obligations, namely, Section 1 (copyright and related rights), Section 2 (trademarks), Section 4 (industrial designs), Section 5 (patents) and Section 7 (protection of undisclosed information).

"Disingenuous, untrue and unhelpful"

In its statement at the DSB, Antigua and Barbuda said that it is surprised that the US continues to put forth the argument that it was either unaware that it had made a commitment in respect of gambling in its schedule under the WTO's General Agreement on Trade in Services (GATS) or that the commitment was made by mistake.

"As my fellow members well know, in our respective preparations of our schedules under the GATS, many of us were able to recognize the gaming commitment and either exclude or modify it explicitly by reference in our schedules, as at least a dozen were so to do, or omit the commitment by exclusion of the en-

tire applicable sector. We were all, as they say, singing from the same hymn sheet, W/120."

Noting that the US itself excluded "sporting" from the applicable sector, Antigua said that this insistence upon "error", "mistake" or "unintentional" is "disingenuous, untrue and we would hope the United States would drop this unhelpful red herring."

Antigua also noted that in its statement at the DSB meeting in December, the US made reference to its need to strictly regulate remote gaming to protect the health and safety of its citizens.

"This is yet another false trail, as during the course of our proceedings, the United States' primary defence was that remote gaming was so pernicious and problematic that it is not capable of regulation."

In fact, Antigua added, the US argued that it prohibited all remote gaming because of the moral, health and safety problems associated with the activity.

"But we have never argued that remote gaming should be unregulated. We have been licensing and regulating the industry for almost two decades. We fully understand and respect the need for regulation."

It said that among its many unanswered proposals for settlement to the US was a joint regulatory system where the US could work closely with Antigua and Barbuda regulators to ensure the efficacy of remote gaming regulation.

Noting that lawful domestic remote gaming has existed in the US for decades and is increasing as each day passes, Antigua said it would hope that the US would no longer continue "to push forth this tired and thoroughly discredited justification for their decade-long non-compliance with the decision in our dispute."

Antigua further said that it would like to make absolutely clear that its government has been patient, open and creative in its negotiating efforts with the US. "But in all of our years of discussions with the US, they have never once given

us a settlement proposal of their own."

"They have never once taken one of our many proposals and suggested changes, permutations or alternatives in what we understand the spirit of good faith negotiations to be. In fairness, by and large neither have they rejected our proposals. They have simply failed to respond or do anything."

Antigua called for the US to discontinue its oft-repeated and untrue assertion that Antigua has failed to take up reasonable settlement offers presented to it.

Antigua stressed that in response to its argument that Antigua is unfairly and improperly standing in the way of American efforts to cure its GATS violation by wiping away its gaming commitment under the GATS, "we want our fellow delegates to know that the United States offered us nothing during our brief and languid discussions regarding the proposed removal of the gaming concession."

"Nothing. And we continue to insist, particularly on behalf of small, narrow economies such as our own, that a major economy cannot avoid the consequences of an adverse DSB ruling by withdrawing a commitment in a manner that ostensibly 'balances' global trade by accommodating other affected members but provides no benefit or compensation to the prevailing party in the underlying dispute. That would be an absurd result, and as we know, international law doesn't much fancy absurdity."

Antigua further said that it is disturbed by statements and suggestions by the US that Antigua's recourse to the suspension of concessions and other obligations awarded to it by the DSB would render it "pirates" and "thieves" of intellectual property.

"We have followed the rules and procedures of the WTO to the letter. We have litigated each and every issue, and availed ourselves of the remedies and rights provided us as a prevailing party in a WTO dispute under rules [which], as our fellow members will know, were largely driven by the major economies during the process that resulted in the Uruguay Round agreements."

"To accuse our country of somehow being an international outlier by doing what the rules provide we can do, while at the same time confiscating the money our operators held in global accounts and subjecting our operators to prison

terms under laws held inconsistent with the GATS pretty much beggars belief."

Antigua considered this rhetoric and these particularly inflammatory and clearly false accusations to be inappropriate, unhelpful and wrong, and called on the US to cease these very unfortunate references and acknowledge that "our little country is doing precisely what it has earned the right to do under international agreements."

Antigua went on to say that it is in the process of assessing its options, analyzing the legal issues and developing a scheme for imposing the suspension of concessions and other obligations approved by the DSB should it, in the event, determine to do so.

"The United States has ruined our domestic remote gaming industry, causing thousands of job losses and nipping in the bud our prescient investment in remote gaming. As we speak, they are prosecuting and pursuing Antiguanus for simply engaging in conduct that the United States committed under the GATS to allow."

It added: "By our estimates, the United States has seized over a billion dollars in customer deposits and other funds of our licensed operators without any kind of due process and in clear and unambiguous violation of international law."

Antigua underscored that "the fact that we are at this point at all is very unfortunate and does not bode well for the global trading system in general and the WTO in particular. Our experience in this endeavour to protect and enforce our rights against a bigger economy with infinitely greater resources has not been satisfactory."

"Our inability to achieve a fair and proper resolution over a long period of time, together with the possibility that at the end of the day, the United States may avoid any liability to Antigua and Barbuda by simply re-writing its trade obligations after the fact, leaves us wondering if there is anything for small economies at the WTO, and if the WTO dispute resolution system may not be in serious need of overhaul," said Antigua.

"Misplaced" decision

In its statement at the DSB, the US said it is disappointed with Antigua and Barbuda's "misplaced" decision to abandon constructive settlement discussions and to pursue authorization to suspend concessions or other obligations under Article 22.7 of the DSU.

"This course will not achieve a positive outcome for the Antiguan economy or people and will make resolution of this longstanding matter more difficult."

The US fundamentally disagreed with Antigua's characterization of the status of this dispute and of US efforts to reach a solution.

Throughout this process, the US said, it has urged Antigua to seek solutions that would benefit its broader economy. However, Antigua has stymied any progress toward finding common ground by insisting that the US must not modify its schedule under the GATS.

The US reiterated that it never intended gambling and betting services to be included in its schedule under the GATS. This was the US understanding of its own schedule. However, as a result of ambiguities in drafting, and despite the intent of the US negotiators, the WTO Appellate Body ultimately found that the US schedule must be construed as including a market access commitment for cross-border gambling.

Although the US finds this outcome difficult to understand and highly unfortunate, it said that it has accepted the results of the dispute settlement system.

The US further said that it has responded to this finding responsibly, and in a manner that involves substantial costs for the US. As the US previously notified the DSB and the Council for Trade in Services, the US has invoked the established multilateral procedures for modification of its GATS schedule of concessions.

In May 2007, the US initiated the modification procedure under Article XXI of the GATS so as to reflect the original US intention to exclude gambling from the scope of US commitments. Pursuant to the GATS procedures, the US reached agreement with all interested WTO member states, except one, on a package of substantial compensatory adjustments to the US GATS schedule.

"Only one single Member, out of the entire WTO membership, will not accept compensatory service concessions. That Member is Antigua."

"Instead of respecting the WTO process under Article XXI, Antigua insists that the United States must maintain its unintentional concession on gambling, and that the United States must change its domestic policies concerning public morals and public order so as to allow internet gambling."

Despite this unreasonable and unrealistic demand, the US said it has gone

to great efforts to meet Antigua's concerns. Over a course of years, the US has devoted substantial resources to settlement discussions. The US has met repeatedly with Antigua at all levels of government, from the ministerial to the technical level.

Based on specific requests made by Antigua, the US said, it has offered real and substantial benefits that would make important contributions to the further development of the Antiguan economy.

"At times, it has appeared that Antigua has been on the verge of accepting these benefits and putting this dispute behind us. At other times, however, as appears to be the case today, Antigua reverts to its unrealistic demands that the United States forego the modification of its schedule under the GATS."

Moreover, Antigua today is taking the additional step of seeking authorization to suspend concessions with respect to intellectual property rights, said the US, adding that it views this step as fundamentally at odds with the current status of this matter.

"It is Antigua's actions in refusing to engage in the Article XXI process, and not the actions of the United States, that are preventing the final resolution of this matter. Moreover, if Antigua does proceed with a plan for its government to authorize the theft of intellectual property, it would only serve to hurt Antigua's own interests."

The US added: "Government-authorized piracy would undermine chances for a settlement that would provide real benefits to Antigua. It also would serve as a major impediment to foreign investment in the Antiguan economy, particularly in high-tech industries."

Noting that Antigua has stated that it will not seek to implement a suspension at this time and that it will provide details on its plans to the DSB at a later time, the US said that implementing suspension of intellectual property rights is counter to Antigua's own interests, and Antigua should reconsider before taking this extraordinary and unprecedented step.

Rules-based system

In an intervention, Dominica, on behalf of the OECS (Organization of Eastern Caribbean States) member states, said a well-functioning rules-based multilateral trading system (MTS) that is fair, balanced and equitable and addresses the needs, concerns and interests of all its members, particularly the smallest,

weakest and most vulnerable, is critical for the long-term credibility and relevance of the WTO.

Such a system is in fact most needed by the smallest and weakest members who lack the economic and political weight to advance and defend their interests in what would otherwise be the law of the jungle, it said, adding that for the member states of the OECS, the existence and maintenance of such a system is one of the key benefits or *raison d'être* for membership in the WTO.

A key element of a rules-based MTS is a fair and equitable and functioning dispute settlement system. The WTO Dispute Settlement Understanding and the Dispute Settlement Body negotiated during the Uruguay Round and established in 1995 represented a major innovation in the global economic governance architecture meant to provide a more binding and judicious process for the settling of disputes among members of the MTS, it said.

According to Dominica, the rulings of the panel and Appellate Body in favour of Antigua and Barbuda in the

case on measures affecting the cross-border supply of gambling and betting services was a clear demonstration that the WTO and the MTS was closer to being a fair and equitable rules-based system.

"It demonstrated that the smallest and the weakest can come away with a positive ruling to be followed by prompt and effective implementation of the rulings or mutually acceptable settlements of the disputes. The inability so far for those rulings to be translated to implementation and/or for Antigua and Barbuda to obtain what for them would be an acceptable settlement of the case is however a mark against that notable achievement of the system, one which needs to be addressed with earnest."

Dominica said that the member states of the OECS therefore call for a speedy resolution to this longstanding dispute in line with the rulings and recommendations of the DSB, in line with the fundamental principles, objectives and goals of the WTO and its Agreements, and finally in line with the needs of a tiny and vulnerable developing country. (SUNS7514) □

David and Goliath

Antigua and Barbuda's move to apply intellectual property sanctions against the US in the gambling dispute is very much in accordance with international trade rules – rules that had been demanded by the US in the first place.

by Norman Girvan

Remember that great story you learnt at Sunday school, about the little guy with the slingshot who took down the big bully with a single stone to a part of his anatomy where it really hurts? Well, it's happening right here in the Caribbean.

In the 21st-century Caribbean version of the timeless Biblical story, the little guy is Antigua and Barbuda; the big bully is the United States; the slingshot is the World Trade Organization and the stone is international trade law.

And the place that really hurts could be the multi-billion-dollar US music and film industry.

On 28 January the WTO Dispute Settlement Body agreed to a petition from Antigua and Barbuda to suspend application of US intellectual property laws in retaliation for the failure of the United States to comply with WTO rulings on the illegality of US prohibitions of Internet gambling.

The US actions have devastated what used to be a thriving offshore gam-

ing industry that earned Antigua and Barbuda thousands of jobs and millions of dollars in government revenues.

Cross-retaliation

"The irony is rich, rich, rich," Lori Wallach, a leading consumer rights advocate in the United States, is quoted as saying by the *New York Times*.

How so? Well, back in 1994, when the WTO was being set up, it was the United States who insisted on the inclusion of the cross-retaliation provision that Antigua and Barbuda is now using against it.

The effect of this provision is that countries which are found to be in violation of WTO rules, and which refuse to comply with the rulings of the WTO DSB, can be punished by the aggrieved country with trade sanctions in another area of their commercial relations.

It's like telling a student who is found to be cheating in his Chemistry

exam that he can't play on the school football team, even if he is the star player – and the only thing that football and Chemistry examinations have in common is that they are both governed by school rules.

As the world's largest economy, the United States was uniquely positioned to impose punitive trade sanctions on other WTO members, secure in the knowledge that the ability of other nations to hurt it in return was moderated by the realities of asymmetrical trade power.

The US successfully used cross-retaliation against the EU, for instance, to force the latter to comply with WTO rulings on bananas; rulings that pretty much destroyed the banana industries in the Eastern Caribbean – so that US multinationals could get access to the EU market.

Who would have thought that the tiny nation of Antigua and Barbuda, with one of the world's smallest economies, could hurt the economy of the United States? After all, its economy is 1/13409th the size of the US's. (It's easier to say that the US economy is 13,409 times that of Antigua and Barbuda's.)

But Antigua and Barbuda have found a way of hitting back. Copyright industries are one of the biggest earners for the US economy. The Internet is ubiquitous, and its power grows, exponentially, every single day. Enforcement of US copyright law by foreign countries is a major issue for the US – remember that "Warning Notice" at the beginning of the last DVD movie that you watched, threatening you with fines and imprisonment?

US officials are warning of all kinds of dire consequences. But Antigua and Barbuda officials believe that they have right – and international trade law – on their side. They are planning to use the latest DSB ruling to pressure the US into serious negotiations.

David has found the right slingshot and a stone that, if not lethal, has the potential to cause serious haemorrhage. And he is winding it up, looking Goliath square in the face, and saying he is prepared to use it, if Goliath doesn't play by the rules.

And Goliath is fuming. But the fact is, the slingshot and the stone have been approved by the referees – and the rules were Goliath's own idea. □

Norman Girvan is Professor Emeritus at the University of the West Indies. He was previously Professorial Research Fellow at the UWI Graduate Institute of International Relations. This article is reproduced from the 1804CaribVoices website (www.1804caribvoices.org).

Resolving the food crisis: The need for decisive action

Sophia Murphy and Timothy A Wise look at what was – and was not – done over the past year to tackle volatility in global food prices, and assess the outlook for progress in 2013 on this front.

What progress has been made in the last year in addressing the underlying causes of the global food crisis? Far too little. Now, following the third food price spike in five years, we need clear and decisive action to address the real drivers of high and volatile food prices: biofuels expansion, financial speculation, low levels of public food reserves, weak investment in developing-country agriculture, and a changing climate.

One year ago, we published “Resolving the Food Crisis” (www.ase.tufts.edu/gdae/policy_research/resolving_food_crisis.html), a comprehensive assessment of the international community’s response to the global food price crisis. We found many signs of progress – increased funding for agricultural development, renewed attention to small-scale producers and to women, growing awareness of climate change. But we also identified troubling failures to address either the proximate or structural causes of the food crisis.

“We see neither the necessary urgency nor the willingness to change the policies that contributed to the recent crisis,” we concluded a year ago, noting that global food security was “as fragile as ever”. We warned that another price spike was likely unless the real drivers of food price volatility were addressed.

For the most part those drivers remain untouched. World leaders largely wasted 2012, though we see some promising opportunities and signs of change in the year ahead. What follows is our assessment on the progress made over the last year.

Donor funding for agricultural development

In our report, we applauded the new commitment to public support for Agricultural and Rural Development (ARD) by the World Bank and, notably, by the G8 group of powerful nations, made in L’Aquila, Italy, in 2009. That G8 commitment of \$22 billion over three years reversed two decades of aid policies that neglected developing-country agricul-

ture. But we warned of the dangerous drift toward partnerships with the private sector involving multinational firms that moved away from donors’ commitment to promote recipient-country ownership of development programmes.

The L’Aquila three-year commitment was up in May 2012. Instead of renewed commitments, donors retreated to a geographically narrow, private-sector-led aid programme. G8 leaders launched the “New Alliance for Food Security and Nutrition”, which committed to raising 50 million people out of poverty in Africa in 10 years mainly by mobilizing funds from private companies, including Monsanto and Yara, a global fertilizer company. To qualify to join the alliance, African governments must “refine policies in order to improve investment opportunities”. Far from recipient-country ownership, the New Alliance instead reverts to donor-imposed conditionalities that give foreign firms greater access to Africa’s markets.

The G8 failed to build on one of its more successful and promising initiatives in 2012. The Global Agriculture and Food Security Programme (GAFSP), through its public sector “window”, has developed transparent decision-making structures to support country-led agricultural development plans that prioritize small-scale farmers, women and the promotion of sustainable practices in the pursuit of food security. Public sector funding for GAFSP is now weak and may not be adequate to support approved projects. Yet GAFSP’s so-called “private sector window”, which has none of the laudable safeguards of the public sector funds, is now wide open for multinational corporations’ engagement.

Reducing biofuels expansion

In the last year, we saw movement to reform policies that encourage the continued conversion of food and feed crops to fuel but no slowing of the biofuel boom. At the end of 2011, the United States ended two of the principal sup-

port programmes, the tariff on imported ethanol and the blender tax credit that subsidized corn ethanol use. These were positive reforms, but the Renewable Fuel Standard (RFS) mandate remains in place. This and other minimum-use mandates in Northern countries are now the primary policy instruments encouraging continued biofuel expansion.

The European Union took the promising step of proposing to reduce from 10% to 5% the amount of transportation fuel that can be sourced from food/feed crops. Yet this is not a hard cap, it allows some continued expansion, and it contains many loopholes.

In the United States, the RFS came under close scrutiny with the 2012 drought, which devastated corn crops. Short supplies coupled with the biofuels mandate exacerbated the direct competition for US corn between food/feed uses and corn-based ethanol. Instead of relaxing the mandate, the US government deepened its commitment to corn ethanol. The Environmental Protection Agency denied a widely supported request to waive the RFS mandate for the year and even proposed to expand the use of ethanol in automobile fuels from 10% to 15%.

Curbing financial speculation on agricultural commodities

The evidence continues to mount that deregulated financial speculation on agricultural commodities is an important driver of food price volatility. Both the United States and the European Union introduced important regulations to bring over-the-counter (OTC) trading onto regulated exchanges and to impose stricter “position limits” on the scale and scope of any one trader’s holdings. But 2012 was also a year of heavy lobbying by the financial industry, resulting in delays and weakening of approved reforms.

In the United States the regulation to get OTC swaps reported on regulated exchanges has been delayed at least until June 2013. And no action has been taken to require adequate collateral margins for OTC swaps, which encourages risky trading. Despite clear evidence that computer-generated “high-frequency trading” (HFT) disrupts rather than facilitates price discovery in commodity markets, neither the Commodity Futures Trading Commission (CFTC) nor foreign regulators have implemented rules to

curtail the practice. US courts halted the CFTC rule on position limits in September after a suit by financial service firms. The CFTC is appealing the ruling.

In Europe, regulations are also delayed. The Market in Financial Instruments Directive is unlikely to be implemented in EU member states before 2015. In December, the banks won a delay until 2019 of a rule requiring stronger capital reserves against defaults. But a Financial Transaction Tax is being implemented in 11 countries, a bold and important step to raise needed revenues while reducing incentives for financial speculation.

Building food reserves

Low levels of publicly held food reserves leave markets vulnerable to supply shocks, and little has been done internationally to address the problem. Stocks of all commodities remain at historically low levels, making prices very sensitive to harvests. When drought hit the United States, prices shot up in response. The price spike was less prolonged than other recent spikes, mostly because a record high number of acres were planted, and perfect weather in Brazil ensured a record harvest there. In West Africa, the push to create a regional emergency food reserve – the only concrete action on reserves agreed by G20 agriculture ministers in 2011 – continues, slowly but with purpose. The largest rice-consuming countries, including China, India and Indonesia, continue to operate domestic food stocks. Networks of local reserves are also emerging, across Africa in particular.

The G20's new Agricultural Market-Information System (AMIS) arguably dampened the impulse for net-food-importing countries to engage in panic buying as prices started to rise in 2012. The exchange of information among the world's principal producers, consumers and exporters of food grains that AMIS permits is useful. But there is a fundamental problem in leaving decisions over when and how to respond to supply shortfalls to the G20 alone. Net-food-importing countries have to depend upon the political (and commercial) negotiations among G20 governments – closed and secret negotiations. Publicly held, transparent and politically independent food reserves would help restore the confidence still lacking in international food markets.

Halting land grabs

The alarming recent trend of large-scale land acquisitions by foreigners in developing countries continues apace, according to an April 2012 study and online database from the Land Matrix Partnership. The report highlights the worrying trends: African countries account for more than 70% of the land acquisitions, weak states are targeted for investment, there is rarely prior and informed consent by residents, small-scale producers are regularly displaced, little employment is generated, biofuel production is a significant reason for many investments, and only rarely is food produced for the domestic market.

Global efforts to slow and regulate such acquisitions made important progress in 2012. The UN Committee on World Food Security (CFS) showed admirable speed in developing the so-called Voluntary Guidelines on Land Tenure (VGs). These were adopted by member states in May 2012, setting a clear standard for the governance of land and other food-producing resources. In October, governments agreed on a process for consultations around the world under CFS auspices to build on the VGs to better govern large-scale land acquisitions. The World Bank rejected Oxfam's call for the Bank to support a moratorium on such deals. But Tanzania took unilateral action, restricting the allowable size of foreign land acquisitions.

High and volatile commodity prices are expected to keep foreign investors and sovereign wealth funds interested in buying land (and the water it holds) abroad. Continued international monitoring is important, as are recipient-country actions to enforce the Voluntary Guidelines (making them law as appropriate) and restrict large-scale foreign land acquisitions, and actions by the countries where investors are based, ensuring the funds respect the VGs as well.

Addressing climate change

In 2012, storms kept coming like lions, but the year ended with a whimper from governments, with the climate talks in December in Doha achieving little meaningful progress. The talks achieved a second commitment period for the Kyoto Protocol, but the commitments are weak, major countries are not participating, and the prospect of concerted inter-

national action on climate change remains distant. The so-called "Doha Climate Gateway" is the supposed path for a new climate treaty to come into force by 2020.

Decisions to officially incorporate agriculture into the negotiations stalled. Governments look set to continue their debate on whether, how and which countries should mitigate emissions from agriculture and where to find the money for those programmes. Yet adaptation to current and anticipated climate change and funding that adaptation is the urgent priority for developing countries. On a positive note, Doha gave the greenlight on developing a mechanism to address "loss and damage" resulting from gradual slow-onset impacts of climate change such as temperature rise that will devastate climate-sensitive sectors such as agriculture.

Prospects for change in 2013

It is clear that high and volatile food prices will remain a problem until structural reforms to trade, finance and agriculture systems are put in place. This year we could see meaningful limits on financial speculation, if legislators can resist lobbying by financial interests. We could see a reconsideration of mandates for biofuels made from food crops, even in the United States, where the inflexibility of the RFS has many in Congress calling for an overhaul of the mandate. With or without the support of the international community, countries will continue to build food reserves to dampen price volatility and protect domestic food security.

Governments have plenty of opportunity to take action in 2013. The World Trade Organization will meet in December in Bali, under new leadership. The UN's trade organization, UNCTAD, has a renewed mandate and will get a new Secretary-General. The European Union and the United States will finalize new farm legislation. The G8 is planning a June follow-up in London to last year's Hunger Summit. The G20 will meet in Russia, one of the world's largest and least predictable wheat growers.

The UN's Committee on World Food Security remains a source of hope. The CFS is formally recognized as the international body responsible for coordinating responses to the food crisis. CFS action on land tenure and responsible agriculture investment opened the door

for meaningful reform to regulate land grabs and promote the right to food. Its October meeting will address two of the critical issues we identified: biofuels and investment in smallholder agriculture. It also has a mandate to consider public food reserves policies.

With bold action on climate change, biofuels and speculation, capable leadership at the WTO and UNCTAD, a renewal of public sector funding through GAFSP, and a firm commitment to the

CFS as the lead organization for multi-lateral cooperation on hunger, so much is possible. For the sake of global food security let us hope governments rise to the challenge. □

Sophia Murphy is a senior advisor at the Institute for Agriculture and Trade Policy. Timothy A Wise is the Director of the Research and Policy Program at the Global Development and Environment Institute (GDAE) at Tufts University. This article is reproduced from the Al Jazeera website (www.aljazeera.com).

Water agenda at risk of being hijacked by big business

The involvement of the private sector in water provision is threatening to undermine access to this essential resource.

by Thalif Deen

NEW YORK: Amidst growing new threats of potential conflicts over fast-dwindling water resources in the world's arid regions, the United Nations will commemorate 2013 as the International Year of Water Cooperation (IYWC).

But Maude Barlow, chairperson of the Council of Canadians and a former senior advisor on water to the president of the UN General Assembly in 2008-09, warns the UN's water agenda is in danger of being hijacked by big business and water conglomerates.

"We don't need the United Nations to promote private sector participation under the guise of greater 'cooperation' when these same companies force their way into communities and make huge profits from the basic right to water and sanitation," Barlow told Inter Press Service (IPS).

At this time of scarcity and financial crisis, she said, "We need the United Nations to ensure that governments are fulfilling their obligations to provide basic services rather than relinquishing to transnational corporations."

The Paris-based UN Educational, Scientific and Cultural Organization (UNESCO), which has been designated the lead UN agency, formally launched the IYWC at a ceremony in the French capital on 11 February.

In New York, UN Secretary-General Ban Ki-moon warned of the new pressures on water, including growing populations and climate change. One-third of the world's 7.1 billion people already live in countries with moderate to high water stress, he said.

"Competition is growing between farmers and herders; industry and agriculture; town and country," Ban said.

Upstream and downstream, and across borders, "We need to cooperate for the benefit of all now and in the future ... Let us harness the best technologies and share the best practices to get more crop per drop."

Back in December 2010, the 193-member UN General Assembly adopted a resolution declaring 2013 as the IYWC, following a proposal by Tajikistan.

The 2013 World Water Day, which will take place on 22 March, will be dedicated to water cooperation.

Corporate clout

Barlow told IPS big water corporations have gained influence in almost every agency working at the United Nations.

The CEO Water Mandate, a public-private sector initiative launched by the UN in July 2007 and designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices, puts corporations such as Nestle, Coca-Cola, Suez and Veolia directly into a position of influence over global water policy and presents a clear conflict of interest, she said.

"For-profit private companies cannot uphold the public interest if it conflicts with their bottom line," said Barlow, who is also founder of the Blue Planet Project.

Even the World Water Development Report is now advised by an industry group on "business, trade, finance and involvement of the private sector," she added.

Tom Slaymaker, senior policy analyst on governance at the London-based

WaterAid, told IPS the United Nations recognized the "human right to water and sanitation" back in 2010.

"But today over 780 million lack improved water supplies and 2.5 billion lack basic sanitation facilities," he added.

The 2013 International Year of Water Cooperation will be a critical year for the United Nations to reflect on why universal access has not yet been achieved, he said.

Slaymaker said it's also time to reflect on the kind of political leadership and new forms of partnership that are required to accelerate progress towards universal access as part of the emerging post-2015 development framework of the United Nations.

According to the UN, the primary objective of the IYWC is to raise awareness, both on the potential for increased cooperation and on the challenges facing water management in light of the increase in demand for water access, allocation and services.

Since the General Assembly recognized the human right to water and sanitation, a number of countries, including Mexico, Kenya, Bolivia, the Dominican Republic, Rwanda, Ethiopia, Ecuador, El Salvador, the Netherlands, Belgium, the UK and France, have either adopted laws recognizing the right to water or amended their constitutions to do so.

The Vatican recently recognized the human right to water and added that "water is not a commercial product but rather a common good that belongs to everyone."

And last June, all 193 member states signed the Rio+20 Declaration which includes the recognition of the human right to water and sanitation as a universal right.

Specifically zeroing in on the role of the private sector, Barlow told IPS that corporations are among those pledging their support for the IYWC.

Agua de Barcelona, the water company at the heart of a fierce debate in Spain over control of drinking water, is participating, she pointed out. "Corporations who fought us on the right to water are now scrambling to claim it in their own image."

She quoted Nestle as saying that 1.5% of the world's water should be put aside for the poor and the rest should be put on the open market. If Nestle gets its way, she argued, there will one day be a water cartel similar to Big Oil, making life-and-death decisions about who gets water and under what circumstances every day.

"But at least we have this recognized and acknowledged right that no one should be allowed to appropriate water for personal gain while others die from

an inability to pay for water," she said.

With time, "we will build consensus around the right to water and the understanding that water is a common heritage and a public trust." (IPS) ☐

(continued from page 6)

"Quota and governance reform is certainly central to the effectiveness, legitimacy and credibility of the IMF, and this quota issue has become a litmus test as to whether the Fund can adapt its governance structure to the new economic world," Bhattacharya said.

"The important thing for all of us is to strive to achieve a goal that ensures that the Fund is a truly multilateral institution of the 21st century."

Delay

Still, breaking the recent deadline – which had already been pushed off once – could have lasting consequences.

Although around 75% of the IMF's member countries have agreed to a new quota formula (out of the 85% required for passage), some of those votes may now need to go back before national legislatures to get new approval.

That process could delay the agenda by six months or more, warns Bessma

Momani, an associate professor of political science at the University of Waterloo in Canada and a senior fellow with the Centre for International Governance Innovation (CIGI), a think-tank.

"We won't be completely starting from scratch, but this means that the political bargaining that had to happen as precursor may now have to be renegotiated, and that means setting back the schedule quite a bit," Momani told IPS.

Of particular interest over coming months will be whether there is any movement on the issue in the US Congress.

While the administration of President Barack Obama is widely seen as supporting the IMF reforms process, the president had not wanted to risk raising the issue in the midst of the tight election campaign that ended with his re-election in November.

As such, the United States, which has nearly 17% of IMF voting shares, has not formally approved the quota reforms. If it had, the Fund's 85% requirement for approval would likely have been easily met and the governance changes would now be pending policy.

"Ultimately, of course, this comes down to different Congressional interests. But the problem is that the longer

the IMF is in the media, particularly over the troubles in Europe, the more difficult it will be for many members of Congress," Momani says.

"So, if we were now at the point we were a year ago, where few constituents had much interest in talking about the IMF, this provision could have passed more quietly. But every day the issue of the IMF generally is in the news, the more potential there is for politicization."

Still, she suggests that over the past two decades the IMF has indeed been changing, and that this process is potentially being stepped up today.

"Reform is the only way forward to reinstate the legitimacy the Fund has lost over the years, and quota reform is actually only a small measure. But with the IMF we have to recognize that it is reforming, it's on that path – it's slow, because institutional change will always be slow," Momani says.

"At the end of the day, it's not just about leadership and quotas but about the content of policies themselves, and the Fund is becoming more open to accepting unorthodox ideas. In particular, the more it listens to the experiences of people, to ensure it's not just promoting textbook policies but rather programmes that can work in each individual country, the better." (IPS) ☐

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Reviving economic planning in Africa

After decades suffering from bad advice that led to the state having little role in the economy, African countries are reviving national planning and development strategies, learning from the Asian experience.

by *Martin Khor*

For many years after independence, developing countries made use of development planning as a major tool to get their economies going.

But this stopped in the 1980s and 1990s for many countries, especially in Africa, that fell under the influence of the International Monetary Fund and the World Bank. Under these institutions' structural adjustment programmes, planning or any kind of development strategy involving a leading role for the state was taboo.

As a result, many African countries fell behind in their economic growth and social development. Governments gave up planning, withdrew their leading role in the economy, cut jobs, and gave up on subsidies and other methods of helping local firms and farmers. The new order was to privatize, liberalize imports and rely on foreign investments for growth.

For two decades or more, most African economies suffered from economic stagnation, while continuing to be mired in debt. The agricultural sector, which had been thriving in many countries, dwindled and many local industries were shut down or shrank in the face of competition from cheaper imports.

This contrasted with East and South-East Asian countries, which had higher growth spurred on by an overall development strategy, with five-year plans and sectoral policies in industry, agriculture and selected services. In some areas, especially in social services, utilities, infrastructure and strategic industries, the government retained ownership or high equity share. In other sectors it encouraged the development of local companies through subsidies, credit, sales promotion and sectoral roadmaps.

Revival

Today in Africa, there is a nascent revival of development planning and a growing role for the state in the economy, partly because of the lessons

learnt from Asia.

This revival was the theme of a conference which I attended in January in Dakar, Senegal, to celebrate the 50th anniversary of the founding of the African Institute for Economic Development and Planning (IDEP), a United Nations organization linked to the UN Economic Commission for Africa (ECA).

Regional leaders of Africa were present, as well as some ministers and high-level economic officials of some 30 countries. All of them showed keen interest in learning the lessons of development policy and a revival of planning and a leadership role for the state.

UN Under Secretary General and new head of the ECA, Carlos Lopes, gave an impressive overview of the ups and downs of planning in Africa.

In the 1960s, 32 African countries had planning and state-led economies, but planning was abolished in the 1980s and 1990s under structural adjustment programmes. The many years of these policies and the limits of market fundamentalism have prompted renewed interest in planning, said Lopes. Many African countries are now developing plans and national development strategies, with targets for growth, jobs and structural transformation and with a mix of the state and market, public and private sectors and long-term vision of ownership by Africans.

The ECA, which is the UN's main organization in the region, is itself supporting governments to revive planning and formulate development strategies. "Failing to plan means planning to fail," said Lopes. Planning works if done well and implemented, he added, citing the successes and lessons of Europe, Brazil, China and other East Asian countries.

IDEP director Adebayo Olukoshi said in the last five years, over 30 African countries have adopted new long-term visions and three- to five-year plans. Institutions for planning that were dismantled are being rebuilt. "Af-

rica has entered a new season of planning and long-term development thinking."

In my speech, I highlighted various elements of development strategies in East Asia that had guided the region's growth. These include five-year plans, economic transformation programmes, trade and industrial policy, promotion of local companies and farmers, the use of government procurement, and the new hybrid forms of government-linked enterprises combining some state ownership with increasingly commercialized operations.

Common story

The conference saw many ministers or directors-general of finance and planning reflecting on the state of development strategies in their countries. Most had a common story, starting with the closing down or marginalization of planning functions in the government as structural adjustment took its toll, with the state withdrawing from its role in economic and social affairs.

The common story continued to the present, more optimistic phase, with a few countries like Zimbabwe recently succeeding in reviving planning, and several others relating the difficulties and complexities of getting it going again.

"The planning capacity is lost. We must re-establish the capacities," said one director-general. Others spoke of the need to overcome conflicts between different ministries, especially the finance ministry and the ministry of economy and planning, and to reduce reliance on the "external agenda" of donors and foreign financial institutions. "Without vision and commitment by the political leadership, nothing in planning will work," was the summing up of another top bureaucrat.

The Dakar conference marked a stage in Africa's development story. It seemed to me that the region has been suffering a long period of bad advice from international financial institutions, with loss of its capacity to develop its own economic strategies and development plans, and that a revival of long-term thinking and medium-term strategies is now taking place. But it will still be a long road from this nascent revival to successful implementation. □

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

Firms stash tens of billions in tax havens

Developed and developing countries alike are losing billions each year as a result of corporate tax-dodging practices.

by Carey L Biron

WASHINGTON: The research arm of the US Congress is warning that US corporations' use of tax havens has risen substantially in recent years, with companies offering massively inflated profit reports from small countries with loose tax regulations.

"Ample evidence of a significant amount of profit shifting exists, but the revenue cost estimates vary from about 10 billion to 60 billion [dollars] per year," Jane G Gravelle, a senior specialist in economic policy, writes in a new report for the nonpartisan Congressional Research Service (CRS).

Elsewhere, Gravelle suggests that the revenue losses from this "profit shifting" could reach as high as \$90 billion a year, while the cost of evasion on the part of individuals could be as high as \$70 billion a year.

Further, these numbers appear to be growing. Extrapolation from the new CRS statistics suggests that US corporate profits reported from, for instance, Bermuda grew by five times during the decade leading up to 2008, the last year for which data is available.

Perhaps the most striking part of the new findings is simply the brazenness with which US corporations appear to have become accustomed to misreporting their overseas earnings.

To run her analysis, Gravelle chose five relatively small but well-known tax havens – Bermuda, Ireland, Luxembourg, the Netherlands and Switzerland – and then looked at the percentage of profits US companies reported as having come from those countries in 2008.

Incredibly, notes Citizens for Tax Justice (CTJ), an advocacy group in Washington, these countries were found to have accounted for 43% of the \$940 billion of overseas profits reported by US multinational corporations, even though these companies made just 7% of their foreign investments in those same countries.

On the other hand, the five countries

where US corporations do much of their overseas business (the United Kingdom, Germany, etc) were reported to tax authorities as having accounted for just 14% of overseas profits.

"Obviously they aren't making their money in these countries – their economies are nowhere near large enough," CTJ director Robert S McIntyre told Inter Press Service (IPS). He points out, for instance, that US multinationals' reported profits in Bermuda amounted to 1,000% of the island's economic output.

"This is just more significant proof that we have a really serious problem, both in the United States and in Western Europe," McIntyre says, noting that the trend has almost certainly continued, if not increased, since 2008.

Lost revenue

A December report by Global Financial Integrity, a Washington watchdog, found that the developing world lost nearly a trillion dollars in 2010 due to tax evasion, corruption and other financial crimes. That figure is 10 times larger than the \$88 billion provided as development assistance to developing countries that year – and, the researchers warned, this figure was almost certainly an underestimate.

"Whether you're a big, developed country like the United States or a smaller developing country in Africa," McIntyre says, "if you can't get tax money out of the businesses operating in your territory, how are you going to pay for infrastructure, health, education and all of the other things you need to maintain and grow an economy?"

On 30 January, Oxfam International, a humanitarian aid organization, called for global policymakers to close off loopholes that have allowed for the recent increase in tax evasion.

The group is suggesting that just a quarter of the revenue that could accrue from taxing misreported profits would be able to "lay the foundation for end-

ing global hunger".

"Governments should agree to end global hunger by 2025 and an end to tax havens, which could help pay for this and much more. Tax-dodging effectively takes food from hungry mouths," Stephen Hale, advocacy head for Oxfam, said in a 30 January statement.

The group offers an estimate of \$32 trillion currently sitting in tax havens around the world, and notes that taxes on this lump sum could raise nearly \$190 billion a year. In contrast, Oxfam states, "Just 50.2 billion [dollars] a year is estimated to be the level of additional investment needed, combined with other policy measures, to end global hunger."

While the United States' ability to impose taxes is supposed to span worldwide, that system includes a significant exception, in that foreign profits are not taxed until companies bring their earnings back into the country.

On the ground, the result has been more and more companies looking to keep their profits overseas – or claiming that the money was made in countries that have either strict privacy regulations or lax reporting requirements.

Due to legalities and bilateral treaties, the Netherlands has become a significant transit point for unreported earnings for companies across the world. According to recent estimates, the Netherlands is allowing some \$13 trillion to funnel through its financial system en route to classic tax havens such as the Cayman Islands.

Particularly given the current fiscal crunch in Europe, such figures have caught the attention of European Union policymakers; in December, the European Commission warned that tax avoidance was costing the regional bloc a trillion euros every year.

The EU is currently trying to put in place a system that would divide up corporate profits among member states before they could, say, end up in the Netherlands and then leave the continent.

In January, the Dutch legislature took up the issue in what appears to be a broad-based attempt to tweak the country's laws. Also, UK Prime Minister David Cameron stated that, when his country takes over the rotating presidency of the Group of 8 (G8) rich countries this year, corporate tax evasion will be one of his central priorities.

In Washington, much of the effort is currently revolving around attempts to

lower the US corporate tax rate – at 35%, the highest among all developed countries. Beyond this, though, CTJ's McIntyre warns that there are few allies for any major legislative push.

"Republicans like the fact that these companies are successfully avoiding

taxes, while the Democrats are afraid that if they do anything strong, corporate money will go against them in the next election," he says. "Companies are hoping that they'll get away with these practices, and currently they have the [tax authorities] outgunned." (IPS) □

Hogging the global pie

Calls for bold action to narrow the global rich-poor gap are falling on deaf ears among the planet's corporate elite.

by Sam Pizzigati

Apologists for inequality have a standard retort to anyone who calls for a more equal distribution of the world's treasure. If you took all the wealth of the wealthy and divvied it up equally among all the poor, they claim, no one would gain enough to accomplish much of anything.

Oxfam International, one of the world's premier anti-poverty charitable organizations, begs to differ. The world's top 100 billionaires now hold so much wealth, says a new Oxfam report, that just the increase in their net worth last year would be "enough to make extreme poverty history four times over."

"Oxfam's mission is to work with others to end poverty," notes Oxfam analyst Emma Seery. "But in a world with limited resources, this is no longer possible without an end to extreme wealth."

Oxfam timed its new analysis, "The Cost of Inequality: How Wealth and Income Extremes Hurt Us All", to appear right on the eve of this year's World Economic Forum in Davos, Switzerland. This annual and earnest "issues" confab brings together a glittering array of global business and political leaders.

In today's recession-ravaged world, these leaders are playing defence. They feel increasingly pressured to address the global economic inequality they've so long tried to sweep under the rug.

That pressure at this year's Davos forum came from figures like Christine Lagarde, the former French finance minister who now directs the International Monetary Fund. Lagarde blasted outsized executive pay in high finance, attacked bankers for lobbying against needed new regulations, and called for more "robust social safety nets."

Oxfam, for its part, is calling for

much bolder action to narrow the stunning gap between the global uber-rich and everyone else. The group is urging world leaders to commit their nations "to reducing inequality to at least 1990 levels."

Meeting that goal, the new Oxfam report relates, would require a wide range of measures – everything from higher income tax rates on the richest of the rich to pay caps that limit how much corporate executives can take home to a fixed multiple of the wages that go to their lowest-paid workers. Oxfam also prescribes cracking down on offshore tax havens, a prime contributor to global inequality. As much as a quarter of the world's wealth now sits shielded offshore.

Unreceptive

Don't hold your breath waiting for the Davos crowd to buy into any of this bold agenda. Even the modest reforms that the IMF's Lagarde is urging found limited support among the corporate and banking movers and shakers who

ambled up to the Alps for this year's gathering.

JPMorgan Chase chief exec Jamie Dimon made no move to hide his distaste for reformers. Bank regulators, he charged, were "trying to do too much, too fast" – and spreading "huge misinformation" about the noble work underway at banks like his. "We're doing the right thing," Dimon assured his fellow notables.

Other global corporate notables at Davos sang a similar tune. Azim Premji, the chairman of the Bangalore-based Indian high-tech giant Wipro, admitted that the new Oxfam data – on how the richest 100 people in the world are earning much more than enough to end the world's worst poverty – do "sadden" him.

But Premji declined in an interview to term the incredible concentration of the world's wealth in any way "unethical." We need not waste time, he suggested, worrying about "redistribution." We need instead to help the rich grasp their "obligation," their "trusteeship responsibility," to wield their wealth for good.

Trust the rich, in other words, to solve our problems.

Not on your life, says Oxfam.

"In a world where even basic resources such as land and water are increasingly scarce," Oxfam's Jeremy Hobbs sums up, "we cannot afford to concentrate assets in the hands of a few and leave the many to struggle over what's left." – *OtherWords* □

Sam Pizzigati is an associate fellow at the Washington-based Institute for Policy Studies. His latest book is The Rich Don't Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class.

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