

# THIRD WORLD *Economics*

TRENDS & ANALYSIS

Published by the Third World Network KDN: PP 6946/07/2013(032707) ISSN: 0128-4134 Issue No 556 1 – 15 November 2013

## US debt ceiling dispute sparks calls for financial reform

While a US government default was averted at the last minute, the recent political battle in Washington over the debt ceiling highlighted the dysfunctional nature of a US governance system hamstrung by a deep divide between the president and Congress. The debt standoff also prompted renewed calls for reform of the international financial system, in which the US dollar currently holds sway as the dominant reserve currency.

- Seeking a de-Americanized world? – p2

---

### Also in this issue:

- |   |    |   |     |
|---|----|---|-----|
| <i>The uncertain future of the world economy</i>              | p3 | <i>G24 endorses IMF-WB status quo, but calls for some specific measures</i> | p10 |
| <i>WTO DG voices concerns over divergences on Bali issues</i> | p4 | <i>Walking an economic tightrope with no safety net</i>                     | p14 |
-

## THIRD WORLD *Economics*

Trends &amp; Analysis

131 Jalan Macalister  
10400 Penang, Malaysia  
Tel: (60-4) 2266728/2266159  
Fax: (60-4) 2264505  
Email: [twnet@po.jaring.my](mailto:twnet@po.jaring.my)  
Website: [www.twn.my](http://www.twn.my)

### Contents

#### CURRENT REPORTS

- 2 Seeking a de-Americanized world?
- 3 The uncertain future of the world economy
- 4 WTO DG voices concerns over divergences on Bali issues
- 5 Azevedo cites "significant progress" on Bali issues
- 8 Trade unions, civil society deeply concerned over ITA-II talks
- 10 G24 endorses IMF-WB status quo, but calls for some specific measures
- 13 The man who won a Nobel for helping create a global financial crisis
- 14 Walking an economic tightrope with no safety net
- 15 How to steer our Rolls-Royce world onto a smoother road

THIRD WORLD ECONOMICS is published fortnightly by the Third World Network, a grouping of organisations and individuals involved in Third World and development issues.

**Publisher:** S.M. Mohamed Idris; **Editor:** Chakravarthi Raghavan; **Editorial Assistants:** Lean Ka-Min, T. Rajamoorthy; **Contributing Editors:** Roberto Bissio, Charles Abugre; **Staff:** Linda Ooi (Administration), Susila Vangar (Design), Evelyn Hong & Lim Jee Yuan (Advisors).

● **Annual subscription rates:** Third World countries US\$75 (airmail) or US\$55 (surface mail); India Rs900 (airmail) or Rs500 (surface mail); Malaysia RM110; Others US\$95 (airmail) or US\$75 (surface mail).

● **Subscribers in India:** Payments and enquiries can be sent to: The Other India Bookstore, Above Mapusa Clinic, Mapusa 403 507, Goa, India.

● **Subscribers in Malaysia:** Please pay by credit card/crossed cheque/postal order.

● **Orders from Australia, Brunei, Indonesia, Philippines, Singapore, Thailand, UK, USA:** Please pay by credit card/cheque/bank draft/international money order in own currency, US\$ or euro. If paying in own currency or euro, please calculate equivalent of US\$ rate. If paying in US\$, please ensure that the agent bank is located in the USA.

● **Rest of the world:** Please pay by credit card/cheque/bank draft/international money order in US\$ or euro. If paying in euro, please calculate equivalent of US\$ rate. If paying in US\$, please ensure that the agent bank is located in the USA.

Visit our web site at <http://www.twn.my>.

Printed by Jutaprint, No. 2, Solok Sungei Pinang 3, Sungai Pinang, 11600 Penang, Malaysia.

© Third World Network

# Seeking a de-Americanized world?

It happened again in October – at the last minute the United States avoided debt default. But the world is losing patience with this latest episode of dysfunctional leadership.

by Martin Khor

The world waited with bated breath as the deadline neared. And breathed a sigh of relief when at the last minute the United States avoided crossing its "debt ceiling" and a default on its debts.

The debt ceiling was raised, and the government shutdown also ended on 17 October after weeks of a high-profile standoff between US President Barack Obama and the Republicans in Congress.

But this relief was mixed with incredulity and frustration.

Firstly, the respite is only temporary; the can is just kicked down the road. The deadlines for government shutdown and debt ceiling are shifted some weeks away to January and February next year.

Secondly, this fiasco has happened several times already. Each time Congress has given the president a reprieve of just a few more months, before the new deadline looms again.

The Republicans are adamant on cutting the government's spending and its budget deficit, and won't allow the government to function unless they get what they want. Previously, Obama compromised and gave in significantly. This time he stood firm and refused to negotiate. The Republicans went too far, choosing to defund and damage his landmark medical insurance reform as a condition for lifting the debt ceiling. Obama decided "enough is enough" and relied on public opinion to win his gamble.

The Republican Party blinked, as the public heaped the blame on them. The party leaders in Congress had to eat humble pie and agree to stop the shutdown and lift the debt ceiling without defunding or changing the "Obamacare" health reform.

But thirdly, while the president finally showed the Republicans who was boss, the damage has already been done to the United States' image as a superpower and the champion of American-style democracy.

The US governance system has become dysfunctional, with one side of the political divide willing and able to para-

lyze the government functions led by the other side, using the weapon of withholding approval of the government's budget and capacity to borrow.

Just days before the deadline, the world's finance ministers gathering at the annual IMF-World Bank meetings in Washington highlighted the extreme dangers of a US debt default.

Around the world, leaders and analysts mourned the end of the past certainties surrounding the US and its dollar as the world's financial leader.

A widely quoted article in China's Xinhua news agency was titled "Washington's political chaos proves it's time for a de-Americanized world". The commentator, Liu Chang, said that the latest crisis reveals that the US is unfit to govern itself, let alone lord it over the rest of us. "It is perhaps a good time for the befuddled world to start considering building a de-Americanized world."

After castigating the US for meddling in the political affairs of countries in its efforts to build a world empire, the writer attacks a self-serving Washington for shifting financial risks overseas, while the debt ceiling crisis "has again left many nations' tremendous dollar assets in jeopardy and the international community highly agonized."

"Such alarming days when the destinies of others are in the hands of a hypocritical nation have to be terminated, and a new world order should be put in place, according to which all nations, big or small, poor or rich, can have their key interests respected and protected on an equal footing.

"Part of that reform is the introduction of a new international reserve currency that is to be created to replace the dominant US dollar, so that the international community could permanently stay away from the spillover of the intensifying domestic political turmoil in the United States."

As the Xinhua opinion piece indicated, many countries are concerned about the US dollar being the world's dominant currency. It is by far the most

important reserve currency.

Countries holding US dollar treasury bills have been worried about the once unthinkable, that the US would be unable to honour its debt service obligations, thus putting their hard-earned assets in jeopardy. On the other hand, countries that took loans denominated in US dollars could face punishing terms of repayment if the interest rate on the US dollar shoots up upon fears of a US debt default.

Companies, traders and governments that use the dollar as the medium of exchange would also suffer from chaos in the markets for money, commodities and trade if there is a massive loss of confidence in the US and its dollar.

Thus, continuing uncertainty arising from feuds in Washington will accelerate the erosion of confidence in the US as world economic leader.

The *Financial Times* columnist Martin Wolf commented that the US debt ceiling is the legislative equivalent of a nuclear bomb, and that the law needs to

be repealed since there cannot be orderly government under so destructive a threat.

But another editorial comment in *The Independent*, another British daily, states that while there is a straightforward case to ditch the debt ceiling law, the same extremists who use it as a weapon of mass destruction will be loath to part with it.

Some Democratic and Republican leaders in charge of budget policy in Congress have started meeting, giving hope they plan to avoid a repeat of the fiasco when the budget and debt ceiling deadlines reappear in a few months. But given the polarization and ideological divides in Washington, chances are that the world will be treated to another round of the battle and the chaos. If that happens, there will be more calls for a new world order. □

*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.*

## The uncertain future of the world economy

**The global economy faces uncertain longer-term prospects, writes Yilmaz Akyiiz, not least because of question marks over the trajectory of US economic policy.**

GENEVA: Five years into the crisis, growth in the US is still below potential, Europe is struggling to pull out of recession and major emerging economies are slowing rapidly after an initial resilience during 2010-11.

Longer-term prospects are not much brighter largely because the key problems that gave rise to the most serious postwar crisis – income inequalities, external imbalances and financial fragilities – remain unabated and have indeed been aggravated.

The world economy suffers from an underconsumption bias because of the low and declining share of wages in the gross domestic product (GDP) in all major advanced economies including the US, Germany and Japan, as well as China.

Still, until 2008-09 the threat of global deflation was avoided thanks to consumption binges and property booms driven by credit and asset bubbles, particularly in the US and the European periphery.

The crisis has not removed but reallocated global trade imbalances.

### US monetary policy

Longer-term global prospects depend a lot on the US due to its central position in the world economy and the international reserves system. It is highly unlikely that the US can move to wage-led growth in the near future.

Nor can it shift to export-led growth. This would require, inter alia, exports to grow faster than domestic demand and the share of private consumption in GDP to fall. This is difficult to achieve since for several decades the US has constantly lived beyond its means thanks to its “exporter privilege” as the issuer of the central reserve currency.

Thus, a key question is if the US would be inclined to go back to “business as usual” and allow credit and asset bubbles in search of relatively rapid growth. This is closely connected to its exit from the ultra-expansive monetary

policy.

Clearly, exit implies not just increased policy interest rates but also the normalization of monetary policy – the federal funds rate to become again the main instrument of policy, a significant contraction in the size of the balance sheet of the Federal Reserve (Fed) and the volume of excess reserves that depository institutions hold at the Fed, and a large shift of the Fed’s asset composition back to short- and medium-term Treasuries.

A strategy that the Fed should gradually exit from the quantitative easing (QE) 3 but maintain low policy rates for several more years in order to support growth and use macro-prudential regulations to limit systemic risks appears to be enjoying considerable support.

However, it may not be easy to engineer such a process without jeopardizing financial and macroeconomic stability. Uncertainty abounds because there are not many historical precedents for exit from extended periods of zero-bound interest rates and QE.

Even a gradual return of the Fed balance sheet to “normal” size and composition may result in a considerable hike in long-term rates even if policy rates are kept low for an extended period. The prospects for exit from the QE3 in the coming months have already pushed up the yield on the US 10-year Treasury bond to almost 3% in August 2013 from around 1.60% in May.

If concerns about financial instability and the effectiveness of macro-prudential measures come to dominate, the Fed may be obliged to exit rapidly. This would result in a hike in short- and long-term interest rates and give a major shock to the financial system as in 1994.

It would result in slower growth and a stronger dollar. Too rapid an exit and repricing of substantially increased stock of debt could even cause a hard landing in the US by leading to large losses for bondholders and depressing private spending.

These dilemmas arise in large part because of excessive reliance on monetary policy to combat recession and the reluctance to use fiscal expansion and debt restructuring to stimulate aggregate demand.

The normalization of monetary policy in the US will also cause problems for emerging economies. Despite occa-

*(continued on page 12)*

# WTO DG voices concerns over divergences on Bali issues

Despite advances in talks to craft an outcome for the WTO's upcoming Ministerial Conference in Bali, significant gaps remain among member states' negotiating positions, the WTO Director-General has reported.

by Kanaga Raja

GENEVA: The Director-General of the World Trade Organization (WTO), Roberto Azevedo, voiced concern over divergences on several key issues in the package of potential deliverables for the Bali Ministerial Conference in December, despite there being engagement and members having made progress.

According to trade officials, this assessment was provided by Azevedo at an informal meeting of the WTO General Council on 1 November.

A somewhat more upbeat assessment had been given by the Director-General at an informal meeting of the Trade Negotiations Committee (TNC) on 25 October, when he had said that "significant progress" had been made in all three areas – trade facilitation, some elements of agriculture, and development/LDC (least developed country) issues – of the proposed Bali package, and that the finish line was "clear and it is in sight" (see following article).

Trade officials said that on the issue of trade facilitation (TF), gaps still persist in a number of areas. Members have not been able to square the relationship between Section I (on commitments) and Section II (on special and differential treatment for developing countries) of the draft consolidated TF negotiating text, they added.

There are also many other areas in TF such as customs cooperation, advanced rulings and customs brokers which have not been resolved yet, they said.

There also remain differences of opinion on the key issues in the agriculture and development pillars, said trade officials.

Trade officials said that the discussions at the informal General Council meeting were largely on technical issues such as what kind of an outcome document will emerge from Bali.

According to trade officials, the Director-General told the meeting that real progress had been made in recent weeks and that there had been a lot of engagement. He believed that it could be done,

but they were not there yet. Significant gaps remained, he said, adding that he did not know if success could be achieved in delivering a multilateral agreement in Bali.

According to trade officials, the DG pointed to two scenarios, the first of which was one of not having deliverables and with very little time left. In such a scenario, an outcome could not be negotiated in Bali itself as there was not enough time for this, and there would only be a factual Chair's statement emerging from Bali.

According to the DG, people would see this as a failure and as the end of the Doha Round negotiations and there would be little prospect of members getting the negotiations back on track anytime soon. Some would say that it would be damaging to the negotiating function (of the WTO).

Under the second scenario of having deliverables, he said, members would have seized the opportunity and sent a message to the world that the WTO was back in business. There could then be a consensual ministerial declaration from Bali that sends a very positive message, he said, adding that it would have to be as short and simple as possible and it might contain three things – the regular work, the Bali package (the three pillars) and something about a positive message about the future of the multilateral trading system.

Something about the Doha Development Agenda (DDA) could signal intentions to explore and address non-DDA issues, which are not yet part of the regular work. But it was premature at this stage to go into too much detail because there was still uncertainty over the Bali outcome, the DG said.

He further said that the question now was whether we could make calls on what we were going to do next and how to translate these into texts, adding that it was going to be members who would be making the calls.

According to trade officials, the DG had serious concerns about the degree

of convergence in certain areas and the window of opportunity closing. The next week was going to be critical. Future trade-offs needed to be identified in the next few days, he stressed.

He said that on 11 November, he would be sitting down with the General Council Chair, the Deputy DGs and the chairs of the various negotiating areas to make an assessment of whether the Bali package is achievable. He would then render his assessment at a TNC meeting the following day.

He said he would be focusing his work on trade facilitation because that was where there were the most issues that needed to be resolved, also adding that there was a need to make sure that all of the issues moved forward in unison towards convergence and that this had to happen in the next week.

"We have to find the landing zone and the plane is nearly out of fuel," he concluded.

## Bringing the work together

Also at the 1 November informal meeting, the General Council Chair, Ambassador Shahid Bashir of Pakistan, said that the Bali Ministerial Conference was less than five weeks away and that the time had come to bring all the work together.

The annual reports from the General Council's subsidiary bodies were being finalized, he said, adding that most of them had already been adopted. These annual reports were the main vehicle through which WTO bodies report to ministers. All of these will go to the General Council for its approval and transmission to the Ministerial Conference.

(Trade officials said that no date has been set as yet for the General Council meeting.)

On the mandates of ministers from the last Ministerial Conference (which was held in Geneva in 2011), the General Council Chair said that work was on track, and in some cases, they pointed to action from ministers.

Several member state delegations spoke at the informal General Council meeting.

According to trade officials, Morocco (on behalf of the African Group) said that for the African Group, there was only one scenario, that of success at Bali. At no point had it envisaged failure, and it did not take on the failure or disaster scenario.

The African Group would be con-

structive and pragmatic, it said, adding that it was not only the Bali package that was at stake but the future of the multilateral trading negotiations and of the DDA. If this opportunity was missed, the organization would be hit, it said.

It said that time was short and that political will was needed. The outcome in Bali was one on which the future of the organization hinged.

Cuba voiced hope for success in Bali, but stressed that the development objectives could not be relinquished. There must be a balanced solution at Bali. While it had seen progress over the last two months, they were however not at a position yet where the result was balanced.

It would like to see any anchored outcome anchored in the development objectives, and said that any work programme must be multilateral in nature.

The issues of implementation must be taken into account, and there must be an inclusive process over the course of the next week or 10 days. There could not be a situation where texts were imposed on other members, it said.

Immediate solutions must be offered for LDCs, especially duty-free, quota-

free market access for LDC products and cotton, said Cuba, adding that these were issues that had been on the agenda for a very long time.

Barbados agreed that there was a lot of work to do, but asked whether members should not be having more in-depth discussions on the post-Bali work programme.

According to trade officials, India said that the DG had painted a realistic but sombre picture. There would be a very heavy price to pay for the membership, the organization and the multilateral trade negotiations, India said, if a successful outcome at Bali was not reached.

It supported what the African Group coordinator had said, underlining the need to work very hard in terms of finding solutions.

According to India, one of the questions (before the TNC meeting on 12 November) would be how all the elements of the trade facilitation discussion were put together. It added that there was a need to talk about what kind of document would come out of Bali and how the disparate parts of trade facilitation, agriculture and development would come together. (SUNS7688) □

Speaking following the TNC Chair's report, Nepal, on behalf of the LDCs, said that while the texts on the LDC services waiver and on rules of origin were not the optimal outcome for the LDCs, in the spirit of compromise, they agreed to have these issues put forward in this way.

Morocco, for the African Group, wanted the 28 Cancun agreement-specific proposals to be taken up as part of the post-Bali process.

Argentina again voiced concern that there was too little progress on agriculture.

The African, Caribbean and Pacific (ACP) Group, on the issue of trade facilitation, felt that any process should respect the understanding that no member will be required to implement a Category C obligation when that member has not acquired capacity.

### Chairs' updates

In their own reports at the informal TNC meeting, the chairs on the Bali issues and the LDC facilitator gave their respective assessments on the work to date.

The LDC facilitator, Ambassador Steffen Smidt, pointed out that the draft decision on rules of origin contains a set of multilateral guidelines for rules-of-origin requirements that members apply to their non-reciprocal preference schemes for LDCs.

For the first time, governments will have a set of multilaterally agreed guidelines which should help make it easier for LDC exports to qualify for preferential market access to both developed- and developing-country markets.

On the operationalization of the LDC services waiver, he said that this agreement would say that ministers would instruct the WTO Council for Trade in Services to initiate a process aimed at promoting the expeditious and effective operationalization of the waiver.

A high-level meeting is foreseen for members to indicate where they intend to provide preferential market access to LDCs' service suppliers. The meeting will take place six months after LDCs table a collective request identifying the sectors and modes of supply of export interest to them, he further said.

He added that members in their individual capacities are encouraged at any time to extend preferences to LDCs' services and service suppliers consistent

## Azevedo cites "significant progress" on Bali issues

**A week before the 1 November General Council session, the WTO head had expressed guarded optimism that the Ministerial Conference could deliver concrete results, pointing to "significant progress" in the negotiations on the Bali package.**

by Kanaga Raja

GENEVA: "Significant progress" had been made in all three areas – trade facilitation, some elements of agriculture, and development/LDC issues – of the proposed Bali package and the finish line was "clear and it is in sight", WTO Director-General Roberto Azevedo said in his report to the Trade Negotiations Committee on 25 October.

At the informal TNC meeting, Azevedo, in his capacity as TNC Chair, reported that members were now in the final countdown to identify all landing zones for the three Bali deliverables.

"We still have a lot to do. But let me be clear. When I say that, I don't mean that we won't get there, or that progress is slow. Compared to what we had before, progress is anything but slow. Compared to what we had before, we are

breaking the sound barrier. The degree of engagement is now several orders of magnitude higher," he said.

He added: "When we started this process members were still very tentative in some areas. Instead of seriously exploring landing zones, members were marking their territory. Now we are defining landing zones. We have made significant progress in all three areas. It is a transformation. And the process has accelerated in the past few days."

According to trade officials, the meeting also heard that two draft decisions (so far) will be transmitted to ministers at the Bali Ministerial Conference (via first the General Council): one on preferential rules of origin for the LDCs and the second on an LDC services waiver.

with the waiver decision. It is also recognized that there are capacity constraints in many services sectors and that work needs to be done through Aid for Trade and other technical assistance and capacity-building programmes to help these governments to move forward.

On duty-free, quota-free (DFQF) market access for LDC products, the facilitator said that there has not yet been a proposal from the LDCs.

Reporting on his consultations on the development issues, Ambassador Kwok Fook Seng of Singapore, in reference to the monitoring mechanism on special and differential (S&D) treatment for developing countries, said that there are three remaining issues to be resolved.

On agriculture, trade officials said that on the proposal on food security put forward by the G33 developing-country grouping, what is being seen now is a general agreement on the shape of the due-restraint measure.

There is basic convergence relating to this, in that it would apply to certain staple crops (the precise number not being known yet), they said, adding that members are getting close to an agreement on transparency.

There are some concerns with regard to safeguards and how they will be implemented, as well as how to deal with grains that spill over into internal or international markets, said trade officials, adding that other areas where there are differences of view pertain to the duration of the measure and the nature of the post-Bali work programme in terms of addressing this issue.

On export competition in agriculture, trade officials said that there is agreement that there should be a reaffirmation of the Hong Kong Ministerial Declaration, i.e., that all forms of export subsidies will be abolished.

On transparency in tariff rate quota (TRQ) administration in agriculture, trade officials said that the issue here is that developing countries have a wide latitude in terms of S&D, and that there are countries that are pushing to have this S&D provision in many respects disciplined so that large emerging countries do not carve out this area and that they would have to put in certain disciplines under an agreement that emerges.

However, developing countries are saying that being developing countries, they have S&D which has been agreed. For some developing countries, this (the move to discipline) would be a "red line".

The chair of the negotiating group on trade facilitation reported that members are now in the final phase of the negotiations to create a new trade facilitation agreement.

He believed that members are making good progress on all of the three pillars of the negotiating mandate, adding that he is confident that a good result for Bali on trade facilitation is now very much within members' grasp.

Recalling that at the previous week's negotiating group meeting, members agreed on consensus language to clean up several parts of Section I of the draft text (on commitments), he said that he feels at last that this section is now looking more bracket-free than bracketed. (Brackets in negotiating texts indicate areas lacking consensus.)

He noted that in this final stage of the negotiations there is a particular responsibility on the proponents to broaden support for their proposals, and said he is pleased to see that they are bringing additional flexibilities to the table in an attempt to identify solutions that can hope to find consensus support.

Negotiations on Section II of the draft agreement (on S&D provisions) are making progress under the chairmanship of Michael Stone in a small group that is representative of the ACP, African and LDC members as well as donor members, he said, adding that finding an accommodation for Section II is crucial for members reaching an agreement on trade facilitation.

Meaningful S&D flexibilities can help developing countries and LDCs accept more readily and confidently the implementation challenges that are posed by the provisions of Section I, he said. He further said that Section II also contains the heart of the development dimension of a trade facilitation agreement – the DNA of the DDA.

The economic benefits of better trade facilitation will accrue from a sustained period of reform and implementation by developing countries and LDCs. Not surprisingly, they want assurance that they will receive, where necessary, equally sustained support from their development partners throughout that period, he said, adding that he does not believe that there is any disagreement among members that this describes the landing zone for Section II. The challenge members are facing is finding the right language to express this so that it can become part of the binding legal text of the agreement.

"Members are making progress towards this, particularly over the past week or so, and I do believe that we have a possible solution now in sight."

Good progress has also been made in the past couple of weeks on customs cooperation, the third pillar of the trade facilitation mandate, the chair said, adding that this is an area that remained blocked in the negotiations for a very long time, so it is particularly welcome to see flexibility on all sides of this issue starting to bear fruit.

On the cross-cutting issues in the trade facilitation talks, he said that there too, there is serious engagement and "I feel we can be confident that a good solution is in reach."

The chair also stressed that all of the results of all negotiations, in whatever format they are taking place, will be brought back to the full membership for consideration before anyone declares that there is a consensus.

### Endgame

In his statement at the informal TNC meeting, Director-General Azevedo reported on his own activities since the last TNC meeting on 14 October.

Since then, he had undertaken a process of intensive consultations with delegations in recent days.

"My aim is to facilitate agreement among the main concerned members on key points. So my consultations have focused on specific issues, paragraphs and even words, which the chairs and facilitator for LDC issues have identified as requiring urgent attention."

The issues covered in his consultations with delegations were: the implementation of the Hong Kong DFQF decision; the Cancun 28 proposals; cotton; a number of specific issues in Section I of the draft trade facilitation text; Section II of the draft trade facilitation text; customs cooperation; some elements of the G33 proposal on food security; export competition; and TRQ administration.

Overall, he said, the delegations he consulted understood that this is now the endgame, and there was a constructive attitude and an encouraging degree of willingness to find convergence.

Azevedo said there are essentially two types of work that members need to do.

"First, in those areas where we are at an advanced stage, we need to solve the remaining brackets quickly. The options are all on the table. Trade-offs and commonalities are becoming more evi-

dent. We need to move rapidly to reach final agreement on these issues.

"The second type of work is in those areas where we have made great progress in identifying conceptual landing zones, where divergence was still very wide just 10 days ago. Now we need to accelerate our work by translating this progress into text and locking it in."

No matter which of these two categories an issue falls into, the goal is the same, he said. "We should be aiming to bring all areas of work up to the same level of finality over the next few days. We have made significant advances in areas where, for months, negotiations were intractable. We are very close to a final deal in many. But there is no hiding the fact that, in other areas, there are still some very hard negotiations ahead."

As members move closer to a conclusion, they are finding that unexpected issues come up, members scrutinize issues more closely and capitals are actually getting involved, "as we asked them to. And they are asking legitimate questions that we must answer."

"All issues must be worked out in just a matter of days. We are approaching zero hour. There is simply no more time to keep engineering new and complex solutions."

He added: "I think we can build upon the excellent momentum from your work on LDC issues, where things are moving strongly in the right direction. As we have just heard, there is convergence on the text for preferential rules of origin and the operationalization of the services waiver. Both will soon be put up to members for onward transmission to ministers for their consideration in Bali."

Like Steffen Smidt, the other chairs are also making very significant progress, he said.

"I believe you still want Bali to succeed. And therefore I urge all delegations to show the political will that success will require. In the coming days we will also be starting informal conversations with members, both individually and collectively, on how we should frame the ministerial outcomes for Bali."

According to the TNC Chair, this involves, among other elements, the format and the substance of the documents issued. They will broadly cover: the ongoing work of the WTO; the Bali deliverables; DDA issues; and non-DDA issues that are not yet regular components of WTO work.

Azevedo reported that he has started, together with the Chairman of

the General Council and the secretariat, internal technical work with a view to identifying the options available to members.

"We have few working days left to produce concrete results for Bali. This means that work has to intensify even further at all levels, every day and every night, in contacts amongst delegations, consultations by Chairs, Friends, the LDC Facilitator, and in my own consultations."

By the end of this final push, said the TNC Chair, "we have to make a collective determination about whether the Bali package will be achieved. And we will have to prepare our report and any recommendations to the General Council in November."

"The finish line is clear and it is in sight. I believe we can get there," he further said.

### Difficulties

Several delegations took the floor following the TNC Chair's report.

According to trade officials, Morocco, on behalf of the African Group, said that they are still encountering difficulties with respect to the trade facilitation negotiations, and highlighted the importance of paragraph 4.5 (of Section II of the draft negotiating text, on implementation of provisions notified under Category C by developing countries and LDCs being conditional on the provision of adequate and effective technical assistance and capacity-building measures by developed countries and/or other donors).

It also highlighted the 28 Cancun agreement-specific proposals, and wants this taken up as part of the post-Bali process. The post-Bali process itself is very important, it added.

Nepal, on behalf of the LDCs, said that while the texts on the LDC services waiver and on rules of origin were not the optimal outcome for the LDCs, in the spirit of compromise, they agreed to have these issues put forward in this way.

Nepal hoped that DFQF and cotton will be treated in a similarly constructive manner by the rest of the membership.

Argentina was concerned about too little progress on agriculture, and that there is no agreement as yet on the question of export subsidies. A political statement with a very low level of commitment is what members are looking at, and that is not satisfactory. Argentina

said that this makes it doubt the commitment of certain members.

On trade facilitation, Argentina was of the view that the push by the developed countries for the technical provisions in Section I (of the draft consolidated negotiating text) is going to stretch the capacity of the developing countries.

Burkina Faso, on behalf of the Cotton-4 grouping, introduced the cotton proposal, pointing out that there are three elements to it – the trade element, the development element and the follow-up.

According to trade officials, on the trade element, there is a market access provision, which would say that duty-free, quota-free importation of LDC cotton exports would be implemented by developed countries and those developing countries in a position to do so with a target date of 1 January 2015.

On domestic support for cotton, ministers would urge their negotiators to accelerate their work, to work hard to try and reach agreement (on substantial reductions) by the end of 2014. There would be a reaffirmation of the Hong Kong Ministerial Declaration and the secretariat would compile a database of the cotton subsidies that are being extended by members.

There would have to be reference to cotton in Aid for Trade programmes, and on monitoring, there needs to be a careful examination including the link between the trade elements and the development elements of the proposal.

Bolivia said that the outcome is not encouraging and that it is shaping up to be a "minus" Ministerial Conference. There are no adequate outcomes on cotton, DFQF or the G33 proposal on food security.

It said that it is not too interested in the trade facilitation negotiations, adding that it is not an urgent need. It also did not like the notion of expedited shipments.

Jamaica, on behalf of the ACP Group, welcomed the reports of progress in relation to LDC issues and on aspects of the trade facilitation, development and agriculture pillars.

On trade facilitation, the ACP Group felt that real further progress can be achieved on Section II, understanding that time is of the essence.

"ACP members in keeping with our efforts throughout this process to be constructive and solution oriented will make further inputs in this regard. We will continue to consult on the approaches and options for resolving outstanding

issues, with interested delegations especially our G90 partners."

Jamaica added: "... our members feel that any process should respect the understanding that no member will be required to implement a Category C obligation when that member has not acquired capacity. At the same time, we recognize that this must remain consistent with the legal nature of the [trade facilitation] agreement and that this is not a matter for a member's unilateral determination."

Accordingly, it said, "we will continue to explore the appropriate means for having a member's assessment of its capacity or lack of it being taken properly into account in determining the final assumption of its obligation to implement."

The ACP Group emphasized the position expressed by its ministers in which they made clear the Group's determination to work assiduously to help secure a meaningful outcome in Bali. The ministers have said: "We consider a suc-

cessful outcome in Bali and a clear commitment to a post-Bali work programme that places development at its core to be of vital importance to our member states and the WTO as a whole."

"We will spare no effort to pursue this clear objective and remain hopeful that we together with all members will achieve the goals that we set in our collective decision to pursue a meaningful Bali outcome," said Jamaica.

According to trade officials, in concluding, the Director-General said that there are significant challenges ahead of members but this does not mean they have not made progress. "We have made significant progress."

"We all know when there is a mood of disbelief, when people say we're not going to make it. And clearly, this is not the case now. There is a common view that we can make it," he said. "Remember this, we are not talking about Bali, we're not talking about the DDA, we're talking about the future of the multilateral trading system." (SUNS7684) □

## Trade unions, civil society deeply concerned over ITA-II talks

**Ongoing talks to widen the scope of a WTO agreement to free up trade in information technology products could hurt domestic manufacturing and growth potential in developing countries, civil society critics warn.**

by Kanaga Raja

GENEVA: Over 160 civil society organizations (CSOs) and trade unions worldwide, including the International Trade Union Confederation (ITUC), have expressed deep concern over the current negotiations at the WTO to expand the plurilateral Information Technology Agreement (ITA).

In a joint letter to the ITA negotiating parties in October, the CSOs and trade unions, which they say represent hundreds of millions of members across the globe, are concerned that the expansion of the ITA (to ITA-II) "could further harm workers, particularly in developing countries, that have not yet benefited from the agreement, and possibly deteriorate the developmental prospects for those which participate."

"The information and communication technology (ICT) sector has enormous capacity to contribute to domestic industry creation, employment generation, and technological development. Unfortunately, claims of the ITA's potential benefits have failed to materialize for

the majority of workers in participating countries," the letter noted.

(According to trade officials, following a suspension of more than three months, the negotiations on expanding the product coverage under the ITA resumed in the week of 21 October among some 25 members including the EU.)

Apart from the ITUC, which it says represents some 175 million workers in 156 countries and territories, the letter to the WTO members was also endorsed by international CSOs and trade unions including the ACP Civil Society Forum, Arab NGO Network for Development (ANNND), Dignity International, IBON, International Union of Food Workers (IUF-UITA-IUL) and UNI Global Union (UNI). Also signing on to the letter were a host of CSOs and trade unions from the African, Americas, Asia-Pacific and European regions.

### Erosion of policy space

In their letter, the CSOs and trade

unions said that the necessary diffusion of technology and the need to overcome the digital divide within and across countries requires policy space for governments in order to implement industrial policies that enable them to develop their own industries or to increase the ownership of production of ICTs in supply chains in which they operate.

"Instead of promoting industrial capacity, job creation, and technological diffusion, the ITA has eroded policy space for the majority of developing country participants. Experiences with the ITA indicate that from the point of view of developing and Least Developed Countries (LDCs), irreversible and binding commitments under the potential ITA-II could likely damage their present and future growth potential."

An expanded ITA might lead to an erosion of domestic manufacturing and loss of growth potential, the letter stressed, further noting that ICT is an important manufacturing sector with the potential to generate domestic industries and exports.

"Unfortunately, ITA tariff reductions have opened the floodgates to imports into the domestic markets of many developing countries, with many local manufacturers being pushed out of the market. In many countries, large numbers of domestic manufacturers have turned into assemblers and traders of ICT products, or have seen a reduction in the domestic content of ICT goods," it said.

Developing countries could give an advantage to their producers if they excluded their ICT markets until their domestic industries become competitive internationally, thus also providing avenues for higher domestic investment in production.

The CSOs and trade unions underlined that any negotiations on goods "should focus on expanding the potential for decent jobs", which the proposed ITA-II does not.

According to them, the claimed benefits of economic growth and potential job creation in ICT manufacturing have failed to materialize for the majority of ITA members.

"The creation of new industry is essential for the generation of sustainable decent jobs; yet domestic ICT manufacturing, and thus jobs, have been eroded rather than expanded. Where ICT jobs do exist in developing countries, workers have yet to be able to capture a fair share of the alleged gains."

The letter further noted that workers in developing countries are often trapped in performing only low-value-

added processes in the ICT sector, often in export processing zones (EPZs) and special economic zones (SEZs) where workers do not enjoy the right to unionize and collectively bargain or the right to sick leave and social insurance.

EPZs and SEZs are "isolated production enclaves with few forward and backward linkages", the letter said, adding that low taxation and high repatriation of profits further reduce domestic investment in job creation or other development priorities.

"Negotiations on goods must begin with a focus on decent job creation, to be based on the principles of fairness and equity in order to lift living standards by supporting employment growth, improving social protections and providing for fundamental workers' rights and environmental standards. Expanding the ITA goes in the wrong direction, and would hinder, rather than contribute to, a resolution of the global jobs crisis," the letter asserted.

The CSOs and trade unions were also of the view that an expanded ITA will likely benefit transnational corporations (TNCs) in countries with advanced technological development, particularly given patent monopolies and the lack of technology transfer.

"A small number of TNCs from developed countries reap the largest benefits from the intellect-intensive processes of technological design and marketing. The domination of the global ICT sector by a few corporations poses threats to the utilization of technology to address developmental concerns of developing countries and LDCs."

In many countries, the letter said, the effects of mass production have not benefited consumers and users of technology due to the oligopolistic market settings.

Patents on technologies account for the largest part of value added, and have increased disproportionately compared to other industry sectors in both developed and developing top-trading ITA participants.

Although several global ICT producers have invested in research and development in developing countries, these countries have enjoyed very limited technology transfer, and consequently have seen only marginal increases in their value added and in employment.

The letter called on developing countries not to accept de-linking tariffs and non-tariff barriers (NTBs) in any negotiations.

"The ITA brought tariffs to zero in 76 countries; unfortunately, the significant amount of NTBs, especially in the form of national standards and regulation, remained unaddressed," said the letter, stressing that the issue of NTBs has exposed inherent weaknesses in the WTO system and the lopsided negotiation process dominated by a few developed countries, even in the plurilateral talks.

"While there has been much interest in tariff elimination in the ITA and in the proposed ITA-II, there has been no corresponding interest among the leading ITA members to address NTBs – even though three in four NTBs notified to the WTO are implemented in developed countries."

According to the letter, the current status of NTBs effectively restricts developing countries' exports to developed countries, except when developing countries are well-integrated in global production chains owned and operated by developed countries' corporations.

"Negotiating parties should strike the right balance in NTBs so as to ensure high-quality products on the one hand and facilitate access to developed markets on the other."

### Impact assessments

The CSOs and trade unions further said that governments considering engaging in ITA-II negotiations must conduct impact assessments so as to be able to make decisions based on research and assessment rather than unproven claims.

"It is rather appalling that after 15 years of the ITA, a comprehensive impact assessment has yet to be conducted. Prior to commencing in negotiations to expand the ITA, governments should conduct a comprehensive assessment of the existing agreement's impact on the environment and on economic and social development, particularly regarding employment in the ICT sector."

They should then examine the potential expansion of the agreement in light of financial market weaknesses and instability; a persisting jobs crisis; growing inequalities; and other major challenges.

"The decision of countries as to whether or not to participate in ITA-II negotiations should be based on actual and projected social, economic and developmental impacts rather than mere claims about the benefits of ITA or ITA-II," the letter underscored.

According to the letter, assessments must take into account the losses of government revenue from tariff reductions. It noted that developing countries are more likely to use tariffs than subsidies in their protection of domestic industries.

"The reduction of tariffs to zero on ITA-included products by 2005 thus affected developing countries more than developed countries. In addition to impacting levels of employment, tariff elimination reduces revenues which the government could have used for spending on other important developmental activities, such as health care, education, and infrastructure."

For some LDCs, the letter emphasized, tariffs constitute a significant source of revenue for the national budget. Therefore, countries should take this into account in their consideration of whether to participate in ITA expansion negotiations.

Developing countries, and particularly LDCs, can enjoy market access benefits on a non-reciprocal basis if they do not join the ITA-II, said the letter.

"Signatories to the ITA are mandated to extend the benefits of tariff elimination to all WTO members on a Most Favoured Nation (MFN) basis. Therefore, countries that are not yet competitive in ICT manufacturing can already benefit from market access of other participating members, without having to join the agreement. LDCs already enjoy preferential access to most major markets, and would not gain more by joining the ITA-II."

National security issues should be taken into account, said the letter, noting that as some products included in the proposed ITA-II are used in armed forces and intelligence, some countries have raised concerns with regard to national security.

"The agreement should leave ample space for countries to deal with these issues as they deem appropriate."

Furthermore, the CSOs and trade unions called for any negotiations to be transparent and accessible.

"Negotiations with such major implications as the ITA-II should be transparent and accessible by civil society and interest groups so as to increase the probability of a fair, inclusive and relevant agreement for all. In addition, making trade inclusive has been stated as a global goal in several international fora, and should be built into the negotiations process of any international or plurilateral agreement," the letter concluded. (SUNS7682) □

# G24 endorses IMF-WB status quo, but calls for some specific measures

Convening ahead of the recent IMF-World Bank annual meetings, the G24 developing-country grouping on international monetary affairs and development voiced concern over, among other issues, adverse impacts of developed-country monetary policies, the global growth outlook and the lack of IMF governance reform.

by *Bhumika Muchhala*

WASHINGTON: The Group of 24 (G24) developing-country grouping at the International Monetary Fund (IMF) and World Bank reinforced previous positions in their 10 October communiqué, such as negative spillovers of rich-country monetary policies and the failure of timely IMF governance reforms.

The G24 also endorsed the World Bank Group's strategy for private sector-led projects and financing, stressing "the particular importance of mobilizing large-scale infrastructure financing."

The scaling up of financial resources for low-income countries through gold sales was supported, while a specific call was made for "the IMF and World Bank to demonstrate flexibility in the design and conditionality of their programmes in Arab countries in transition." The dedicated paragraph on the Middle East and North Africa region was new to this October's communiqué.

The G24 is composed of African, Asian and Latin American country clusters. There are nine African countries, five Asian countries and eight Latin American countries. The current Chair of the G24 is Fernando Aportela (Deputy Minister of Finance and Public Credit of Mexico), the First Vice-Chair is Karim Wissa (Alternate Executive Director of the World Bank, Egypt), and the Second Vice-Chair is Mohammad Safadi (Minister of Finance of Lebanon).

## Endangering emerging markets and developing countries

The G24 expressed concern over the higher volatility in global financial markets following the US Federal Reserve's indications of "tapering off" the multi-year-long quantitative easing, or printing of US dollars that investors have funnelled into higher-yield bonds, cur-

rencies, equities and commodities in emerging markets.

(After the Federal Reserve's first announcements in the summer, there were sudden exits of money out of developing countries such as India, Indonesia, Brazil and Turkey. This caused rapid currency depreciations and created risks of financial crisis. For example, in recent weeks, India had seen its rupee fall from 56 to 68 rupees to the dollar and Indonesia's rupiah depreciated from 9,500 to 11,000 to the dollar. This has led to economic slowdown, inflation spikes and costly increases in import payments, among other challenges, in developing countries.)

The G24 stressed, "Given the renewed financial turbulence, it is important that EMEs [emerging market economies] affected by global financial instability have the flexibility to adopt policies to preserve resilience." This echoes previous statements by the G24 that refer to the ongoing debates over capital account regulations.

In December 2012, the IMF released a milestone "institutional view" paper that established limited support for capital controls on capital inflows (see *TWE* No. 535). The paper acknowledged the successful use of capital controls by several emerging market economies such as Brazil, Korea and Indonesia in the fallout of the 2007-08 global financial crisis, where surges of capital inflows to these countries resulted from global investors seeking higher returns in the context of record-low interest rates in the rich economies. However, the paper made no mention of capital controls on capital outflows that could be implemented by source countries such as the US. The G24 statement also makes no direct reference to capital controls, and certainly not source-country controls.

As for the quantitative easing policies of the US, the G24 has asserted that the US should be "mindful of negative spillovers and ... clearly communicate their exit strategies." The G24 Chair said the IMF should analyze the impact of the Federal Reserve's withdrawal of quantitative easing on their economies. At a press conference, IMF Managing Director Christine Lagarde also urged better policy coordination among IMF member countries due to the world economy being "not simply connected" but "hyperconnected."

## Global imbalances and flailing growth trajectories

The G24 again emphasized the need for developed countries that have trade surpluses, or in other words, "policy space to take more concerted action", to scale up their contribution to global demand (namely, by boosting their domestic consumption and imports). In response to the ongoing slump in demand and consumption across developed countries and the repercussions on developing-country output, exports and revenue, the G24 called on the Fund to do more to "support countries in warding off global tail risks and minimizing output losses."

Despite the G24's acknowledgment that emerging markets and developing countries have enormous growth potential, and will continue to be the driving force of the global economy, they noted that global growth projections for 2013 and 2014 are marginally lower than in April due to slower growth in the context of protracted difficulties and uncertainties in both Europe and the US.

In particular, concern was expressed on high unemployment rates and poverty levels in emerging economies. The G24 committed itself to "tak[ing] a broad range of actions to promote more and better jobs" through investments in skills and education with objectives to encourage "skills portability, facilitate labour mobility and enhance employability." However, no details were provided as to what fiscal policy tools or adjustments could be employed to achieve these social investment objectives.

The G24 supported the IMF's explicit growth agenda in its concessional loan programmes, particularly in small states, while calling attention to the importance of "productivity growth and an

increased rate of structural transformation" as well as job-inclusive growth across the range of emerging markets to low-income countries.

(However, a critical lack of policy coherence lingers on between the continuing emphasis on austerity measures in the IMF's policy advice through both loans and Article IV surveillance reports, and the policy choice to boost public investments for job creation, productivity growth and skills and education. A key report released earlier this year, "The Age of Austerity – A Review of Public Expenditures and Adjustment Measures in 181 Countries", analyzes policy advice in 181 IMF surveillance reports, and reveals how 119 countries will be reducing public expenditures in 2013, a figure that is set to increase to 131 countries in 2014, with the trend continuing at least until 2016.)

### World Bank corporate strategy

The G24 endorsed the World Bank Group's corporate strategy and its "goals of contributing to ending extreme poverty and promoting shared prosperity in a sustainable manner." The strategy's emphasis on "supporting clients in delivering customized development solutions, backed by finance, knowledge and convening services", was welcomed in the context of the importance of poverty reduction and inclusive growth. However, the World Bank's strategy revolves around the pivot of a private sector-led development paradigm and private investments backed by guarantees and additional financing from multilateral institutions and country governments.

Several African countries emphasized the double constraint they faced, where economic growth and macroeconomic stability in addition to looming social challenges create little room for manoeuvre in fiscal space to put in place vital economic infrastructure. These countries asked the question of how public-private partnerships for infrastructure will be both financially and technically supported by multilateral institutions. An African finance official noted that one of the key deficiencies in Africa is the lack of a project preparation facility, and that building this facility with the Bank and other multilateral institutions is increasingly important.

In a paper titled "A Common Vision for the World Bank Group", a new

strategy underpinned by five key goals is established as a foundation of the multilateral institution as a whole. The five goals are: (1) serve the poor and vulnerable people everywhere in a sustainable manner; (2) recognize the diversity of clients; (3) work as one World Bank Group; (4) focus development solutions; and (5) exercise dynamic selectivity. The goal to end extreme poverty worldwide by 2030 is now part of the World Bank Group's new vision, adopted at its April 2013 spring meetings.

However, civil society advocates who have studied the Bank's new strategy argue that the overriding emphasis on private sector-led economic growth and infrastructure investments through public-private partnerships is deeply worrying on several counts. Case studies over the years show that private sector investments do not prioritize development outcomes, equitable access to services for the poor, or addressing environmental and social risks. Moreover, a recent study by Eurodad (European Network on Debt and Development) shows that almost 75% of public aid money from North to South goes to firms and companies domiciled in developed countries when it is allocated to the private sector.

The high risks in debt sustainability posed by public-private partnerships are also a central concern. In the event of project failure, the costs are paid by the state. However, this "contingent liability" is usually not factored into the public budget and official assessments of debt sustainability, as it is usually counted as an "off-budget" item. Thus, the question of whose interests will be served by the World Bank's new strategy – those of big business or the developing world – looms large.

The World Bank's focus on inequality is framed within a language of "shared prosperity" aimed at raising the incomes of the bottom 40% of a country's population. The Bank claims that its new "Shared Prosperity Indicator", to be launched later this year, will help countries reduce domestic inequality over time while still capturing economic growth. Critics claim that such a framing implicitly accepts increasing inequality as a by-product of economic growth.

The Bank also calls for "green growth" that reconciles "rapid growth with environmental sustainability." However, the prevailing concern of

many critics that such "green growth" will result in financial transfers to primarily developed-country environmental companies, rather than provide developing-country renewable and clean energy initiatives with much-needed financial resources and intellectual property rights flexibilities, is not at all addressed.

The World Bank report explicitly states its focus on a private sector-led development paradigm: "A key element of our work is to promote the private sector as a critical driver of jobs, goods, and services to improve the lives of the poor through inclusive and sustainable growth." The state is relegated to the task of "creating an enabling environment" for the private sector, by a now well-known set of measures such as improving competitiveness, promoting a favourable investment climate and encouraging innovation.

### IMF governance reform

The G24 communiqué also expressed "deep regret" that the agreed October 2012 deadline to implement the 2010 quota and governance reform in the IMF was missed and that there was no agreement on a new quota formula by the review deadline of January 2013.

(IMF quotas, which represent member countries' voting power based on their monetary contributions, are the fundamental building block of the Fund. The US has the highest percentage of quotas, at about 17%, and continues to hold veto power in the IMF Executive Board, while European countries hold over 30% voting power. The G8 industrial countries alone thus hold an imbalanced majority of voting power in the Board, which fails to reflect structural shifts in political geography since the post-World War II years during which the IMF and World Bank were founded.)

The G24 once again asserted that quota reform is "critical to the Fund's legitimacy, credibility and effectiveness", and urged "countries to fulfill their commitment of implementing the 2010 governance reform expeditiously." They added that "the fundamental goal of quota and governance reform must be to enhance the voice and representation of emerging market and developing countries, including the poor, as well as vulnerable, fragile and small low- and middle-income countries." However,

greater quotas for emerging markets “must not come at the expense” of other developing countries. The representation of the poorest members of the Fund must be protected through the quota formula.

The longstanding call for a third chair for sub-Saharan African countries was reiterated. Currently, over 40 African countries have only two chairs in the IMF’s Board. A third chair has been requested by developing countries for several years now. Still, there is a complete lack of action by developed countries, demonstrating not only the absence of political will but also the intransigence and disrespect of developed countries in relation to the democratic deficit of the IMF’s governance structure. Unsurprisingly, the IMF’s legitimacy crisis continues unabated.

#### Debt and lending accepted without questions

The G24 supported the use of gold sales profits to bolster the lending coffers of the Poverty Reduction and Growth Trust (PRGT, the IMF’s concessional lending vehicle), and reiterated its commitment to ensuring the PRGT’s long-term sustainability. Implementation of the joint Debt Sustainability Framework of the World Bank and IMF and ways to enhance low-income countries’ debt management capacity by increasing flexibility on debt limits was encouraged. However, no mention was made of the heightening debt problems of low-income countries over the last few years.

The IMF was urged to complete as soon as possible the ongoing debt management review to enable poor countries to secure adequate financing for their investment programmes while also preserving debt sustainability. Updates to the Guidelines for Public Debt Management and concrete proposals on issues and gaps identified in examples of sovereign debt restructuring were also encouraged.

The G24 lent its support to the Fund’s tax equity focus, and to the importance of preserving the tax revenue base and addressing the adverse effects of tax avoidance and evasion in developing countries, including through transfer pricing and tax havens.

(However, the Fund continues to advise member states to boost public revenue through regressive tax measures,

such as raising value-added taxes or sales tax rates, as well as by removing tax exemptions on basic goods. While such measures do contribute to the tax revenue base, lower-income segments in society are disproportionately impacted and income inequality exacerbated when the costs of basic goods and services are increased. Progressive tax measures based on income, assets and property, including taxation of large and powerful multinationals and taxes on financial transactions, are not emphasized with equal weight.)

#### Flexibility called for in Middle East and North Africa

A specific paragraph on the Middle East and North Africa region was new to this October’s communiqué. The G24 made special mention of the tumultuous political events in the region and called for “the IMF and the World Bank to demonstrate flexibility in the design and conditionality of their programmes in Arab countries in transition, given the political and social constraints facing policymakers.” The Fund’s planned loan agreement with Egypt, which has been agreed to on two separate occasions but remains unsigned due to deep local opposition over the controversial fuel

and food subsidy eliminations and consumption tax hikes, is implicitly referred to in this paragraph.

(Civil society and academic studies of the Egyptian loan programme reveal that it is based directly on the 2010 Article IV surveillance report drafted by the IMF for Egypt, before the uprisings began. While the withdrawal of inefficient and wasteful fuel and food subsidies for big companies was supported by the people, actual impacts were felt by low-income and middle-class households who saw their electricity tariffs and food costs increase sharply. Furthermore, popular campaigns on sovereign debt and equitable development in Egypt have raised alarms on the illegitimacy of the country’s debt amassed by the former Hosni Mubarak regime.)

The G24 also called for “additional resources to neighbouring countries facing the influx of Syrian refugees.” However, it was unclear as to whether these resources would be in the form of grant aid through development agencies nationally or loans from financial institutions such as the World Bank and IMF that would create increased debt. Arab civil society networks have issued a statement demanding the cessation of lending and a scale-up of grants to countries dealing with the refugee crisis. □

*(continued from page 3)*

sional complaints about the “currency war” entailed by liquidity expansion in several major advanced economies simultaneously, the policy of ultra-easy money has generally been benign for emerging economies.

It has been a major factor in the sharp recovery of capital inflows after the sudden stop caused by the Lehman Brothers collapse in September 2008.

Many major emerging economies such as India, Brazil, South Africa and Turkey have come to depend on such inflows as their current accounts started to deteriorate. They have invariably welcomed the asset bubbles that such inflows have helped generate and often ignored the financial fragilities caused by increased exposure to interest rate and exchange rate risks by private borrowers abroad.

Such exposures have been on the rise since the beginning of 2012. As funds have started to be withdrawn from do-

mestic securities markets, emerging economies have increasingly relied on international debt contracted in reserve currencies, which reached, in net amounts, \$600 billion between the beginning of 2012 and mid-2013.

As the Fed has got closer to ending the QE3 and the long-term US rates have edged up, strong downward pressures have started to build up on the currencies, stocks and bonds of several emerging economies such as Brazil, India, South Africa and Turkey, which were widely seen as rising stars only a couple of years ago.

And the longer-term prospects of the eurozone are even less encouraging than the situation in the US.

Deleveraging and recovery are likely to remain extremely slow in the periphery and many countries cannot expect to recuperate the output losses incurred after 2008 for several years to come. (IPS) □

*Yilmaz Akyüz is chief economist at the Geneva-based South Centre.*

# The man who won a Nobel for helping create a global financial crisis

*James R. Crotty* questions the wisdom of awarding a Nobel Prize to the developer of a highly flawed theory that makes the case for unfettered financial markets.

Eugene Fama just received a Nobel Prize for his contributions to the theory of “efficient financial markets”, the dominant theory in financial economics which asserts that markets work ideally if not constrained by government regulation. The fact that economic “science” teaches that unregulated financial markets work effectively helped financial institutions and the rich accomplish their goal of radical financial market deregulation in the 1980s and 1990s. Deregulation, in turn, not only contributed to the rising inequality of the era, it helped cause the global financial market crisis that began in 2007 and the deep recession and austerity fiscal policies that accompanied it.

The theory of efficient financial markets requires the union of two ideas: the “efficient market hypothesis” (or EMH) and optimal (security) pricing theory (OPT). Both the EMH and OPT are built on crudely unrealistic assumptions that would lead anyone not indoctrinated in a mainstream PhD programme to conclude that efficient financial market theory is a fairytale rather than serious social science.

The EMH is simply an assumption or assertion, with no supporting evidence, that all information relevant to the correct pricing of securities is known by all market participants. For long-term assets such as stocks and bonds, the relevant information is the cash flows associated with each security in every future time period. Yet it is logically impossible for anyone to know this information because the future is not yet determined in the present; the future is uncertain. Nevertheless, defenders of efficiency adopted the “rational expectations” hypothesis, perhaps the most ludicrous assumption in the history of social science, which asserts that all investors know the correct probability distributions of all future security cash flows and believe that they will not change over time.

The assumed complete and correct data about the future is then plugged into

one of the basic mainstream models of optimal security pricing, such as the capital asset pricing model (CAPM), which specifies agents’ preferences concerning the risk and return associated with every possible portfolio of securities. The combination of EMH and a theory of optimal pricing determines security prices that are efficient in that every investor has selected the risk-return profile in a portfolio that maximizes her welfare, and financial resources are made available to those who can make the most productive use of them. Market prices are assumed to be in equilibrium at all times, even though the data show that market prices are much more volatile than would be compatible with the assumption of perpetual equilibrium.

The capital asset pricing model itself embodies a large number of grossly unrealistic assumptions in addition to the assumed knowledge of the future embedded in the EMH. For example, it assumes that every investor holds the same portfolio (those who want more risk borrow money to build a larger version of this portfolio), no one trades securities, and no one ever defaults on debt.

## The theory of “positivism”

One might think that the whole financial market efficiency project should have been rejected out of hand because it is founded on a large set of unrealistic assumptions about how financial markets work. Yet not only is it still the dominant theory of financial markets, Nobel Prizes have been awarded to its originators.

Why would an academic profession sanction the use of theories based on such unrealistic assumptions? The answer given by proponents of efficient financial market theory is that the economics profession relies on the theory of “positivism” associated with Milton Friedman as its guide to the acceptance and rejection of theoretical propositions. Friedman’s positivism states that the re-

alism of assumptions does not matter: it has no relation whatever to the acceptability of a theory or its derived hypotheses. As Friedman put it, “[T]ruly important and significant hypotheses will be found to have assumptions that are wildly inaccurate descriptive representations of reality.” The only acceptable test of a theory is “comparison of its predictions with experience.”

There are at least three serious problems with this method. First, if patently false assumptions are adopted, as in efficient financial market theory, and impeccable logic is used to deduce hypotheses from them, they cannot — as a matter of logic — be accurate reflections of reality. Fairytale assumptions can only generate fairytale hypotheses.

Second, econometric tests can at best provide suggestive, not conclusive, evidence in support of the empirical validity of predictions generated by economic theories. With today’s computing power, it is possible to run literally millions of regressions to test a theoretical proposition. Such regressions may use different data sources, time periods, empirical measures of theoretical variables, functional forms, lag structures and so forth. For example, investor expectations of future cash flows from all available securities are a central determinant of efficient equilibrium security pricing, yet there are numerous ways to choose empirical measures of expectations. And the theory itself does not tell us what the appropriate choice among this vast menu of possible alternative measures is.

As a result, virtually any hypothesis can be shown to be statistically significant if enough different regressions are run. This is why both sides of every important debate in economics can provide econometric evidence in support of their positions. And it is why economists should not rely exclusively on econometric hypothesis-testing in assessing alternative theories as positivism demands. The realism of assumption sets is crucial to this task, as are historical and institutional analysis, surveys and experimental studies.

Third, when positivist economists insist that econometric “prediction” is the sole judge of the acceptability of a theory, they put the entire burden of proof on econometric tests. But when the preponderance of such tests turns out to be inconsistent with their favourite theory, they never reject the theory, as their methodology says they must.

Rather, they move on to additional econometric tests on alternative specifications in a potentially endless process of data mining. In a widely discussed survey of empirical tests of hypotheses derived from the CAPM in 2004, Eugene Fama and a co-author arrived at a striking conclusion: “despite its seductive simplicity, the CAPM’s empirical problems probably invalidate its use in applications.” The tenets of positivism require that the CAPM should be rejected. However, financial economists kept mining the data in an endless effort to find econometric results that fit the theory. Meanwhile, the CAPM sustained its canonical status and efficient market theory remained unscarred in spite of its lack of empirical support.

Why would an academic profession adopt a methodology such as positivism that supports theories that are based on unrealistic assumptions? After all, there is an obvious alternative — begin with a realistic assumption set and use it to derive realistic hypotheses about the behaviour of financial markets. This is the method used by Keynes and Minsky to show that financial markets have no efficiency properties and are properly thought of as gambling casinos.

The answer is that the economics profession is committed ideologically to a defence of the proposition that financial markets are efficient, yet it is impossible to derive this proposition from a realistic assumption set. Thus, the profession had no choice but to adopt a positivist methodology that sanctioned the use of even absurdly unrealistic assumptions in theory construction. Since realistic assumptions lead to theories that show the strengths but also the myriad dangers and failures of unregulated capitalism revealed in the historical record, they had to be replaced by the large number of absurd assumptions required to sustain support for economists’ inherent belief that unregulated or lightly regulated markets create the best of all possible worlds, maximizing both economic efficiency and individual liberty. Positivism is the magic that makes it possible to construct a “scientific” defence of the proposition that free-market capitalism has no serious flaws and dangers.

The objective of the ideological project of the economics profession in the current era is to provide a theoretical foundation for unregulated financial markets and unregulated capitalism. The fact that the project has succeeded in the

face of logic and history is admittedly a fantastic conjurers’ trick, but it is ridiculous to award Nobel Prizes to the conjurers. We should not give prizes to people for the creation and propagation of an ideologically based theory that strengthened the drive for radical financial deregulation and thus helped create a global depression. □

*James R. Crotty is a Professor Emeritus of Economics and Sheridan Scholar at the University of Massachusetts Amherst in the US. His writings have appeared in such diverse journals as the American Economic Review, the Quarterly Jour-*

*nal of Economics, the Cambridge Journal of Economics, the Review of Radical Economics, Monthly Review, the Journal of Post Keynesian Economics and the Journal of Economic Issues.*

*The above article is reproduced from the Triple Crisis blog ([triplecrisis.com/the-man-who-won-a-nobel-prize-for-helping-create-a-global-financial-crisis/](http://triplecrisis.com/the-man-who-won-a-nobel-prize-for-helping-create-a-global-financial-crisis/), 23 October 2013). It is based on the arguments developed in “The realism of assumptions does matter: Why Keynes-Minsky theory must replace efficient market theory as the guide to financial regulation policy”, a Working Paper (No. 255, March 2011, [www.peri.umass.edu/fileadmin/pdf/working\\_papers/working\\_papers\\_251-300/WP255.pdf](http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_251-300/WP255.pdf)) published by the Political Economy Research Institute at the University of Massachusetts Amherst.*

## Walking an economic tightrope with no safety net

Rising inequality is undermining global development efforts.

by Thalif Deen

NEW YORK: With the richest 1% of the population now owning 46% of global assets and the bottom half sharing just 1%, inequality is fast being recognized as a stubborn underlying obstacle to development.

In recent decades, despite steady economic growth, inequality has risen in most countries and in nearly every region of the world. It takes various forms, from income gaps to unequal political access. And it originates in a variety of factors, such as gender, ethnicity, disability, legal status, caste, skin colour, language and economic status.

Chee Yoke Ling of the Penang-based Third World Network (TWN) told Inter Press Service (IPS) that the problem is worsening not only within the richest industrialized countries that are members of the Organization for Economic Cooperation and Development (OECD), but also in some developing countries with rapid economic growth.

Continuing structural inequities and flaws in the global trade and financial systems are a major cause, she said.

“The highly inadequate regulatory [and] policy responses to the last rounds of financial crises mean that systemic weaknesses continue which make countries vulnerable to more financial instability,” she said.

Chee also said developing countries that have put in place financial reforms but are export-dependent found themselves equally vulnerable in the 2008 crisis and workers in export sectors suffered as a result.

### Prioritizing equality

According to a statement in May by a group of 17 UN human rights experts, inequality often triggers social problems that further marginalize groups already left behind and neglected, while unequal access to wealth allows runaway resource use by the wealthy, leading to environmental degradation and climate change, whose impacts fall disproportionately on the most vulnerable.

The group of UN experts pointed out that the rise in inequality has severely undermined the hard-won achievements of the Millennium Development Goals (MDGs). It called for a post-2015 economic agenda that will include both a standalone and cross-cutting goals to eliminate inequalities.

An Open Working Group (OWG) of UN member states is scheduled to meet on 22-24 May 2014 to discuss the contours of the proposed new set of Sustainable Development Goals (SDGs) which will succeed the current MDGs, whose target date is 2015.

The experts say making equality a cross-cutting priority would mean every new goal will confront head-on the systemic injustices that drive inequalities — from institutional discrimination against minority groups to uneven investments in social services in different regions of a country.

They singled out social protection as “an indispensable part of the policy toolkit for tackling inequalities, to ensure that the post-2015 agenda leaves no

group, community or region behind.”

As many as 80% of families today have no access to social protection, despite clear evidence that social protection systems can contribute significantly to reducing poverty, creating social cohesion, realizing human rights and protecting people from shocks such as food price spikes, the experts say.

They also say the post-2015 agenda should be linked to the International Labour Organization's (ILO) recommendation on social protection floors, which will help create a funding mechanism for developing countries.

The group includes Verene Sheperd, Working Group of Experts on People of African Descent; Alfred de Zayas, independent expert on the promotion of a democratic and equitable international order; Magdalena Sepulveda, Special Rapporteur on extreme poverty and human rights; and Olivier De Schutter, Special Rapporteur on the right to food.

In an op-ed in the *New York Times* in October, Joseph Stiglitz, the 2001 Nobel Prize-winning economist, said it is well known by now that income and wealth inequality in most rich countries, especially the United States, have soared in recent decades and, tragically, worsened since the Great Recession.

But what about the rest of the world, he asked. Is the gap between countries narrowing, as rising economic powers like China and India have lifted hundreds of millions of people from poverty? And within poor and middle-income countries, is inequality getting worse or better?

Roberto Bissio, director of Social Watch, told IPS the World Bank has also claimed that Goal One of the MDGs – reducing by half the proportion of people in extreme poverty – was met in 2010, five years in advance of the 2015 deadline. Yet that optimistic statistical conclusion in fact hides much more complex realities, he said.

Between 1990 (which is the starting date of Goal One) and 2010, total world exports multiplied almost five times, growing from a total value of \$781 billion in 1990 to \$3.7 trillion in 2010. Over the same period, the world's average inhabitant more than doubled his or her income: from \$4,080 a year in 1990 to \$9,120 in 2010. Yet that growth in trade and wealth is not reflected in a similar momentum in the evolution of social indicators.

TWN's Chee told IPS a significant degree of investment profits and value added continues to be taken out of developing countries. Those countries that are food commodities exporters now face speculation as an added vulnerability. Countries that depend on mining controlled by transnational corporations (TNCs) are characterized by environmental destruction, social problems and regressive tax structures for those indus-

tries.

“All these contribute to inequalities,” she argued. “The austerity policies that many European governments now impose on their society that impact on the lower-income, even the middle-income, are a repeat of what developing countries have been suffering under conditionalities imposed by the International Monetary Fund (IMF) for decades,” Chee said. (IPS) □

## How to steer our Rolls-Royce world onto a smoother road

**In this deeply unequal world, stark maldistributions of wealth – which allow Rolls-Royce dealerships to thrive amid pervasive poverty – are commonplace, but it need not always be so.**

by Sam Pizzigati

The folks at Rolls-Royce have just opened a brand-new dealership – in the poverty-stricken Philippines.

This nation of nearly 100 million people now hosts 334 deep pockets worth at least \$50 million, more than enough, the Rolls-Royce CEO noted in Manila in October, to guarantee a robust market “for the ultimate in super luxury.”

One stab at that “ultimate”: The Rolls Ghost model will retail to Filipinos of means at \$602,000 to start. That's over \$600,000 more than the \$1,879 personal net worth of the median, or most typical, Filipino adult.

In the Philippines today, says the newly released *Global Wealth Report 2013* from the Credit Suisse Research Institute in Switzerland, 88% of adults have less than \$10,000 to their name. Just 0.9% have over \$100,000.

In our deeply unequal world, maldistributions of wealth this stark have become almost standard economic operating procedure.

The latest Credit Suisse numbers put the world's total personal wealth, as of this past June, at \$241 trillion, an all-time record. The world's richest 1% currently hold 46% of global assets. The poorest half of global adults hold less than 1%.

What do these numbers mean, in the daily lives people actually lead? A new World Bank report just out, *The State of the Poor*, offers some hints.

About 1.2 billion people in the world today live on less than \$1.25 a day, a state

of affairs that researchers define as “extreme poverty.” Only 26% of these extremely poor have access to clean water, only 49% access to electricity.

The good news? Things used to be worse. The number of people worldwide living in extreme poverty has actually dropped by 721 million since 1981.

But most of the gains for the world's poorest have come in China and, to a much lesser degree, India. Throughout the rest of the developing world, says the World Bank, “individuals living in extreme poverty today appear to be as poor as those living in extreme poverty 30 years ago.”

### Ending extreme poverty

The World Bank has set a goal for ending this extreme poverty – by the year 2030. Need the world wait that long?

Actually, no, as World Bank analysts readily acknowledge in their new study. The investment needed to bring everyone in the world now living on less than \$1.25 a day up out of extreme poverty turns out to be surprisingly modest.

“If we had a magic wand and could perfectly target every extremely poor individual,” World Bank researchers note, the world would need “approximately \$169 billion per year” to end extreme poverty. That sum, the World Bank points out, equals about 0.5% of the gross domestic product of the world's developing nations.

But the numbers in the Credit Suisse

*Global Wealth Report* suggest a more politically daring perspective.

In the world today, the 32 million adults worth over \$1 million collectively hold \$98.7 trillion in personal wealth. This affluent cohort makes up 0.7% of the world's adult population and holds 41% of the world's wealth.

A graduated wealth tax that averaged 0.5% on all personal wealth over \$1 million would raise about \$500 billion annually, nearly triple the \$169 billion needed to lift every soul on the planet out of extreme poverty.

The Credit Suisse analysts don't raise this tax-the-rich option. They observe only that "the world economy remains conducive to the acquisition and preservation of large and medium-sized fortunes."

That may be a bit of an understatement. In the last year alone, the number of global million-dollar fortunes has jumped by 6.1%. The number of "ultra high net worth" fortunes – over \$50 million – has jumped by over 10%. Nearly 100,000 people worldwide, 98,663 to be exact, now enjoy this "ultra high net worth" status.

Rolls-Royce dealers everywhere are no doubt gleefully applauding. – *OtherWords*

*Sam Pizzigati, an associate fellow with the Washington-based Institute for Policy Studies, edits the inequality weekly Too Much. His latest book is The Rich Don't Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class.*

*Third World Economics* is also available in Spanish.

*Tercer Mundo Economico* is the Spanish edition of *Third World Economics*, edited and published in cooperation with Red del Tercer Mundo, Uruguay.

For subscription details, please contact:

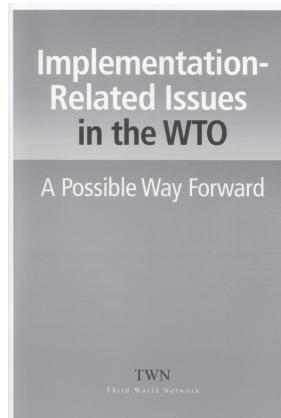
Third World Network/  
Red del Tercer Mundo,  
Juan D. Jackson 1136/11200  
Montevideo, Uruguay  
Fax (5982) 419222

## Implementation-Related Issues in the WTO: A Possible Way Forward

The set of multilateral agreements under the jurisdiction of the World Trade Organization (WTO) governs the conduct of international trade. Implementation of the commitments imposed by these agreements has, however, given rise to a host of problems for the WTO's developing-country members, ranging from non-realization of anticipated benefits to imbalances in the rules.

These implementation-related issues have been on the WTO agenda for over a decade, yet meaningful resolution is still proving elusive. This paper documents the progress – or, more appropriately, lack thereof – in the treatment of the implementation issues over the years. It looks at the various decisions adopted, to little effect thus far, by the WTO in this area, including the 2001 Doha Declaration which incorporates the implementation issues into the remit of the ongoing Doha round trade talks.

The paper exhorts the developing countries to draw upon the Doha mandate to bring the implementation issues back to the centrestage of negotiations. As a practical measure given the resource constraints developing-country negotiators face in the WTO, it is proposed that the implementation issues be taken up according to a suggested order of priority. Prioritization notwithstanding, the paper stresses that developing countries have every right to seek solutions to each of these longstanding, long-neglected issues.



SBN: 978-967-5412-03-5 64 pp

|                         | Price     | Postage                        |
|-------------------------|-----------|--------------------------------|
| Malaysia                | RM10.00   | RM2.00                         |
| Third World countries   | US\$8.00  | US\$4.00 (air); US\$2.00 (sea) |
| Other foreign countries | US\$10.00 | US\$5.00 (air); US\$2.00 (sea) |

**Orders from Malaysia** – please pay by credit card/crossed cheque or postal order.

**Orders from Australia, Brunei, Indonesia, Philippines, Singapore, Thailand, UK, USA** – please pay by credit card/cheque/bank draft/international money order in own currency, US\$ or Euro. If paying in own currency or Euro, please calculate equivalent of US\$ rate. If paying in US\$, please ensure that the agent bank is located in the USA.

**Rest of the world** – please pay by credit card/cheque/bank draft/international money order in US\$ or Euro. If paying in Euro, please calculate equivalent of US\$ rate. If paying in US\$, please ensure that the agent bank is located in the USA.

All payments should be made in favour of: **THIRD WORLD NETWORK BHD.**, 131 Jalan Macalister, 10400 Penang, Malaysia. Tel: 60-4-2266728/2266159; Fax: 60-4-2264505; Email: [twnet@po.jaring.my](mailto:twnet@po.jaring.my); Website: [www.twn.my](http://www.twn.my)

I would like to order ..... copy/copies of **Implementation-Related Issues in the WTO: A Possible Way Forward**.

I enclose the amount of ..... by cheque/bank draft/IMO.

Please charge the amount of US\$/Euro/RM ..... to my credit card:

American Express  Visa  Mastercard

A/c No.: \_\_\_\_\_ Expiry date: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_