

THIRD WORLD *Economics*

TRENDS & ANALYSIS

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Threat of financial crisis looms

The global economy may appear to be picking up the pieces after the devastating crash of 2008, but undercurrents of financial risk and fragility have been building up. Should a new financial crisis erupt, developing economies could well be harder hit this time around, not least because of their deepened integration into the international financial system.

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WTO DG pulled up for flouting mandates and rules

Some of the practices adopted by the WTO Director-General in the conduct of WTO talks were called into question on 25 July at the Trade Negotiations Committee, which was meeting again after a space of two years.

by D. Ravi Kanth

GENEVA: The World Trade Organization Director-General, Roberto Azevedo, was taken to task on 25 July by developing countries for flouting the mandates of the Doha work programme and for adopting questionable procedures and practices, such as heads-of-delegation (HoD) meetings, in his efforts to advance new issues by the backdoor, several trade envoys told the *South-North Development Monitor (SUNS)*.

There were some particularly hard-hitting remarks by India and Uganda at the informal meeting of the Trade Negotiations Committee (TNC), held after two years, over Azevedo's freewheeling tactics and his efforts and those of some WTO officials to promote some new issues and the agenda of a few developed countries.

Several countries – India, Uganda and the African Group, among others – reminded the DG – who is also the chair of the TNC, which was established under the Doha work programme – that he has no mandate to convene HoD meetings for negotiating issues.

Azevedo's convening of the informal TNC meeting followed by an informal HoD meeting on 25 July was apparently to facilitate the United States to make a statement at the HoD meeting but not at the TNC, to which it remains opposed, according to a trade envoy who asked not to be quoted.

The developing countries at the TNC meeting emphasized the centrality of the Doha Development Agenda negotiations, and suggested that the DG or his secretariat are violating the agreed ministerial mandates by canvassing for new issues such as electronic commerce and disciplines for micro, small and medium enterprises.

They cautioned the DG that failure to adopt and follow credible and well-established practices as per the ministerial mandates is leading to erosion of the trade body's credibility.

On the issue of the informal HoD

meetings, India's new envoy to the WTO, Ambassador J.S. Deepak, said "our understanding is that a forum for negotiations can only be created by the decision of the [WTO] Ministerial [Conference]", according to people present at the TNC meeting.

Further, the mandate of the TNC, he said, "flows from the decision of the Ministers [at the Ministerial Conference] in Doha in November 2001."

"The TNC was set up to supervise the overall conduct of the negotiations under the guidance of the [WTO] General Council," India pointed out.

"The TNC, therefore, together with its [negotiating] bodies remains the only negotiating forum at the WTO and no other parallel negotiating forum can be created," India argued.

The DG in his capacity as chair of the TNC is free to report to the General Council on his travels and meetings under the framework of the TNC, the Indian ambassador continued.

India sought to know from the DG the need for having informal HoD meetings chaired by him.

Hard-hitting

In a hard-hitting critique of the questionable practices adopted by the DG, the Ugandan representative said, somewhat mockingly, that the DG must be congratulated "for having reconvened the TNC after such a long time."

Uganda reminded members that the last meeting of the informal TNC was held in January 2015. "In this time, two formal meetings of the TNC were also convened, the last one being in July 2015, which is two years today," Uganda said. "Since then, no formal or informal meetings of the TNC had been convened."

Uganda raised three points on process issues: the role of the TNC chair; the mandate of the TNC; and the authority to create negotiating fora.

Reminding the DG that "the TNC

was created by the Fourth Session of the Ministerial Conference of the WTO under Para 46 of the Doha Ministerial Declaration”, Uganda said there was no immediate decision then on who would chair the TNC. Members “were torn between those who wanted the Director General, and those who wanted the leadership to be from among representatives of WTO members”, it pointed out.

“It was therefore agreed that the DG, as an exceptional arrangement, be appointed in an ex officio capacity to chair the TNC, it being understood that it does not create a precedent for the future,” Uganda maintained.

Uganda pointed to the mandate of the TNC by citing the then chair of the WTO General Council, Ambassador Sergio Marchi of Canada, who had clarified: “The mandate for the TNC, as for the negotiations as a whole, is that agreed by Ministers at Doha in November 2001, and set out in their Ministerial Declaration ... Ministers have established [the TNC] under the authority of the General Council to supervise the overall conduct of the negotiations ... that is the mandate.”

Uganda told the DG that “any moves to create a structure, or forum, parallel to and in competition with the TNC, as far as negotiations are concerned, [are] inconsistent with the mandate of the TNC and the social contract for which the holder of the Office of Director General is bound by the membership to execute as Chair of the TNC.”

It stressed that “the only contract that the Director General has in as far as matters of negotiations are concerned is limited to the TNC.”

The DG, said Uganda, has no legal basis to expand or limit his role. Uganda pointedly asked Azevedo: “Where does the DG derive the authority to create this parallel structure, which is competing against the TNC? Has the TNC outlived its usefulness? Have the negotiations which were mandated been concluded? Have we agreed to wind up the TNC?”

Uganda further explained that in its view “the right to create fora for negotiations has been clearly spelt out in Article III.2 of the Marrakesh Agreement”, which states: “... The WTO may also provide a forum for further negotiations among its Members concerning their multilateral trade relations ... as may be decided by the Ministerial Conference.”

“As we understand, there has been

no such Ministerial Decision to create a structure counter to the TNC,” Uganda maintained.

It quoted paragraph 34 of the Nairobi Ministerial Declaration, which says: “While we concur that officials should prioritize work where results have not yet been achieved, some wish to identify and discuss other issues for negotiation; others do not. Any decision to launch negotiations multilaterally on such issues would need to be agreed by all Members.”

Uganda told the DG that “unilaterally setting up this parallel structure is an attempt at institutionalizing the disagreement in Para 34 of the Nairobi Ministerial Declaration without authority of Article III.2.”

Further, paragraph 34 “has no reporting requirement for the DG on new issues”, Uganda said.

More importantly, paragraph 34 “does not mandate the creation and/or establishment of any new forum for negotiations”, Uganda argued.

“In fact, to do so would be an attempt at exceeding the authority of the DG as laid down in Article VI of the Marrakesh Agreement and defeating the instruction, object and purpose for which Ministers created the TNC in the first place,” it maintained.

International character

Further, what the DG is doing is “in contravention of Article VI.4 of the Marrakesh Agreement”, which requires that “The responsibilities of the Director-General and of the staff of the Secretariat shall be exclusively international in character ... They shall refrain from any action which might adversely reflect on their position as international officials.”

While acknowledging there were instances where the then DG had undertaken to convene HoD meetings before the Doha Round, Uganda said “such meetings were convened [at that time] with the express agreement of the members.”

Uganda argued that “a Director-General in his capacity as chair of the TNC is free to report on the various travels and meetings under the framework of the TNC.”

“There is no need for creating another forum without following due process,” it maintained.

“Further, every member has a right

to speak on any issue of national interest to them within the TNC [and] it is the duty of the other members to debate and either agree or not with any suggestions,” Uganda argued.

“This is why this is called a member-driven Organization and all of this is a function of negotiations,” Uganda said.

In conclusion, Uganda said “we are at a critical juncture within this Organization where it will matter in the history of the future, on why a rules-based organization elected to proceed by setting aside a critical part of its mode of operation that has defined its negotiating history.”

“As the weakest and most vulnerable members of this Organization, the only protection we have in this Organization is the protection afforded by rules, which have variously been etched in our fabric as Agreements, Ministerial Decisions and Declarations and/or Mandates,” Uganda maintained.

“If we do not defend the strong legal structure of this Organization, as we acknowledged in Nairobi, then slowly all small, less powerful, and poor delegations will lose the voice and protection of such rules,” Uganda said.

The questionable practices adopted without proper TNC meetings have led to a sustained “push” for proposals in complete disregard of established rules and procedures and also without an explicit mandate, Uganda argued.

It pointed to “a renaming of divisions in this Organization, in complete disregard of the object, purpose and spirit of Paragraph 1(g) of the July Framework.”

“We have witnessed some members of the Secretariat engage in attempted interpretation of Multilateral Agreements ... We have witnessed some members of the Secretariat prepare papers and offer interviews to support one point of view against another as though they were surrogate proponents,” Uganda maintained.

Uganda asked why “the Secretariat did not make any presentations in defence of the Structural Transformation and Industrialization of Africa in line with Agenda 2063: The Africa We Want.” The Secretariat also never spoke “in defence of Public Stock Holding for Food Security Purposes or the SSM [Special Safeguard Mechanism].”

“It is therefore our noble duty to

raise these systemic concerns and request the Secretariat to exercise maximum restraint and show neutrality in line with the WTO's international character," Uganda said.

"We therefore do not support any

attempts at creating structures and/or fora without an explicit mandate and would support further consultations on this issue going forward preferably under the auspices of the General Council," Uganda maintained. (SUNS8511) □

South call for credible results, including on PSH and SSM, at MC11

Many developing countries at the 25 July TNC meeting pushed for credible outcomes at the upcoming WTO Ministerial Conference on Doha Development Agenda issues, as differences persisted among the WTO membership over the subjects to prioritize for the Buenos Aires conference.

by D. Ravi Kanth

GENEVA: The developing countries, individually and along with their coalitions, on 25 July called for credible results based on the Doha work programme, including a permanent solution for public stockholding programmes for food security (PSH), at the WTO's eleventh Ministerial Conference (MC11) in Buenos Aires in December, trade envoys told the *South-North Development Monitor* (SUNS).

The African Group as well as other developing countries, including India, rejected new issues being brought up on the agenda, maintaining that there is no mandate for them.

In a face-off with the proponents of the new issues led by the European Union, the developing countries insisted firmly on advancing outcomes based on the Doha Development Agenda (DDA), trade envoys said.

Attachment to development mandate

At the informal Trade Negotiations Committee (TNC) meeting, Rwanda, on behalf of the African Group, emphasized "the importance of upholding the principles of full participation, inclusiveness, and transparency in the run-up to as well as during the eleventh Ministerial Conference in Buenos Aires."

The African Group said it will oppose "any process or green room meetings both in Geneva and in Buenos Aires that will be exclusively reserved for certain Members only. We stress that such meetings must be representative of all WTO groupings." The group also maintained that members cannot decide issues six weeks before the Buenos Aires meeting.

It reiterated "our special attachment to the strong development mandate embodied in the Doha Development Agenda and we call on all Members of the Organization to respect the letter and spirit of Paragraph 31 of the Nairobi Ministerial Declaration that said there remains a strong commitment of all Members to advance negotiations on the remaining Doha issues".

On issues concerning agriculture, the African Group said that "a high proportion of the populations in all African countries are crucially dependent on agriculture for livelihood and daily subsistence."

"Therefore, a correction of the systemic imbalances and asymmetries in the Agreement on Agriculture, as echoed by all African Ministers of Trade, remains our main priority in the WTO and it continues to be our determinant of the level of ambition in the negotiations as we move towards MC11," it argued.

It questioned the "recent approaches on [Overall Trade-Distorting Domestic Support] based on the percentage of value of production (VOP)", saying they "cannot achieve the desired objectives but would rather result in maintaining and even extending current imbalances in the global rules on trade-distorting domestic support."

It supported the joint proposal by China and India "for the elimination of AMS [Aggregate Measurement of Support] entitlements and capping product-specific support to avoid production support concentration."

The African Group demanded the resolution of issues such as "cotton, a permanent solution on public stockholding for food security purposes, a

Special Safeguard Mechanism (SSM) as well as concerns raised by Net-Food Importing Developing Countries (NFIDCs)."

On fisheries subsidies, the African Group reiterated "our call for a multilateral outcome with provisions for elimination of subsidies to IUU [illegal, unreported and unregulated] fishing activities, as well as disciplines on subsidies that contribute to overfishing and overcapacity, while taking into account the need for the development of this sector in many developing countries."

As regards improvements on special and differential treatment, the African Group regretted that its proposals "were received with extremely stiff resistance by some delegations."

The African Group said it is guided by its ministers who have said explicitly that "Special and Differential Treatment must be an integral part of all WTO Agreements and future multilateral outcomes and be operationally effective, so as to enable developing countries, in particular LDCs [least developed countries], to effectively address their development needs."

"Given the importance of [special and differential treatment] in economic development, we call on all Members of this Organization to demonstrate the same spirit of openness that is urged upon us when they present other issues which we do not consider a priority for our economies."

On issues concerning trade in services, the African Group said that "any outcome on GATS [General Agreement on Trade in Services] Article VI.4 disciplines shall not involve the implementation of new and/or onerous administrative requirements or requirements that intrude into the domestic policy-making processes".

The African Group emphasized that members must adhere to paragraph 34 of the Nairobi Ministerial Declaration that clearly says "while we concur that officials should prioritize work where results have not yet been achieved, some wish to identify and discuss other issues for negotiation; others do not. Any decision to launch negotiations multilaterally on such issues would need to be agreed by all Members".

Important tools

On behalf of the G33 group, Indonesia said "a permanent solution for the PSH and accessible and effective SSM are important tools needed by the develop-

ing members, SVEs [small, vulnerable economies] and LDCs for sustaining investments in agriculture for food security, livelihood security and rural development.”

“As time is currently very critical, it is important for Members to demonstrate their constructive engagements and flexibilities,” Indonesia maintained.

The G33 demanded “that Chair and Members must frame our work after the summer break that would ensure no single technical matter on SSM and PSH is left unturned and unaddressed before our ministers gather in Buenos Aires, and that all issues of Members critical to their decision making should not be left out of the agenda of MC11 so as to ensure success.”

India issued the strongest statement yet, saying that “implementation of the Declarations and Decisions adopted at the Doha and the Ministerial Conferences held thereafter, is the only way forward to conclude the DDA.”

“The development dimension is at the core of the DDA and issues of interest to developing countries and LDCs must be addressed on priority,” India maintained.

India emphasized the importance of ministerial declarations as an article of faith that must be fulfilled with utmost seriousness, maintaining that if members failed to do so, the credibility of the WTO will be damaged.

As regards the revised proposals submitted by the G33 on the permanent solution for public stockholding programmes for food security, India said “with more than eight hundred million hungry and undernourished people in the world, the problem of ensuring food security remains an enduring challenge, especially for developing countries.”

India said that it cannot imagine “a substantive outcome at the eleventh Ministerial Conference without a permanent solution on food security.”

It expressed disappointment at the “linkage being drawn between PSH and the domestic support discussions.” The mandate, it said, says clearly that “the two issues have to be kept on separate tracks.”

India said the SSM for developing countries is essential, suggesting that some countries are maintaining silence.

On domestic support, India spoke about the existing inequities that allow the industrialized countries to subsidize agriculture, including the possibility of concentrating subsidies on a few prod-

ucts.

China and India want the elimination of the Aggregate Measurement of Support to take forward the Doha work programme for addressing the historical inequities.

India also emphasized the importance of an outcome on cotton while indicating that it will table a revised proposal on trade facilitation in services.

Commenting on the new issues, India said paragraph 34 of the Nairobi Ministerial Declaration requires members to pursue issues that have not been fully addressed in the Doha work programme. It opposed disciplines on e-commerce.

India called for outcomes on unresolved developmental issues in the Doha work programme.

Development at the centre

On behalf of the informal group of developing countries, the Dominican Republic’s envoy to the WTO, Ambassador Luis Manuel Piantini, said “trade is a tool for development” and members must ensure that “development remains at the centre of the WTO’s work.”

He expressed concern at the sharp drop in technical assistance while underscoring the need for arriving at decisions based on consensus.

China emphasized the importance of eliminating the Aggregate Measurement of Support as well as enforceable caps on product-specific subsidies. China said members must respect the red lines

some countries have on e-commerce, according to people present at the meeting.

The United States, which did not speak at the informal TNC meeting, spoke at the HoD meeting.

The US suggested that MC11 must provide a path for addressing the “systemic” issues as well as the future of the trade body at the subsequent MC12 in 2019.

Instead of addressing consequential outcomes at the Buenos Aires meeting, members must settle for incremental results because of the continued divergent positions on deliverables that are being targeted for MC11, which would start in less than five months, the US said, according to people familiar with the statement.

During the informal TNC meeting, differences over new issues – rules for e-commerce, disciplines for small and medium enterprises, and investment facilitation, among others – came into the open between major industrialized countries as well as some developing countries on the one side, and a large majority of developing and poorest countries on the other.

The European Union, South Korea, Singapore and several other countries called for outcomes on e-commerce, disciplines for micro, small and medium enterprises, and investment facilitation.

In short, the TNC and HoD meetings brought to the fore the continued differences among members. But developing countries are joining hands to avert controversial outcomes at Buenos Aires. (SUNS8511) □

Chairs of WTO Doha bodies report on key issues at TNC

The TNC also heard reports by the chairpersons of the different areas of negotiations on the state of play of the talks.

by Kanaga Raja

GENEVA: After a hiatus of almost two years, an informal meeting of the WTO Trade Negotiations Committee (TNC) was finally held on 25 July, at which the chairs of the various negotiating bodies under the Doha work programme reported on their recent consultations on the key issues in the run-up to the eleventh Ministerial Conference in Buenos Aires this December.

Previously, during the two years when no TNC meeting had been convened, the chairs had given their reports

at informal heads-of-delegation (HoD) meetings.

The reports by the chairs at the TNC were preceded by some remarks by WTO Director-General Roberto Azevedo.

Following the remarks by the DG and the chairs’ reports, a number of delegations took the floor, with many developing countries highlighting the importance of advancing on all the Doha issues and calling for outcomes on public stockholding for food security purposes and on the Special Safeguard

Mechanism (SSM) to be delivered, as mandated, at MC11 (see preceding article).

Energized

According to trade officials, DG Azevedo, also the chair of the TNC, took the floor at the start of the informal TNC meeting, and noted that there were two TNC meetings in 2014 and 2015 when members looked at the post-Bali work programme.

He said that the process now has been energized and there has been a very thorough and frank discussion going on.

He said that the format of the informal HoD meetings led to more frank discussion and also made the General Council more expeditious.

The DG explained that the TNC meeting on 25 July would focus on TNC-specific activities including the reports of the eight negotiating group chairs, while the informal HoD meeting that followed would be a continuation of the transparency exercise where the DG gives an overview of activities.

The activities of these two meetings would be reflected under two agenda items of the General Council meeting on 26 July. It was up to delegations whether they took the floor at the TNC or the HoD, or both.

The DG then spoke about his recent activities, saying that he had visited a number of capitals and met with a number of stakeholders.

In all of his travels, he said, he had stressed the need for progress on the Doha issues and the importance of obtaining an outcome at Buenos Aires.

He met with the negotiating group chairs on 1 June and also on 24 July. He said there is a need to work with greater urgency to advance these issues. In fact, there is a need for greater urgency right across the board in terms of all the issues.

The DG welcomed the increase in activity on the development issues as well as in agriculture. He noted that there had been 18 submissions on agriculture tabled since the beginning of the year. In the last week, there were eight submissions focusing on domestic support, the SSM and public stockholding.

Submissions had also been received on fisheries subsidies and anti-dumping and horizontal subsidies. He also mentioned a proposal on non-agricultural market access (NAMA) and the 10 agreement-specific proposals on special and

differential treatment (SDT) tabled by the G90 group of developing countries.

Azevedo said it was positive that members were putting forward these more detailed texts that were leading to these discussions. This was welcome but a great deal of work needed to be done.

He noted that when members come back (from the summer recess) in September, there will only be 14 weeks remaining till MC11, and there is a need to increase the intensity of the work and for members to use the month of August to work with capitals.

He also said that members need to be realistic about what they can do by the Buenos Aires ministerial meeting. As with the previous Bali and Nairobi conferences, there is a need to do what is possible to make Buenos Aires a success.

According to trade officials, the chair of the Special Session of the WTO Agriculture Committee, Ambassador Stephen Karau of Kenya, reported that he has had 35 bilateral meetings.

The Special Session of the Committee met on 1 June and there were two dedicated sessions on public stockholding and the SSM.

The chair said that the topics that were taken up have been public stockholding, domestic support and the SSM.

There has also been a proposal on agricultural market access put forward by Paraguay and Peru, as well as a proposal on export restrictions put forward by Singapore.

There has also been some discussion on export competition, sanitary and phytosanitary (SPS) issues and on cotton.

The chair said that public stockholding for food security purposes is one of the priority issues. The gaps that remain are broadly the same, he said. There has been invigorated engagement but there is homework for the members to do.

He said domestic support is another priority issue, noting that there have been five more submissions on domestic support.

Most members are supportive of the issue of cotton, but a couple of members are pessimistic, taking into account the overall negotiating prospects for dealing with overall domestic support issues.

According to the chair, many members said that there needs to be a more effective way to focus on getting an agreement on trade-distorting domestic support and that would facilitate an agreement on cotton.

On agricultural market access, the chair reported that there are diverging views on the likelihood of an outcome. Some say that there may be incremental progress before MC11 and then a post-Buenos Aires work programme. Others say that the focus should be on updating information that is linked to market access to lay the groundwork for a work programme after Buenos Aires.

On the SSM, the chair said that the discussions have not progressed and there is no obvious way forward by MC11. The proponents continue to say that the SSM is essential and workable but others say that this is not possible without an agreement on market access.

On export restrictions, the chair said there is broad interest and support for the transparency provisions that were suggested in the paper by Singapore, and many see this as a basis for moving forward. But others say they want more on transparency while some others say that this could be an administrative burden for them.

On export competition, the chair reported that there is no expectation for a deliverable on this issue.

On SPS, the chair said there were two members that wanted to discuss this issue and they are reflecting on how to proceed.

Many delegations say that an outcome on subsidies by MC11 is crucial, while others say that it is vital to have something on public stockholding. And others think that a partial deal is still possible, but yet others have expressed very strong doubts that agreement on any of these areas can come to fruition.

The chair said there is a large body of the membership that say that whatever the outcome in Buenos Aires, there is a need to ensure a post-Buenos Aires work programme.

He said that in the autumn, he will begin even more intensive negotiations in an effort to try and find the way forward.

Rules proposals

The chair of the Negotiating Group on Rules, Ambassador Wayne McCook of Jamaica, reported that since the last time members met in May, there have been seven technical proposals put forward. All of these proposals refer to Target 14.6 of the Sustainable Development Goals (SDGs) and the 2020 deadline. They all focus on illegal, unreported and

unregulated (IUU) fishing and all talk about the need for disciplines in areas where there is overfishing. The proposals also speak of achieving an outcome by MC11.

The chair said that all of the concept papers have now been converted into legal texts and that he will circulate a matrix which will include all of these textual proposals. After the summer break, there will be an intensive programme of engagement based on this matrix.

On trade remedies, he noted that a proposal was put forward by China, which said that it has listened to the concerns of members and is going to broaden the scope of what is being offered.

The chair said there is also a conceptual paper on transparency with respect to horizontal subsidies.

All members have said that each of these areas should be taken up on its own merits without linkages or sequences, he said, adding that he was heartened by this.

The chair of the services negotiations, Ambassador Hector Marcelo Cima of Argentina, reported that the areas that have been taken up include domestic regulation, trade facilitation in services and e-commerce.

He said that domestic regulation is the most advanced issue. Members have had the most in-depth discussion in terms of technical standards, gender equity, development and LDCs.

Some members questioned the need for disciplines on domestic regulation but many others have said that this is important for transparency. The question now is in trying to determine the scope and detail of the proposals.

According to the chair, some other members have been concerned that this might in some way impinge on their right to regulate. So it is up to the proponents to work with the others to try and win them over and get them going forward.

On India's proposal on trade facilitation in services, the chair said that there have been very substantive discussions on this paper.

On e-commerce, he said that the EU proposal on e-signatures, e-contracts, spam and consumer protection has attracted a lot of attention. Different views have been expressed. Some believe that the mandate for e-commerce should be limited to discussions about whether the moratorium on duties on e-commerce transactions is rolled over or made permanent. Others want to see a broader

range of discussions, he added.

On market access in services, the chair said that no concrete proposals have been made at this stage.

Special and differential treatment

The chair of the Special Session of the Committee on Trade and Development, Ambassador Tan Yee Woan of Singapore, reported on the discussion pertaining to the G90 proposal on the 10 agreement-specific proposals on SDT. Some were of the view that this would be a carve-out and are not in favour, while others say that it is essential because of the need to recognize the importance of SDT for developing countries.

The chair of the NAMA negotiations, Ambassador Didier Chambovey of Switzerland, spoke on the proposal by the EU, Chinese Taipei, Hong Kong-China and Singapore on transparency in regulatory measures, notably on SPS measures and technical barriers to trade.

The opponents to the proposal said that there is a heavy administrative burden vis-a-vis the proposal and it might impinge on the right to regulate. Those who are skeptical said that there is also no common definition on what is a small and medium-sized enterprise (SME), and how this is going to help SMEs in developing countries. They also do not see how this relates to the mandate of the NAMA negotiating group, and said that there is a need for consensus on negotiating this issue, and there is none at the moment. They further said that time is too short (to the Buenos Aires meeting) and these transparency issues on SPS and TBT were taken up in the respective committees.

The chair recommended that the co-sponsors meet with the members that have expressed concern and see what can be done in moving forward.

The chair of the TRIPS Council in Special Session, Ambassador Dacio Castillo of Honduras, underlined the need for more active consultation. At the moment, there is very little likelihood of an outcome pertaining to the register of geographical indications of origin for wines and spirits. There is the habitual divide over the extent of the mandate. He said that after the summer break, he will hold meetings, but at this stage he has very little to report.

The chair of the Special Session of the Committee on Trade and Environment, Ambassador Syed Tauqir Shah of

Pakistan, reported that there has been very little movement on the three areas that pertain to closer engagement between the WTO and the environmental groupings. One of these areas is on removing the barriers to trade in goods and services. Here too that has been somewhat overtaken by the environmental goods negotiations. There is not much progress to report there.

The chair of the Special Session of the Dispute Settlement Body, Ambassador Coly Seck of Senegal, said that there were two issues taken up – one was on strictly confidential information and the other was on sequencing. He said that there will be a stocktaking after the summer break. It is not clear at this stage whether there will be an outcome on any of these issues.

The chair of the upcoming MC11, Minister Susana Malcorra of Argentina, said the importance of the multilateral trading system and its values and integrity should be underscored and strengthened. She said that she will spare no efforts trying to bring about a success in Buenos Aires.

She expressed concern about the work that is before the members and said that after the summer break there is no time to spare.

These are challenging times, she said, noting that globalization and open trade have been blamed by some for job losses and beyond this, the citizens feel distanced from the leadership and from international organizations like the WTO and they don't fully understand or appreciate the impact of the WTO on their lives.

The minister said the SDGs have set the tone for the work. There is a need to find common ground and build bridges and not walls. The 2015 Nairobi Ministerial Conference showed what can be done and there is a need to build on this to ensure progress.

She said she understood the importance of discussing the Doha issues. For Argentina, the views of farmers are extremely important. But there are other delegations who want to talk about 21st-century issues and these are important for the WTO to remain relevant as well. There is a need to keep up with the times and this is absolutely essential, she added.

A lack of success in Buenos Aires is not an option, the minister underlined. (SUNS8511) □

Developing nations and LDCs reject new e-commerce work programme

The drive to negotiate new rules at the WTO on electronic commerce has met with continued opposition from many developing countries, which argue that such talks would not take account of the North-South digital divide.

by D. Ravi Kanth

GENEVA: The developing countries and least-developed countries (LDCs) on 26 July rejected proposals from major developed countries and their allies in the developing world for a new work programme for electronic commerce for addressing cross-cutting issues, trade envoys told the *South-North Development Monitor* (SUNS).

At a WTO General Council meeting, many developing and least-developed countries, including India, said categorically that the 1998 e-commerce work programme – “to examine all trade-related issues relating to global electronic commerce, considering the economic, financial, and development needs of developing countries” – must continue because of the ever-widening infrastructure and digital divide, according to trade envoys present at the meeting.

Ahead of the meeting, the developed countries – the European Union, Japan, Canada, Australia, Switzerland, Norway and New Zealand, among others – as well as developing countries such as South Korea, Singapore, Malaysia, Hong Kong (China), Brunei Darussalam, Colombia, Laos, Moldova, Myanmar, Nigeria and Qatar had raised the pitch for adopting a new work programme on e-commerce as opposed to the 1998 work programme.

Cross-cutting nature

In a restricted Job document circulated on 26 July, some of the proponents – Canada, Australia, New Zealand, South Korea, Singapore, Malaysia, Hong Kong (China), Brunei Darussalam, Colombia, Laos, Moldova, Myanmar, Nigeria and Qatar – argued that “the recent discussions have highlighted the inherent cross-cutting nature of e-commerce.”

While the discussions have been useful in some respects, they showed “the siloed nature of the discussions in the respective bodies”, making it difficult to have a “holistic understanding of the various e-commerce issues.”

The proponents said that “development issues often overlapped with the conversations under goods, services, and IP [intellectual property], and goods and services issues were often interlinked

(e.g. enabling services for trade in goods enabled by the internet, relevance of e-signatures for trade facilitation and also cross-border supply of services).”

“Compartmentalized conversations make it hard to recognize synergies, and hence to make recommendations for a way forward,” the proponents argued.

They said that while “the General Council is currently tasked to oversee and to take up consideration of any trade-related issue of a cross-cutting nature, it is not a technical forum to discuss the inter-linkages between the issues or delve into any in-depth conversation on e-commerce.”

Further, “the current mechanism of the Dedicated Discussion also remains an informal arrangement, and makes knowledge management challenging as there are no formal records of the meeting”, the proponents said.

“The 1998 E-commerce Work Programme sets out the programme of work for the four relevant bodies, with a view towards having these bodies make recommendations to the Ministerial Conference for action,” the proponents said. “Although useful work has been done, for the reasons raised in the preceding paragraphs, there has been limited progress in making recommendations despite nearly 20 years of discussions at the WTO.”

As e-commerce “is increasingly becoming an important driver of inclusive economic development, it would be useful to have more clarity on how to advance work, how the current process can be improved, what issues to focus on, and how to facilitate Members arriving on concrete recommendations on the way forward”, the proponents argued.

Therefore, “members should embark on a discussion on how the E-commerce Work Programme could better facilitate more focused work and holistic discussions on e-commerce.”

Further, “members should reflect and build on the discussions since MC10, and identify possible (i) improvements to processes, and (ii) issues of interest, if any, that they would like to take forward. This could be done on the basis of Members’ proposals and ideas.”

“The outcome of these discussions

should be captured in the MC11 Ministerial Decision on E-commerce. Ministers at MC11 should give clear direction for future work in e-commerce, with development at the core, and set out a clear, updated framework/process through which future work could be undertaken,” the proponents said.

Japan, which had presented a Job document almost on the same lines in the previous week, also called for a “holistic” discussion, while Russia pressed for WTO rules on e-commerce to be negotiated after the Buenos Aires meeting.

China is also a strong supporter for negotiating e-commerce rules at the WTO. However, it said at the informal heads-of-delegation meeting on 25 July that it respects the red lines of developing-country members on e-commerce, according to a trade envoy who asked not to be quoted.

In a separate development before the General Council meeting, the chairs of the Council for Trade in Goods, the Council for Trade in Services, the TRIPS (Trade-Related Aspects of Intellectual Property Rights) Council, and the Committee on Trade and Development circulated their reports suggesting that many members remain favourable for considering new approaches as well as a new work programme for e-commerce.

Digital divide

India, one of the leading developing countries with a strong presence in the software and e-commerce market, reminded members at the General Council meeting that despite opportunities for economic growth and development from e-commerce, the “growth in e-commerce across the world is hugely uneven which is the result of a deep and wide global digital divide on infrastructure, skills and technology.”

Therefore the priority for members at the WTO ought to be “to expand the internet and bridge the digital divide on infrastructure and connectivity”, India argued, noting that only one in three people in India, one in four people in Africa, and one in seven people in LDCs have access to the Internet.

Without addressing “access to internet” on a war footing, “the asymmetry of information that this digital divide is creating will transform into an asymmetry of opportunity against the interests of developing countries”, India warned.

Therefore, in the current exploratory phase, according to India, “the emphasis should be laid on the need to understand the full scope and dimensions of the various issues involved and address the knowledge gap which exists in this

area.”

Further, scoping of the digital divide is important for all developing countries to assess the “impact of radical, disruptive, and transformative technological changes”, India argued.

Issues such as “access to technologies, skill development, impact of automation in developing countries, particularly on employment and inequality between and within countries,” must take precedence over other issues, India said.

Members must discuss the transfer of technology arrangements and strategies to deal with the digital divide.

All in all, the need of the hour is to focus on the “development dimension and concerns of developing countries and LDCs to the discussions on e-commerce, in accordance with the letter and spirit of the WTO work programme”, India emphasized.

It is futile to identify or discuss issues for multilateral rule-making in e-commerce as “gains from e-commerce should not be confused with the likely benefits of rule-making in e-commerce”, India maintained.

More important, “negotiation on rules and disciplines in e-commerce would be highly premature at this stage especially given the highly asymmetrical nature of the existing global e-commerce space”, India argued.

India questioned the proposals made by Japan on “the transformational impact of electronic commerce on global trade and investment”, suggesting that “this changing trade pattern poses new challenges both for domestic as well as for cross border trade.”

“The need of the hour,” said India, “is therefore sufficient policy space for appropriate domestic and trade policies” by focusing on exchange of information on the policies and best practices. “Such an exchange of information must include all aspects of e-commerce and digital trade, especially on transfer of technology and support to development of digital infrastructure to reduce the digital divide.”

The Nairobi ministerial decision on e-commerce which is based on the existing mandate and guidelines must continue to provide a “bottom-up approach for productive discussions and remain open to any exploratory discussion in the relevant WTO bodies as per the existing mandate”, India maintained.

India rejected the proposals from Russia and other members for “establishment of a horizontal Working Group on Electronic Commerce” on the grounds that it will take away “the role of relevant bodies in discussing e-commerce related

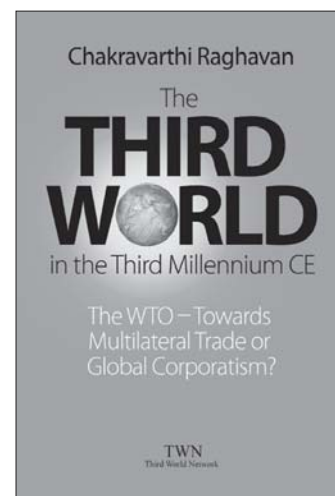
(continued on page 16)

The Third World in the Third Millennium CE The WTO – Towards Multilateral Trade or Global Corporatism?

By Chakravarthi Raghavan

THE second volume of *The Third World in the Third Millennium CE* looks at how the countries of the South have fared amidst the evolution of the multilateral trading system over the years. Even at the General Agreement on Tariffs and Trade (GATT) gave way to the World Trade Organization (WTO) as the institution governing international trade, this book reveals, the Third World nations have continued to see their developmental concerns sidelined in favour of the commercial interests of the industrial countries.

From the landmark Uruguay Round of talks which resulted in the WTO's establishment to the ongoing Doha Round and its tortuous progress, the scenario facing the developing countries on the multilateral trade front has been one of broken promises, onerous obligations and manipulative manoeuvrings. In such a context, the need is for the countries of the Third World to push back by working together to bring about a more equitable trade order. All this is painstakingly documented by *Chakravarthi Raghavan* in the articles collected in this volume, which capture the complex and contentious dynamics of the trading system as seen through the eyes of a leading international affairs commentator.



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Prepare now for the next financial crisis

When a new global financial crisis strikes, the developing countries will be more damaged than in the last crisis as they have become less resilient and more vulnerable. They thus need to prepare against being overwhelmed.

by Martin Khor

The Asian financial crisis started 20 years ago and the global financial crisis and recession nine years back.

A debate is taking place as to whether the time is now ripe for a new crisis. Most economists and commentators think not, as an economic recovery, though admittedly weak, appears to be taking place in developed economies.

On the surface, the present situation seems quite good. The US stock market continues to hit new highs, and the head of the US Federal Reserve recently testified that the US economy is robust and job growth is good. There has been a rebound of foreign capital flows to emerging economies in the first half of 2017, after two years of outflows.

The leaders of the G20 major economies focused on climate change, trade and disagreements with the United States during their Hamburg summit in July, and seemed complacent about the world's economic condition; they didn't worry about any looming crisis.

But below the calm surface, the waters are boiling and churning. As Shakespeare wrote in his play *Hamlet*: "Something is rotten in the state of Denmark."

Whether the deep-seated problems boil over shortly into full-blown crisis or continue to fester for some time more, is hard to predict. But the world economy is in trouble.

Amidst a weak global economic recovery, many serious risks remain, wrote Martin Wolf, the *Financial Times'* chief economics commentator, on 5 July.

"The possibly greatest danger is a collapse in global cooperation, perhaps even an outbreak of conflict," he said. "That would destroy the stability of the world economy on which all depend..."

"We in the high-income countries allowed the financial system to destabilize our economies. We then refused to use fiscal and monetary stimulus strongly enough to emerge swiftly from the post-crisis economic malaise.

"We failed to respond to the diver-

gences in economic fortunes of the successful and less successful. These were huge mistakes. Now, as economies recover, we face new challenges: to avoid blowing up the world economy, while ensuring widely shared and sustainable growth. Alas, we seem likely to fail this set of challenges."

The Star (Malaysia) on 12 July reported that the possibility of the US Federal Reserve raising interest rates and reducing its balance sheet of \$4.5 trillion is causing regional stock markets and currencies to fall and funds to flow out of the region.

Is this another blip that will be corrected soon, or the start of a turn of the boom-bust cycle in capital flows to and from emerging markets?

New vulnerabilities

A comprehensive and in-depth analysis of the global economic situation and how it affects developing countries is given in a recent paper by the South Centre's chief economist Yilmaz Akyuz, assisted by Vicente Yu.

The US and Europe have wrongly managed the aftermath of the 2008 crisis through policies that will have very adverse effects on most developing countries, according to the paper, "The Financial Crisis and the Global South: Impact and Prospects" (South Centre Research Paper 76).

The developing countries went through the 2008 crisis without much harm, because of certain conditions which no longer exist. Meanwhile, these countries have recently built up new and dangerous vulnerabilities which expose them to serious damage when the next crisis strikes.

It is thus imperative that the developing countries review their precarious situation and act to protect their economies to the extent possible to reduce the effects of the new turmoil.

Akyuz says the post-2008 crisis has moved in a third wave to several emerg-

ing economies after having swept from the US to Europe. A central reason is the wrong crisis response policies of the US and Europe.

"There are two major shortcomings: the reluctance to remove the debt overhang through orderly restructuring, and fiscal orthodoxy," adds Akyuz.

"These resulted in excessive reliance on monetary policy, with central banks going into uncharted waters including zero and negative interest rates and rapid liquidity expansion through large bond acquisitions.

"These policies not only failed to secure a rapid recovery but also aggravated the global demand gap by widening inequality and global financial fragility by producing a massive build-up of debt and speculative bubbles. They have also generated strong deflationary and destabilizing spillovers for developing economies."

When a new crisis comes, developing countries will be harder hit than in 2008. Their resilience to external shocks is now weak, due to three factors.

First, many developing economies deepened their integration into the international financial system, resulting in new vulnerabilities and high exposure to external shocks.

Their corporations built up massive debt since the crisis, reaching \$25 trillion (95% of their GDP); and dollar-denominated debt securities issued by emerging economies jumped from \$500 billion in 2008 to \$1.25 trillion in 2016, carrying interest rate and currency risks. Moreover, foreign presence in local financial markets reached unprecedented levels, increasing their susceptibility to global financial boom-bust cycles.

Second, the current account balance and net foreign asset positions of many developing countries have significantly deteriorated since the crisis. In most countries, foreign reserves built up recently came from capital inflows rather than trade surpluses. They are inadequate to meet large and sustained capital outflows.

Third, the countries now have limited economic policy options to respond to adverse developments from abroad. Their "fiscal space" for a counter-cyclical policy response to deflationary shocks is much more limited than in 2009; they have significantly lost monetary policy autonomy and lost control over interest rates due to their deepened global financial integration; and flexible exchange rate regimes are no panacea in

the face of financial shocks.

"Most developing economies are in a tenuous position similar to the 1970s and 1980s when the booms in capital flows and commodity prices ended with a debt crisis as a result of a sharp turnaround in US monetary policy, costing them a decade in development," warns Akyuz.

It would be hard for some of them to avoid international liquidity or even debt crises and loss of growth in the event of severe financial and trade shocks.

Unfortunately, the South has not been effective in reflecting on these problems nor in taking collective action.

Global reforms are required to prevent the major countries from transmitting the effects of their wrong policies to developing countries; and global mechanisms are needed to prevent and manage financial crises. There have been many proposals for reform in the past but hardly any action taken due to opposition from developed countries.

"Now the stakes are too high for developing countries to leave the orga-

nization of the global economy to one or two major economic powers and the multilateral institutions they control," concludes Akyuz.

If his wide-ranging analysis is correct, then the crisis that started in 2008 will enter more dangerous territory due to new factors fanning the flames.

The underlying causes are known, but what is yet unknown is the specific event that will trigger and ignite a new phase of the crisis, and when that will happen.

When the new crisis takes place, developing countries will be in a less fortunate position to ride through it compared with 2008, so there is ever less reason for complacency.

Each country should analyze its own strong and weak spots, its vulnerabilities to external shocks, and prepare actions now to mitigate the crisis in advance, rather than wait for it to happen and overwhelm its economy. (IPS) □

Martin Khor is the Executive Director of the South Centre, a think-tank for developing countries based in Geneva.

Asian financial crisis: lessons learnt and unlearnt

Measures taken by emerging economies in response to the 1997 Asian financial crisis may not only fail to prevent a fresh crisis but also prove a very source of volatility themselves, cautions *Yilmaz Akyuz*.

Debates are taking place on whether there will be another financial crisis, whether in some part of the world or one that is global in scope.

Governments draw lessons from financial crises to adopt measures to prevent their recurrence. However, such measures are often designed to address the root causes of the last crisis but not the next one. More importantly, they can actually become new sources of instability and crisis.

Much of what has recently been written about the Asian crisis on the occasion of its 20th anniversary praises the lessons drawn and the measures implemented thereupon. But they often fail to appreciate that while these might have been effective in preventing the crisis in 1997, they may be inadequate and even counterproductive today because they entail deeper integration into global finance.

An immediate step taken in Asia was to abandon currency pegs and move

to flexible exchange rates in order to facilitate external adjustment and prevent one-way bets for speculators. This has a lot to commend it, but its effects depend on how capital flows are managed.

Under free capital mobility, no exchange rate regime can guarantee stable rates. Currency crises can occur under flexible exchange rates as under fixed exchange rates.

Unlike fixed pegs, floating at times of strong inflows can cause nominal appreciations and encourage even more short-term inflows. Indeed, nominal appreciations have been quite widespread during the surges in capital inflows in the new millennium, including in some East Asian economies.

Second, most emerging economies, including those in Asia, have liberalized foreign direct investment regimes and opened up equity markets to foreigners on the grounds that equity liabilities are less risky and more stable than external debt.

As a result, non-resident holdings as a percentage of market capitalization have reached unprecedented levels, ranging between 20% and 50% compared with 15% in the US.

This has made the emerging economies highly susceptible to conditions in mature markets. Since emerging economies lack a strong local investor base, the entry and exit of even relatively small amounts of foreign investment now result in large price swings.

Third, they have also sought to reduce currency mismatches in balance sheets and exposure to exchange rate risk by opening domestic bond markets to foreigners and borrowing in their own currencies.

As a result, sovereign debt in many emerging economies is now internationalized to a greater extent than that in reserve-currency countries. Whereas about one-third of US treasuries are held by non-residents, this proportion is much higher in many emerging economies, including in Asia. Unlike US treasuries, this debt is not in the hands of foreign central banks but in the portfolios of fickle investors.

Although opening bond markets has allowed the sovereign to pass the currency risk to lenders, it has led to loss of autonomy over domestic long-term rates and entailed a significant exposure to interest rate shocks from the US.

This could prove equally and even more damaging than currency exposure in the transition of the US Federal Reserve from a low-interest to high-interest regime and normalization of its balance sheet.

Fourth, there has been extensive liberalization of the capital account for residents.

Corporations have been encouraged to become global players by borrowing and investing abroad, resulting in a massive accumulation of debt in low-interest reserve currencies since 2008. They have also borrowed through foreign subsidiaries. These are not always repatriated and registered as capital inflows and external debt, but they have a similar impact on corporate fragility.

Hence, the reduction in currency mismatches is largely limited to the sovereign while private corporations carry significant exchange rate risks.

Fifth, limits on the acquisition of foreign securities, real estate assets and deposits by resident individuals and institutional investors have been raised or

abolished. A main motive was to relieve upward pressures on currencies from the surge in capital inflows. Thus, liberalization of resident outflows was used as a substitute for restrictions over non-resident inflows.

Although this has led to accumulation of private assets abroad, these would not be readily available at times of capital flight.

Sixth, banking regulations and supervision have no doubt improved, restricting currency and maturity mismatches in bank balance sheets.

However, banks now play a much less prominent role in the intermediation of international capital flows than in the 1990s. International bond issues by corporations have grown much faster than cross-border bank lending directly or through local banks, and a very large part of capital inflows now goes directly into the securities market.

These measures have failed to prevent credit and asset market bubbles in most countries in the region.

Increases in non-financial corporate debt since 2007 in Korea and Malaysia are among the fastest, between 15 and 20 percentage points of GDP.

At around 90% of GDP, Malaysia has the highest household debt in the developing world. In Korea, the ratio of household debt to GDP is higher than the ratio in the US and the average of the OECD.

International reserves

Asian economies, like many others, are commended for building self-insurance by accumulating large amounts of international reserves.

Moreover, an important part of these came from current account surpluses, not just capital inflows. Indeed, all countries directly hit by the 1997 crisis made significant progress in the management of their external balances in the new millennium, running surpluses or keeping deficits under control.

However, whether or not these reserves would be sufficient to provide adequate protection against massive and sustained exit of capital is highly contentious.

After the Asian crisis, external vulnerability came to be assessed in terms of adequacy of reserves to meet short-term external debt in foreign currencies. However, there is not always a strong correlation between pressure on reserves

and short-term external debt. Often, in countries suffering large reserve losses, sources other than short-term foreign currency debt play a greater role.

Currencies can come under stress if there is a significant foreign presence in domestic deposit and securities markets and the capital account is open for residents. A rapid and generalized exit could create significant turbulence with broader macroeconomic consequences, even though losses due to declines in asset prices and currencies fall on foreign investors and mitigate the drain of reserves.

In all four Asian countries directly hit by the 1997 crisis, international reserves now meet short-term external dollar debt. But they do not always leave much room to accommodate a sizeable and sustained exit of foreign investors from domestic securities and deposit markets and capital flight by residents.

This is particularly the case in Malaysia where the margin of reserves over short-term dollar debt is quite small while foreign holdings in local securities markets are sizeable.

Indeed, its currency has been under constant pressure since mid-2014. As foreign holders of domestic securities started to unload ringgit-denominated assets, markets fell sharply and foreign reserves declined from over \$130 billion to \$97 billion by June 2015. In October 2015 the ringgit hit the lowest level since September 1998 when it was pegged to the dollar. Currently it is below the lows seen during the turmoil in January 1998.

In Indonesia reserves exceed short-term dollar debt by a large margin, but foreign holdings in its local bond and equity markets are also substantial and the current account is in deficit. The country was included among the “Fragile Five” in 2013 by Morgan Stanley economists for being too dependent on unreliable foreign investment to finance growth.

Strong warnings

Capital account regimes of emerging economies are much more liberal today both for residents and for non-residents than in the 1990s.

Asset and currency markets of all emerging economies with strong international reserves and investment positions, including China, have been hit on several occasions in the past 10 years,

starting with the collapse of Lehman Brothers in 2008. The Lehman impact was strong but shortlived because of the ultra-easy monetary policy introduced by the US.

Subsequently these markets came under pressure again during the “taper tantrum” in May 2013 when the US Fed revealed its intention to start reducing its bond purchases; in October 2014 due to growing fears over global growth and the impact of an eventual rise in US interest rates; and in late 2015 on the eve of the increase in policy rates in the US for the first time in seven years.

These bouts of instability did not inflict severe damage because they were temporary, shortlived dislocations caused by shifts in market sentiments without any fundamental departure from the policy of easy money. But they give strong warnings of the kind of turmoil emerging economies could face in the event of a fundamental reversal of US monetary policy.

Should the self-insurance built up prove inadequate, economies facing large and sustained capital flight would have two options. First, seek assistance from the International Monetary Fund (IMF) and central banks of reserve-currency countries. Or second, engineer an unorthodox response, even going beyond what Malaysia did during the 1997 crisis, bailing in international creditors and investors by introducing, inter alia, exchange restrictions and temporary debt standstills, and using selective controls in trade and finance to safeguard economic activity and employment.

The Asian countries, like most emerging economies, seem to be determined not to go to the IMF again. But, serious obstacles may be encountered in implementing unilateral heterodox measures, including creditor litigation and sanctions by creditor countries.

Deepening integration into the inherently unstable international financial system before attaining economic and financial maturity and without securing multilateral mechanisms for orderly and equitable resolution of external liquidity and debt crises could thus prove to be highly costly. (IPS) □

Yilmaz Akyuz is Chief Economist at the South Centre and a former director at the UN Conference on Trade and Development (UNCTAD) in Geneva. This article draws on a recent book by the author, Playing with Fire: Deepened Financial Integration and Changing Vulnerabilities of the Global South (Oxford University Press, 2017).

Unpacking the dangerous illusion of PPPs

Despite growing recourse to this arrangement, public-private partnerships (PPPs) may not be the most equitable or fiscally sustainable means of financing public infrastructure and social services. *María José Romero and Mathieu Vervynckt* reveal the true, often hidden costs of PPPs.

Public-private partnerships (PPPs) are increasingly being promoted as a way of securing much-needed funds to deliver development projects. Their promoters argue that they are an efficient way to bridge the infrastructure gap and provide services essential to achieving the Sustainable Development Goals set out in the UN's Agenda 2030.

PPPs are a medium- or long-term contractual arrangement between the state, a regional or local authority, and a private sector company in which the private sector participates in the supply of assets and services traditionally provided by government. Examples include hospitals, schools, prisons, roads, railways, water, sanitation and energy services. As such, they include areas that affect the basic human rights of citizens.

PPPs are presented as an alternative to the traditional way of procuring public infrastructure or delivering social services. In traditional procurement, the state has to finance and pay the costs upfront when a road or a school is built. With PPPs, in contrast, the costs are spread over a long period of time. This relieves the public treasury and reduces borrowing needs at the outset. However, PPPs may store up borrowing and debt for the future, reducing governments' fiscal space and their ability to deliver essential services. In addition, PPP projects often create infrastructure or services that come with user fees to generate revenue, which can effectively exclude poorer citizens.

While PPP promoters emphasize their potential benefits, notably their professed efficiency gains in the provision of public goods and services, little attention has been devoted to analyzing one of the main drivers of PPPs: their use by governments to hide public debt through non-transparent accounting practices, and the resulting long-term consequences. In this article, we warn decision-makers and citizens against the financial and social costs of PPPs and call for assessing the long-term real costs of PPPs in a transparent way.

How important are PPPs?

The last decade has seen a dramatic increase in the amount of money invested in PPPs in the developing world. Between 2004 and 2012 investments through PPPs increased sixfold: from \$25 billion to \$164 billion. Although investments in PPPs fell in 2013 to \$99 billion, it has continued to be on the rise since 2014, with \$122 billion invested in 2015.

Importantly, it is not just the number but the scale of the projects financed through PPPs that has increased throughout the years. From 2003 to 2015 the average size of projects increased drastically from \$124 million to \$422 million. This is consistent with a decade-long trend towards mega-projects, which has been critically analyzed by Bent Flyvbjerg from Oxford University's Said School of Business, among others. He notes that the risks and complexities multiply along with the scale of the projects. Delays are particularly problematic in larger projects, and they cause both cost overruns and benefit shortfalls.

When considering country income groups within the developing world, analysis by the European Network on Debt and Development (Eurodad) reveals that 66% of investment in PPPs was undertaken in upper-middle-income countries (UMICs), 33% in lower-middle-income countries (LMICs), and just 1% in low-income countries (LICs). In other words, PPPs tend to be more common in countries with large and developed markets to allow for a faster recovery of costs and more secure revenues. Yet the meagre percentage of total investment in PPPs flowing to the world's poorest countries does not mean that PPPs are not relevant in these countries. In fact, when measured by taking into account the size of the local economy (GDP), investment in PPPs has been relatively higher in LICs than in UMICs. This pattern might indicate that LICs are more vulnerable to the fiscal implications of PPPs that are discussed in this article.

The critical players in the field of PPPs

A wide range of institutions, donor governments and corporate bodies have been actively calling for an increased use of PPPs in developed and developing countries. At the global level, PPPs featured prominently in the Addis Ababa Action Agenda that came out of the 2015 UN Conference on Financing for Development, and are specifically promoted as a "means of implementation" of the 2030 Agenda for Sustainable Development. The Group of 20 (G20) also has a workstream to promote PPPs in infrastructure, using the G20 Global Infrastructure Initiative and the Global Infrastructure Hub, launched under the Australian presidency of the Group.

At the European level, governments are increasingly interested in using PPPs as a way of delivering development assistance, which in practice can also help to create business opportunities for European companies.

Multilateral development banks also play a leading role in the field of PPPs, particularly the World Bank Group (WBG). They have set up multiple initiatives to provide advice to governments to change their regulatory framework to enable PPPs, and to finance specific PPP projects, including projects in healthcare and education that undermine people's access to these services.

In 2014 the WBG set up its own Global Infrastructure Facility, a partnership among governments, multilateral development banks and private sector investors designed to facilitate the preparation and structuring of complex infrastructure PPPs, and in 2016 the WBG committed to serving as the secretariat of the Global Infrastructure Connectivity Alliance. The WBG also plays a critical role when developing policy guidelines that countries often take as a reference. These include a "Framework for Disclosure for PPP Projects", a report on "Recommended PPP Contractual Provisions" and, more recently, guidelines on "Unsolicited proposals." However, given the development mandate of these institutions, their activity in this field should be seriously scrutinized.

The fiscal costs of PPPs

PPPs are, in most cases, more expensive than traditional public procurement. This is due to the cost of capital, profit expectations by the private sector companies, and transaction costs to negotiate complex PPP contracts.

The cost of capital is usually more expensive in PPP projects than in public sector works, because national governments can usually borrow money at lower interest rates than private sector companies. In the UK, a 2015 review by the National Audit Office found that “the effective interest rate of all private finance deals (7-8%) is double that of all government borrowing (3-4%).” In practice, this means that the cost of capital of PPP-operated services or infrastructure facilities is two times more expensive than if the government had borrowed from private banks or issued bonds directly.

Moreover, private sector companies are expected to make a profit on their investment, which means an increased cost for the public purse and / or for users. The non-profit organization Counter Balance revealed that the 215 PPPs supported by the European Investment Bank between 1990 and 2015 generated typical annual profits of 12%. For PPPs in the Global South, where the risks are perceived to be higher, investors expect 25% or more. According to Nicholas Hildyard, author of the Counter Balance report, PPPs are essentially “a rent-seeker’s dream.”

PPPs are also very complex arrangements with high costs associated with negotiating, preparing and managing the projects. They entail considerable legal and financial advisors’ fees to structure and negotiate the deal. For instance, as the *Financial Times* reported in 2011, “lawyers, financial and other consultants have earned a minimum of £2.8bn and more likely well over £4bn in fees over the past decade or so getting the projects up and running.”

Fiscal costs of PPPs: The case of the UK

One of the first countries to develop PPPs was the UK, where they are known as private finance initiatives (PFIs). The idea behind PFIs was to attract private investments in public projects to keep spending “off balance sheet” of the public sector. Yet research has shown that many PFIs have left lasting fiscal implications. For instance, a 2017 report by the European Services Strategy Unit (ESSU) found that the public costs of buyouts, bailouts, terminations and major problem contracts are £27.902 million. ESSU calculated that this could have built 1,520 new secondary schools for 1,975,000 pupils, 64% of 11-17-year-old pupils in England. The report also found that nearly one in 10 Scottish PPPs has had to be terminated, bought out by the public sector or continues to exist with major problems. For example, the East Lothian schools project overseen by Ballast UK went into administration in 2003 while in the process of refurbishing six schools and community centres. However, after the parent company withdrew its funding, subcontractors went unpaid and ended up liquidating their assets as Ballast had a 50% share of the infrastructure investment – adding even more fiscal costs to the public purse.

Fiscal costs of PPPs: The case of Indonesia

In 1997 the Indonesian government entered into two PPP contracts of 25 years with subsidiaries of multinationals Suez and Thames Water. According to a report published by the Public Services International Research Unit, Transnational Institute and Multinationals Observatory, both PPPs failed to live up to expectations, partially because of the detrimental fiscal costs that quickly arose. After 16 years of ongoing operations, Pam Jaya, the public water company, and the government accumulated at least \$48.38 million of debt. Payment agreements set out in the PPP contract included a continuously increasing water charge paid by Pam Jaya to the private operators. Meanwhile, user fees have gone up tenfold in Jakarta – the highest water tariff in Southeast Asia. In 2012, the Coalition of Jakarta Residents Opposing Water Privatization filed a citizen lawsuit that would require the government to terminate both PPP contracts. And with success: In 2013 the government announced that the city of Jakarta would remunicipalize some water services by buying back Suez’s shares. In 2015 the Central Jakarta District Court ultimately annulled the contract with Suez, arguing that the PPPs failed to fulfil the human right to water for Jakarta’s residents. However, this decision was challenged by the defendant and the case is still on trial.

PPPs are all too often renegotiated: according to International Monetary Fund (IMF) staff, 55% of all PPPs get renegotiated, on average two years after the signing of the contract, and 62% of these result in increased tariffs for the users. Renegotiation of contracts leads to lack of competition and transparency, and opens the door for corrupt behaviour. Shaoul (2009) argues that limited competition creates increased risk for the public sector because the companies are large and powerful enough to take on the regulators in case of conflict and force contract renegotiation on more favourable terms. For instance, as a result of the massive corruption investigation with a focus on the Brazilian construction giant Odebrecht, *The Economist* revealed that the main method for the company to win contracts was to make low bids and “then corruptly secure big increases in costs through addenda – in some cases when the ink on the contract was barely dry.”

In addition to higher financial costs, the historical experience of several countries (in both developed and developing countries) shows that the fiscal implications of PPPs come from both direct liabilities and non-transparent contingent liabilities (or risk of debts in the future). Direct liabilities are the payment terms set in the contract, which can include, for example, “viability gap payments”, that is, capital contributions to ensure that a project that is economically desirable but not commercially viable can proceed. On the other hand, contingent liabilities are payments required from governments if a particular event occurs. This can be a fall in the exchange rate of the domestic currency or a drop in the demand under a specified level. As such, the occurrence, value and timing of these payments are outside the control of the government. Most of the time they are non-transparent to the public – or even to national parliaments – as they are not easily and fully quantified, which makes PPP projects a risky business.

As a result of contingent liabilities, the true costs of PPPs can be enormous. Governments often provide different types of guarantees to attract private investors, but these can create a significant burden in the future. These guarantees can include loan repayments, minimum income streams, guaranteed rates of return, guaranteed currency exchange rates and compensation should new legislation affect an investment's profitability.

PPPs have already left lasting fiscal legacies in countries such as the United Kingdom, Portugal, Hungary, Ghana, Tanzania, Uganda, Peru and Lesotho, where a PPP hospital swallowed up half of the country's healthcare budget while giving a high return of 25% to the private sector company. Experience also shows that the fiscal implications of PPPs can exacerbate or even precipitate major financial crises. As the World Bank acknowledges, "all PPP road projects in countries affected by macroeconomic crisis (Greece, Portugal and Spain recently, and previously Malaysia and Mexico) simultaneously suffered demand challenges (and faced bankruptcy risk) creating a systemic risk." The decrease in the demand for the PPP service arises as a result of lower economic activity during the crisis, which results in a knock-on effect on the public sector.

While PPP supporters acknowledge the additional financial costs already mentioned, they argue that these are justified in terms of efficiency gains. In some cases the efficiency gains of PPPs come from improvements in design, construction and operations. There are some studies that refer to these gains, but the evidence is not conclusive. Importantly, in most cases, efficiency gains depend on the sector, the type and size of projects, the private sector increasing capital investment as stated in the contract, and the country's context in terms of regulatory environment and good governance.

Perverse accounting incentives

Given the complexities of PPPs and their detrimental fiscal costs, one could ask why countries prefer PPPs to the public borrowing option. Proponents of PPPs often argue that the participation of the private sector leads to higher-quality investments and allows states to spread the costs instead of having to raise funds upfront as happens in the case of traditional public procurement.

However, Eurodad research shows that one of the key drivers of governments' opting for PPPs is that non-transparent accounting measures allow them to keep the costs and liabilities of PPPs "off balance sheet." In other words, their costs are not registered in the government's budget balance sheet, which means that the true cost of the project remains hidden. As the IMF's website states: "in many countries, investment projects have been procured as PPPs not for efficiency reasons, but to circumvent budget constraints and postpone recording the fiscal costs of providing infrastructure services", which ends up exposing public finances to excessive fiscal risks. By using such perverse accounting practices, governments create the dangerous illusion that PPPs are cheaper than they really are. Politicians use PPPs to greenlight projects that have been promised to their electorate, while keeping their budget under control and abiding by legislated budgetary limits.

The European Commission has warned against the "affordability illusion" of PPPs, while experts within the IMF's Fiscal Affairs Department have publicly criticized these incentives and the risks posed by PPPs, explicitly calling for the institutional framework for managing the fiscal risks of PPPs to be strengthened. Importantly, as IMF Deputy Managing Director Tao Zhang stated in a conference in Australia in December 2016, "there are significant fiscal risks. PPPs are not

'infrastructure for free'." Unfortunately, these warnings have not been voiced strongly enough for multilateral development banks to refocus their approach to infrastructure finance towards increasing the efficiency of public service delivery.

The way forward

Eurodad has been calling for strong international guidelines on PPPs to ensure they serve development objectives. These should include full disclosure of contracts, an explicit endorsement of "on balance sheet" accounting and reporting of PPPs, and a detailed and transparent cost-benefit analysis that sheds light on the long-term implications of PPPs, for both the public sector and users, considering social, environmental and fiscal costs.

In response to the leading role of the WBG, in February 2017 a group of more than 110 non-governmental organizations and trade unions from all over the world sent a letter to the World Bank PPP team and Executive Directors announcing that they will no longer participate in public consultations on PPPs until the WBG drastically changes its current approach to PPPs. Given the development mandate of the WBG, the institution has a responsibility to ensure that governments select the most fiscally sustainable financing mechanism to deliver infrastructure projects.

Governments and financial institutions should focus on developing the right tools at the country level to identify whether – and under what circumstances – it is desirable to choose PPPs instead of traditional procurement. This implies that they should choose the best financing mechanism, including examining the public borrowing option, and should stop hiding the true costs of PPPs, by reporting in national accounts and statistics the costs of the project and its contingent liabilities. This will boost the transparency of the decision-making process and increase democratic accountability. □

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The above is extracted from a chapter (with references) in the report Reclaiming Public Services: How cities and citizens are turning back privatisation (June 2017), edited by Satoko Kishimoto and Olivier Petitjean. The report is published by Transnational Institute (TNI), Multinationals Observatory, Austrian Federal Chamber of Labour (AK), European Federation of Public Service Unions (EPSU), Ingeniería Sin Fronteras Cataluña (ISF), Public Services International (PSI), Public Services International Research Unit (PSIRU), We Own It, Norwegian Union for Municipal and General Employees (Fagforbundet), Municipal Services Project (MSP) and Canadian Union of Public Employees (CUPE).

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issues as per the Work Program which has been reiterated in successive Ministerial Decisions.”

Major challenges

On behalf of the African Group, Rwanda said Africa along with the Middle East accounted for 1% of global cross-border e-commerce sales. Several estimates prepared by the International Telecommunication Union (ITU) and other multilateral bodies suggest that the scope and depth of the digital divide in Africa have progressively widened. Further, the African countries face “major impediments and challenges, due to the lack of digital capabilities and digital industrial policy”, Rwanda maintained.

The African Group said that the proponents were not even prepared to refine their proposals to make them meaningful towards the development agenda.

The African Group, which had held a seminar on e-commerce in June to highlight the infrastructure and digital divide as well as to pursue “digital industrial policy” for all WTO members, said: “As much as a digital transformation is underway, and digital technologies and solutions are emerging, many of these will be seriously disruptive to economies around the world and we are still confronted by the reality of a deep, persistent and widening digital and technological divide.”

It maintained that “while Members’ paths towards achieving global leadership in the digital economy have all not been the same, they do require active policies and deliberate efforts to develop the necessary infrastructure and to manage digital flows for national digital catch-up.”

The lesson for the African Group from the seminar was that “global integration needs to be preceded by building national capabilities through what [is] termed digital industrial policy.”

“What has also emerged at the Panel Discussion is the importance of digital rights, and how a balance should be sought on the international agenda on issues pertaining to electronic commerce and Internet governance,” Rwanda said.

The African Group reiterated continued engagement in comprehensive discussions in the relevant bodies falling under the 1998 e-commerce work programme.

Uganda and South Africa, in their interventions, also maintained that there is no need to change the 1998 work programme as many issues raised by the African countries are yet to be addressed.

Except for Nigeria and Ghana, the African Group completely rejected the proposals by the proponents who seem determined to secure a negotiating mandate at Buenos Aires on e-commerce.

It is clear, however, that unless the

developing countries remain solidly united in their stand on e-commerce at Buenos Aires, they will not be able to prevent negotiations on e-commerce rules from 2018, trade envoys said. (SUNS8512) □

PUTTING FOOD FIRST

Towards a Community-Based Food Security System in Indonesia

by Hira Jhamtani

Ensuring that every person in one of the world’s largest and most populous nations has enough food on the table is understandably an undertaking of great import.

Putting Food First examines the food security situation in Indonesia with a view to determining how this can be done.

This book draws attention to serious shortcomings in food production and distribution in the country, which led to many cases of malnutrition, especially among children, in 2005. These flaws are ultimately rooted in policy failures, not only in the agriculture sector per se but also in the related spheres of trade, industrialization, rural development and environmental and natural resource management.

Recognizing the multidimensional nature of the problem, the author puts forward a set of short-and long-term policy recommendations aimed at attaining food security within a broader national framework of sustainable development. Realization of this goal will entail a shift from the existing industrial, monoculture-oriented farming system to a community-based and ecologically sound agriculture which indeed “puts food first”.



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