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US tariff decision sparks trade war fears

The bombshell US decision to impose steep tariffs on steel and aluminium imports has triggered fears of a global trade war that could hurt the world economy and the multilateral trading system. *Third World Economics* documents the strong criticism that greeted the US move at the WTO, and looks at the possible implications of the controversial measure.

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Has Trump just launched a global trade war?

President Donald Trump's decision to levy steep tariffs on steel and aluminium imports upends the free trade ideology which the US had long espoused and could spark a global trade war.

by Martin Khor

The recent trade action by President Donald Trump has ended the United States' leadership on liberal trade and may trigger a global trade war with major damaging consequences.

On 8 March, Trump signed a proclamation to impose tariffs of 25% on steel and 10% on aluminium. It sent shockwaves across the world not only because of the losses to metal exporters, but due to what it could well signify: the start of a global trade war causing economic disruption in many countries, and that may also damage if not destroy the multilateral trade system.

The United States, joined by Europe, has been the anchor of the global free trade system ever since the end of the Second World War. In practice, this rhetoric of free trade was hypocritical because the developed countries continue to practise very high protection of their agriculture sector, which cannot compete with many developing countries if there really was "free trade".

Moreover, the developed countries introduced and continue to champion mandatory high intellectual property rights standards through an agreement in the World Trade Organization (WTO), under which their companies create monopolies, set high prices and make excessive profits. This is against the free competition touted by free trade advocates.

In manufactures and metals, the developed countries have pressed the others to join them in cutting or removing tariffs and expand trade, through negotiations in the WTO and its predecessor the GATT (General Agreement on Tariffs and Trade).

They have argued that poorer countries can best grow richer by cutting their tariffs, which would benefit their consumers and force their producers to become more efficient.

Trump's move upends the ideology of free trade. If cheaper imports displace local steel and aluminium producers, they must be stopped because a country must make its own key products, accord-

ing to the Trump philosophy of "America First".

Since the United States has been the flag-bearer of the free trade religion, this has profound effects on other countries. If the leader has changed its mind and now believes in protecting its industries, then so too can other countries. The basis for liberal trade is destroyed and the old rationale for protectionism is revived.

The WTO rules allow countries adversely affected by imports to take certain measures, but they have to prove that the producers of exporting countries unfairly receive subsidies, or that they set lower prices for their exports compared with the same goods sold domestically. Or if countries can show that their domestic firms have been adversely affected, they can take "safeguard" measures of raising tariffs, but only for a limited period to help the affected local producers to adjust.

Trump however took recourse to a little-used national security clause (Section 232) in the US trade laws to justify his big jump in steel and aluminium tariffs. The clause allows the president to take trade action to defend national security. The WTO also has a security exception in GATT Article XXI but it has rarely if ever been used by countries to justify tariff increases.

What constitutes national security is not clearly spelt out in the US or the WTO laws, and because of the ambiguity and lack of clarity, this clause can be abused. The US and other countries can claim they are imposing higher import duties because it is necessary to protect their national security, but in reality this could be a disguise or excuse to protect their economies from other countries' more efficient producers.

The Trump administration tried to justify invoking the security factor by saying steel and aluminium are needed to make tanks, fighter planes and other weapons of war. But this claim was undercut by giving exemptions from the increased duties to Canada and Mexico due to their membership of NAFTA, a

trade agreement that includes the US. These exemptions for reasons unrelated to security expose the security rationale as fake.

Other countries are angry and preparing to retaliate. The European Union has drawn up a list of American products on which its countries will raise tariffs. China warned it would make an appropriate and necessary response.

At the WTO General Council on 8 March, the US action was attacked. Many countries condemned the US measures for being unilateral and for misusing the national security rationale. Canada said the security issue “may be opening a Pandora’s box we would not be able to close.”

Brazil expressed deep concern about an elastic or broad application of the national security exception. India said the national security exception under GATT should not be misused and unilateral measures have no place in the trade system. China argued that the over-protected domestic industry will never be able to resolve its problems through protectionism.

Many WTO member states will most likely take the US to a dispute panel in the WTO, and how it rules will have strong consequences. If it rules for the US, then other countries will view it as

allowing all countries to take protectionist measures on the same ground of national security. If it rules against the US, it will embolden the anti-liberal trade faction in the Trump administration and strengthen their argument that the US should ignore or even leave the WTO. The US would then be much more unrestrained to undertake further protectionist measures.

In either case, there is a danger that the rest of the world, or significant parts of it, would also feel they should not be constrained by the WTO’s general trade rules. Over time, trade protectionism would gain ground.

The next big protectionist move from the US may come in a few weeks when Trump decides what action, if any, to take against China after considering a US Commerce Department report on China’s trade and intellectual property practices. If, as expected, big action against China is announced, China will almost certainly take equally strong retaliatory action.

That will escalate the trade war that is already on the way. (IPS) □

Martin Khor is Executive Director of the South Centre, a Geneva-based think-tank for developing countries, and former Director of the Third World Network.

US under fire at WTO over proposed unilateral actions

The US’ imposition of steel and aluminium tariffs has come in for sharp criticism at the WTO, where member states decried its potential impacts on the global economy and the multilateral trading system.

by Kanaga Raja

GENEVA: The United States came under fire from many members of the WTO, both developed and developing, over its announced intention to impose steep tariffs on imports of steel and aluminium purportedly on national security grounds.

The criticisms of the US plans came at a formal meeting of the WTO’s General Council on 7 March, when China, which had inscribed the item of “Other Business” on the Council agenda, took the floor to express its concerns. The Chinese criticism was followed by 17 other WTO members which all voiced strong concerns over the US decision to impose tariffs under Section 232 of its Trade Expansion Act of 1962.

On 5 March, at an informal heads of delegation (HOD) meeting of the WTO Trade Negotiations Committee (TNC), many members had already registered strong concerns over the US move (see following article).

At the 7 March General Council meeting, apart from China, the other members which expressed concerns were the European Union (comprising 28 member states), Canada, Chinese Taipei, Turkey, the Russian Federation, Hong Kong-China, Australia, Norway, South Korea, Japan, Pakistan, Switzerland, Mexico, Uganda, India, Brazil and Venezuela.

While the WTO members that spoke at the informal HOD/TNC meeting on

5 March did not identify the US in their interventions and instead referred to it as “one member”, China mentioned the US by name at the General Council on 7 March, as did the EU, Canada, Turkey, the Russian Federation, Norway, Japan, Switzerland, Uganda and India.

According to trade officials, many members that spoke expressed both commercial and systemic concerns over the US move. Many of them also referred to the “elastic” use by the US of national security exceptions, saying that this had consequences.

“Many said they feared tit-for-tat retaliation which could spiral out of control, damaging the global economy and the multilateral trading system,” said WTO spokesman Keith Rockwell at a media briefing following the General Council meeting.

Asked how “we will know if we are in a trade war”, Rockwell said: “There is no clear definition of a trade war. But the [WTO] Director-General has made very clear he is concerned about the escalating nature of this situation, and he is prevailing upon the membership to keep cool heads and not let things spiral out of control.”

The point is nothing has actually been implemented yet, he added.

Rockwell declined to comment when asked about US President Donald Trump’s remarks about the WTO being “a catastrophe” (see the article “DG warns of trade wars, but silent on Trump denigration of WTO” in this issue).

Asked what the WTO or its secretariat in particular could do to prevent tit-for-tat trade retaliation, Rockwell said, “Use trade diplomacy in every way possible. Reach out to all parties, continue to explain to everyone the nature of the situation and the possible consequences for missteps.”

Rockwell said that the Director-General had clearly expressed his concerns for the system. He recalled two other times when a WTO Director-General had done this: in 1998 and 2008 during the time of the Asian and global financial crises respectively. In each case the concern was systemic.

Members’ strong concerns

According to trade officials, China said that it has grave concerns about the national security exception that the US has cited for the proposed steel and aluminium tariffs. This will significantly impact trade in steel and aluminium.

China also voiced systemic concerns, saying that the US investigation was completely unilateral and the move will undermine the rules-based multilateral trading system.

Pointing out that Section 232 is a domestic law and not a WTO rule, China said the US had not carried out an investigation in a transparent way and that it has already imposed more than 200 trade remedies within the last year on steel and aluminium. According to China, this over-protected domestic industry will never be able to solve its problems through protectionism.

The EU expressed great concerns about the actions planned by the US. It said the information that has been made available suggests that this will be made under the guise of national security. This is a fundamental concern to the entire organization, the EU emphasized, adding that the response of other members to this action is not the issue at this stage. All members should comply with WTO agreements, where there is ample space to use various safeguard measures in a legal and consistent manner.

The EU urged the US to show restraint and to enter into dialogue. The EU said it will consider all possible responses, including dispute settlement activity and WTO-consistent rebalancing measures.

Canada expressed both systemic and commercial concerns about the planned US tariffs.

With respect to the national security issue, Canada said, "We fear that the United States may be opening a Pandora's box that we would not be able to close." It is certainly inconceivable, it said, that Canadian exports could possibly be a threat to US national security. Canada also registered concern about the impact of this action on its own steel and aluminium industries.

Chinese Taipei said that it has serious concerns about the national-security-based tariffs on steel and aluminium. The toll is very high and there is a need to be very careful here. Any unjustifiable action could lead to proliferation and tit-for-tat responses, it said.

Turkey also voiced similar concerns.

The Russian Federation urged the US to abide by WTO rules, while Hong Kong-China also expressed concerns.

Australia said that international trade rules must be upheld.

Norway expressed deep concern over the Section 232 process, saying this represents a serious challenge to the

multilateral trading system. It urged the US to reconsider.

Korea also expressed serious concerns over the US move. It said that GATT Article XXI (on security exceptions) must be used in a measured and strict manner.

Japan also shared the concerns over the unilateral actions taken by the US.

Pakistan said that this should be of major concern for developing countries. They depend on the multilateral trading system and anything which threatens that could foretell consequences for them.

Switzerland also expressed concerns about the US action and the potential consequences for the WTO.

Mexico said that no one benefits from going against the rules.

Uganda said although it does not export steel and aluminium to the US, it will be affected by this if the trading system is damaged.

According to trade officials, India urged care in not misusing the national security exception under the GATT. Unilateral measures have no place in the multilateral trading system, India stressed.

Brazil said it has deep concerns about an elastic or broad application of the national security exception.

Venezuela said it is joining the group that has expressed its concerns particularly about the unilateral nature of the

US actions.

According to trade officials, the US did not take the floor under this agenda item at the General Council meeting.

Other matters

Under a separate agenda item, Burkina Faso, speaking on behalf of the Cotton-4 (C-4) country grouping, said that it was disappointed with the results of last December's WTO Ministerial Conference in Buenos Aires.

According to trade officials, Burkina Faso said that after 14 years, it had hoped to have more progress with respect to reductions in trade-distorting domestic support for cotton.

It called on WTO members to come up with proposals. It had also done this at Buenos Aires, it said, where it had called for sharp focus in terms of analysis of the numbers and in terms of finding a solution. It was disappointed that this did not give rise to constructive commitments by members. The ministers from the C-4 countries were disappointed that they did not get a chance to negotiate outcomes at Buenos Aires. The issue was basically taken off the table and was not even the subject of negotiation, said Burkina Faso.

It expressed great frustration over this, saying that there will be a meeting of the C-4 focusing on this issue on 9-12 April. (SUNS8638) □

US slammed over unilateral trade measures and AB blockage

by D. Ravi Kanth

GENEVA: A large majority of developing and developed countries slammed the United States at the WTO for initiating unilateral trade measures to undermine the multilateral trading system as well as for jeopardizing the WTO's dispute settlement mechanism by constantly blocking the selection process for filling vacancies at the Appellate Body (AB), said trade envoys.

At the informal heads of delegation (HOD) meeting of the WTO Trade Negotiations Committee (TNC) on 5 March, many members also called for intensifying the negotiations to eliminate illegal, unreported and unregulated subsidies that are contributing to the depletion of global fish stocks.

Several developing and least developed countries called for appropriate

special and differential treatment flexibilities.

A large majority of developing and least developed countries insisted that the unresolved Doha issues must be addressed during the next two years, particularly by focusing on the "developmental" issues in the agriculture, industrial goods and services sectors.

Members of the African Group (baring Nigeria), the Africa, Caribbean and Pacific (ACP) Group, and India, among others, emphasized the centrality of securing multilateral outcomes at the WTO. They insisted that multilateral consensus as set out in paragraph 34 of the Nairobi Ministerial Declaration is a prerequisite for considering the new plurilateral initiatives on electronic commerce, investment facilitation, disci-

plines for micro, small and medium-sized enterprises (MSMEs), and trade and gender.

"On new issues for negotiations, guidance was provided in the Nairobi Declaration in paragraph 34 on how these are to be treated," said Guyana on behalf of the ACP Group.

"On new issues, our consistent view has been that these can only be negotiated after consensus has been reached among the membership," said Ambassador J.S. Deepak, the Indian trade envoy.

But, in what is supposed to be a member-driven organization, the WTO Director-General Roberto Azevedo has stepped up his campaign for the new issues along with the sponsors of the specific plurilateral initiatives.

The European Union, New Zealand, Uruguay, Switzerland, Colombia, Mexico and the US, among others, pitched hard for open-ended plurilateral initiatives at the WTO knowing full well there is no multilateral consensus yet on any of the initiatives.

China, Pakistan, and Nigeria among the developing countries openly spoke in favour of discussing the plurilateral initiatives on investment facilitation, electronic commerce and MSME disciplines.

The issue that dominated the TNC proceedings on 5 March, however, was the US' move to consider levying import duties of 25% on steel and 10% on aluminium, as well as its continued blocking of the selection process for filling three Appellate Body vacancies at the WTO.

"We share the concerns that some members have expressed on recent developments that could lead to new tariff barriers and even a trade war," India's Deepak said, arguing that "application of tariffs, we believe, should respect the ceiling of bound rates agreed to at the WTO."

Without naming the US for blocking the AB selection process, India asked: "What is it to invest effort in the negotiation of rules if they cannot be effectively implemented and impartially enforced?"

In this context, said the Indian envoy, India remains concerned along with "many other members" over the delay in selection and appointments to fill vacancies in the AB.

"This impasse," India said, "not only

threatens the functioning of the Appellate Body, which is a key pillar of the dispute settlement system of this organization, but also poses a serious threat to the credibility of the WTO itself."

South African trade envoy Ambassador Xavier Carim warned that "the unresolved matter of the Appellate Body and the emerging systemic questions on the WTO enforcement mechanism", if not addressed soon, "will cast a shadow – and soon overwhelm – all the other work of the organization."

Unresolved issues

Aside from these two issues arising from the threats posed by the US to the multilateral trading system in general and the WTO in particular, the developing and least developed countries demanded urgent negotiating outcomes on the unresolved Doha work programme issues, including the centrality of development in the multilateral trade outcomes.

Rwanda, on behalf of the African Group, said it stood "ready to engage constructively on all issues in accordance with their respective mandates, notably under the DDA [Doha Development Agenda]."

Guyana, on behalf of the ACP Group, said "the call to review, repair and reform the global trading framework is not new", maintaining that it was indeed the basis for the DDA. "We are, however, at another important juncture where dissatisfaction with the process of arriving at convergence and the mode of agenda setting needs careful attention while preserving the principle of consensus."

"The discussion on the development issue and priorities of the multilateral trading system which trade ministers started in Buenos Aires [at the WTO's eleventh Ministerial Conference (MC11) last December] must continue as a core aspect of the post-MC11 agenda," Guyana said.

"Moreover, our members have raised concerns that no attention has been given to finding ways to agree on the DDA agreement-specific special and differential treatment proposals," the ACP Group said, emphasizing that "these are core unfinished work under the DDA."

South Africa's Carim said members lost an opportunity to discuss the burn-

ing issues in the global trading system at Buenos Aires. Instead of discussing on "trade policy priorities and considering the scope for common efforts to address the backlash against globalization and trade, and the growing challenges of inequality, job insecurity and development," members lost an "opportunity to consider a more positive approach to foster an inclusive, developmental multilateralism."

Carim said that despite "divergences on the DDA mandate", members agree on the issues to take forward, but "disagree on how." "We also disagree on whether to even consider non-Doha issues," South Africa said.

The G33 developing-country coalition, India, South Africa, the African Group and the ACP Group all called for accelerating work on a permanent solution for public stockholding programmes for food security.

"It is important to have trade rules that enhance food security and support the fight against hunger," said India's Deepak, who argued that "this would also facilitate the achievement of a number of sustainable development goals, relating to the elimination of poverty, malnourishment and hunger to which we are all committed."

"The work on obtaining a permanent solution on public stockholding for food security for all developing countries and LDCs [least developed countries] should, therefore, remain an integral part of our agriculture work programme," India said.

India also insisted that global trade-distorting farm subsidies should be reformed on a war footing as "many developed countries are not exporting their competitiveness in agriculture but rather are exporting subsidies". It called for "negotiations on disciplining the most trade-distorting form of domestic support, namely, the AMS [Aggregate Measurement of Support] beyond *de minimis*, and flexibility to apply it without limit on specific products."

Carim of South Africa said that "work on fishery subsidies can proceed relatively quickly but we should not underestimate the challenges."

While there is "some sense that we will need a period of reflection on how best to re-engage the other Doha issues", said South Africa, "it is clear that trade-distorting domestic support, cotton, food security, industrialization and develop-

ment will continue to command the interest of most members.”

“The DDA and previous ministerial decisions already offer guidance for this work,” added South Africa.

On services, particularly on domestic regulation in services, India called for a “holistic approach” to address the numerous difficulties which services suppliers, particularly those of developing countries, face in the form of complex regulatory regimes of developed countries.

India also said that the WTO must “take up work to make mandatory, disclosure requirements for genetic resources and traditional knowledge in patent applications along with prior informed consent and benefit sharing.” “This is also one of the outstanding implementation issues from the Doha work programme,” it said.

The African Group and South Africa said the continent’s primary economic objectives are set in “Agenda 2063: The Africa We Want” as they relate to integration, industrialization and structural transformation. “We need a WTO that enables these objectives – but at a minimum, we need a WTO that does not impede them,” said Carim.

In sum, the informal TNC meeting revealed that the next two years are going to be an intense struggle between those developing and poorest countries seeking “developmental multilateralism” based on the Doha Development Agenda, and those industrialized countries and their allies wanting plurilateral outcomes on electronic commerce, investment facilitation and MSME disciplines so as to partition the multilateral trading system in the 21st century. (SUNS8636) □

DG warns of trade wars, but silent on Trump denigration of WTO

The recent contentious US moves on the trade front have met with a muted and selective response from the WTO head, notes *D. Ravi Kanth*.

GENEVA: The WTO Director-General was understandably concerned about US President Donald Trump’s proposed safeguard actions on steel and aluminium citing dubious national security considerations, but remained conspicuously silent over his remarks that the WTO is “a catastrophe” and “makes it impossible for us to do good business.”

On 26 February, Trump, in unsolicited remarks before the global broadcasting channels, had said, “We lose the cases, we don’t have the judges, we have a minority of judges.”

Subsequently, the US president ratcheted up his safeguard campaign, threatening that he is not bothered by “trade wars”, which he said “are good and easy to win.”

In a veiled attack on Trump’s invocation of the “trade war” threat, the WTO Director-General Roberto Azevedo, without referring to the US president or the proposed tariff actions on steel and aluminium, said on 5 March: “In light of recent announcements on trade policy measures, it is clear that we now see a much higher and real risk of triggering an escalation of trade barriers across the globe.”

“Once we start down this path, it will be very difficult to reverse direction,” Azevedo said. “An eye for an eye will leave us all blind and the world in deep recession.”

Surprisingly, however, when the president of the world’s largest trading nation is openly abusing the WTO by calling it a “catastrophe” and claiming that it works against the interests of the US, neither the WTO Director-General nor the secretariat had any comment or assessment that the charge was baseless and without evidence.

Asked at a press briefing after the General Council meeting on 7 March to clarify whether there is any response to Trump’s characterization of the WTO as a “catastrophe”, the WTO spokesperson Keith Rockwell responded: “No comment.”

When pointed out that the Director-General had chosen to issue a statement after Trump’s threat of a trade war but not on his damaging remarks that the WTO is a “catastrophe”, Rockwell repeatedly said “no comment, no comment.”

Such is the selective response from the WTO to remarks from the US presi-

dent and the repeated US actions to paralyze the Appellate Body (AB), the WTO’s highest adjudicating body for trade disputes. So far, it is only one country that has brought the WTO to heel on two fronts – the negotiating and dispute settlement fronts. But, for inexplicable reasons, Director-General Azevedo has refrained from pointing a finger directly at the country which remains a source of untoward developments at the WTO.

When the African Group decided to block the Trade Facilitation protocol in early 2014, Azevedo travelled several times to key African countries and exerted pressure on them through the US to give up their opposition to ratifying the protocol, pointed out an African trade envoy who asked not to be quoted.

Why is it that the Director-General now remains silent when the US blocked the reappointment of Korea’s Seung Wha Chang for a second term at the AB or when the US has repeatedly blocked the launch of a selection process for filling three vacancies at the AB, trade envoys ask.

Yet, Azevedo is ready to subtly up the ante on plurilateral initiatives for e-commerce, investment facilitation, and disciplines for micro, small and medium-sized enterprises even though they were rejected multilaterally at the WTO Ministerial Conference in Buenos Aires in December.

Meanwhile, though he continues to operate as the chair of the Doha Trade Negotiations Committee that was established in 2002, he refuses to speak about the unresolved Doha issues.

Trade wars past

When Trump signalled that “trade wars are good and easy to win”, he revived memories of the Boston Tea Party of 16 December 1773.

That was primarily a political protest against the Tea Act of 10 May 1773 enacted by the colonial ruler Britain. The Sons of Liberty in Boston, Massachusetts, which spearheaded the protest, led in destroying an entire shipment of tea sent by the British East India Company. The event, according to several historians, led to the American Revolution.

In effect, the Boston Tea Party, in which a measure imposed by the British government led to an unstoppable retaliatory action on the shores of America, could be counted as one of the earlier

trade wars. Prior to this historic event, the Dutch East India Company and the British East India Company had triggered off many trade wars but the native populations remained unsuccessful in their retaliatory actions.

Subsequently, the United States, Britain, France and the Netherlands, among others, slapped high import duties for a period of more than 150 years to build their domestic industries, until another unilateral measure – the Smoot-Hawley Tariff of 1930 by the US – led to another bout of tit-for-tat retaliatory measures.

However, several economists have argued that the Smoot-Hawley Tariff followed by the Reciprocal Tariff Act of 1934 were part of a larger macroeconomic programme of US President Franklin D Roosevelt in response to the Great Depression. Nevertheless, the passage of the Smoot-Hawley Tariff exacerbated the Great Depression, according to economic historians.

After more than 240 years, the US is now prepared to enter another trade war, this time to rebuild its domestic steel and aluminium industries that are currently claimed to be in a death spiral, even though they are working at 70% capacity and at a profit, according to US economists and those in the trade law community critical of the US plans. (See Paul Krugman's columns in *The New York Times*: "A Ranting Old Guy with Nukes", 5 March; "The Macro-economics of Trade War", 3 March; and "Trade War, What Is It Good For? Absolutely Nothing", 3 March. Also see <http://worldtradelaw.typepad.com/ielpblog/2018/03/what-a-wto-complaint-against-section-232-tariffs-might-look-like.html>; and <http://worldtradelaw.typepad.com/ielpblog/2018/03/how-should-countries-retaliate-against-the-steel-aluminum-tariffs.html>)

Trump, in an attempt to realize electoral promises on trade, has invoked Section 232 of the Trade Expansion Act of 1962, which allows the US to impose trade restrictions in the name of national security. This particular provision, the Trump administration believes, will enable it to circumvent the core provisions of the WTO's Safeguards Agreement.

Trump announced that he intends to impose a safeguard duty of 25% on steel and 10% on aluminium in an attempt to protect the domestic steel and aluminium industries that are allegedly

"ripped off" by imports from China and even friendly countries like European Union members.

"People have to understand, our country, on trade, has been ripped off by virtually every country in the world, whether it's friend or enemy – everybody – China, Russia, and take people that we think are wonderful, the European Union," Trump had told reporters on 5 March.

"No, we are not backing down," he said, asserting that he was not going to spare either Mexico or Canada, which are the major suppliers of steel and aluminium products.

On 7 March, however, the US administration indicated that the steel and aluminium duties will not be imposed on all countries, particularly Canada and Mexico. Clearly, this signalled a softening of positions.

However, it is very unclear why countries that profess to believe in "free trade" would want to retaliate in response to Trump's actions if, as free trade advocates argue, higher tariffs harm the country imposing them. Responding to a tariff increase with a similar response on selected imports would thus appear to be a self-harming strategy, said an analyst on globalization who asked not to be quoted.

"Of course, if the free trade lens is a poor way of understanding international trade relations, things might be different," the analyst said.

The US' "brutal grip"

In a previous article in *Third World Economics* (No. 634), it was argued that "the global hegemon is determined to pursue an aggressive version of the 'open door' policy that was first implemented in 1898. That policy began under the dubious slogan of saving Cuba from the clutches of Spanish rule. Several years after the Cuban war, the head of the Bureau of Foreign Commerce of the US Department of Commerce wrote: 'The Spanish-American war was but an incident of a general movement of expansion which had its roots in the changed environment of an industrial capacity far beyond our domestic powers of consumption. It was seen to be necessary for us not only to find foreign purchasers for our goods, but to provide the means of making access to foreign markets easy, economical and safe' [cited

in Howard Zinn (2013), *A People's History of the United States*, 3rd edition, Routledge, p. 306].

The 'open door' policy continued to manifest itself under different masks but beneath the surface there remained continuity, regardless of the destruction and violence it wrought in various countries. It wore, for example, a reformist mask since the setting up of the United Nations, the Bretton Woods institutions of the International Monetary Fund (IMF) and World Bank, and followed by the General Agreement on Tariffs and Trade (GATT) in January 1948.

"During the last seven decades, the United States, the most powerful nation in history, went on to refine the 'open door' policy in ways that suited its overall trade/economic interests and strategic considerations, including its immediate military and trade priorities, according to several studies by historians and economists.

"The creation of the World Trade Organization (WTO) in 1995 following the Uruguay Round of trade negotiations was an apogee of that onward march which had begun almost a century ago. Although the Uruguay Round started in 1986 when the US was under a Republican administration, it was concluded by a Democratic president at the official level in December 1993.

"Unsurprisingly, there is an underlying chain of continuity in the economic and trade policies followed by the global hegemon since the late 19th century. The US control over the so-called multilateral trade and financial institutions is pervasive in almost all aspects. Barring some minor hiccups here and there, Washington has ensured a brutal grip on decisions taken at the IMF, the World Bank and the WTO."

Therefore, regardless of the Trump administration's hyper-sensitive actions which are being severely criticized by many WTO members, the WTO Director-General is yet to directly challenge the US either by showing the mirror or by rallying members for a common stand against the US postures.

The Director-General is willing to mount an extraordinary effort to bring multilaterally discarded new issues into the WTO through an open and inclusive framework. But when it comes to the US, he takes a backseat because of his historic proclivities, according to several current and former trade envoys who asked not to be quoted. (SUNS8638) □

DG, defying mandates, deposes officials to attend pluri-meetings

The WTO secretariat appears to be lending support to ongoing talks on new issues that have not gained multilateral consensus at the world trade body.

by D. Ravi Kanth

GENEVA: Despite the failure to secure multilateral approval at the eleventh Ministerial Conference (MC11) at Buenos Aires in December for various plurilateral initiatives, the WTO Director-General Roberto Azevedo appears to have deputed his officials to attend the various meetings on plurilateral initiatives being held at the WTO, according to some trade envoys.

The Nairobi Ministerial Declaration, in paragraph 34, has mandated that WTO members can only launch negotiations that are multilaterally agreed by all members. That paragraph says that “any decision to launch negotiations multilaterally on such issues would need to be agreed by all members.”

At MC11 there was no multilateral consensus on any plurilateral negotiations [be it on e-commerce, disciplines on micro, small and medium-sized enterprises (MSMEs), investment facilitation or gender issues]. Nor are these issues stipulated as high-priority items on the WTO agenda in the July Framework agreement.

[The 2004 July Framework agreement of the WTO General Council – which relaunched the Doha Work Programme (DWP) negotiations after the collapse of the Cancun Ministerial Conference in 2003 – while enabling negotiations on trade facilitation, expressly stipulated that none of the other Singapore issues will be taken up for negotiations or figure on the WTO agenda until the DWP negotiations have been concluded. Also, besides the DWP negotiations, “high priority” was to be given by the WTO to other issues in the DWP that did not involve negotiations but were of particular importance to developing countries. – *SUNS*]

The first three of the current plurilateral initiatives (e-commerce, disciplines on MSMEs and investment facilitation) were rejected at the heads-of-delegation meeting at Buenos Aires on 12 December. However, on 13 December, groups of countries issued joint statements on the three issues on the margins

of MC11.

Plurilateral sessions

As a follow-up to the joint statements, the sponsors of the three initiatives held separate meetings at the WTO recently. At these meetings, WTO officials were deputed to be present by the Director-General.

During the meeting on e-commerce on 14 March, Azevedo deputed his Deputy Director-General, Yi Xiaozhun, to assure the participants that the WTO secretariat will provide the requisite assistance, including technical assistance to developing countries, according to participants familiar with the meeting.

At the two other plurilateral meetings, WTO officials were present but did not speak or intervene.

It is not clear whether the Director-General had cleared the holding of the meetings at the WTO and the use of secretariat resources (with attendant services like interpretation and the associated expenditure) with the Budget Committee.

The plurilateral session on e-commerce was held on 14 March in Room W at the WTO.

The joint statement on e-commerce had been signed by around 60 countries in Buenos Aires but in the meeting at the WTO, 82 countries took part, said a participant who asked not to be quoted.

To facilitate the negotiations, the secretariat is preparing a paper mapping out the main issues, including the legal aspects concerning those issues, said another participant who asked not to be quoted.

The three main sponsors of the e-commerce joint statement – Japan, Singapore and Australia – offered process-related information as to how they intend to proceed ahead of the next meeting in April.

Japan's trade envoy Ambassador Junichi Ihara said “transparency”, “inclusiveness” and “openness” will propel the proceedings during the regular sessions that will start in April. He said the

meetings will be open to any member wishing to join in hammering out rules on e-commerce.

Australia's trade envoy Frances Lisson and her Singaporean counterpart Tan Yee Woan also presented their respective assessments on how to go forward with proposals and other process-related issues.

China and Pakistan, which did not sign the joint statement on e-commerce in Buenos Aires, also took part in the brief meeting.

China's trade envoy Ambassador Xiangchen Zhang urged the participants to strive towards an outcome that can be multilateralized, said a participant who asked not to be quoted.

The US deputy ambassador Chris Wilson said that Washington remains committed to achieving a “comprehensive, high-standard, ambitious agreement”, according to a participant familiar with the proceedings. He said the US wants a “commercially viable” outcome on digital trade, suggesting broad markers such as cross-border information flow, localization requirements and privacy protection.

In a “non-paper” on e-commerce circulated in July 2016, the US had said “governments should not prevent service suppliers of other countries, or customers of those suppliers, from electronically transferring information internally or across borders, accessing publicly available information, or accessing their own information stored in other countries.”

Washington also demanded that “governments should not require ICT [information and communication technology] service suppliers to use local infrastructure, or establish a local presence, as a condition of supplying services. In addition, governments should not give priority or preferential treatment to national suppliers of ICT services in the use of local infrastructure, national spectrum, or orbital resources.”

During the plurilateral negotiations on e-commerce, the US intends to bring up around 20 issues that were the core elements of the Trans-Pacific Partnership (TPP) agreement from which the US had withdrawn, said a trade envoy who asked not to be quoted.

At the 14 March meeting in Room W, the US merely spoke about the importance of “digital trade” without any barriers.

But, according to a trade envoy from an industrialized country, there were differences of opinion among the signato-

ries of the e-commerce joint statement.

Meanwhile on 13 March, China, Brazil and Nigeria along with many other countries held an organization meeting on investment facilitation. The participants of the investment facilitation group exchanged ideas and discussed the roadmap.

A senior WTO official in charge of the services division attended the meeting but did not speak, according to a participant who asked not to be quoted.

It remains moot whether the Director-General can assign his officials to participate in these meetings and make statements, as was the case in the e-commerce meeting, knowing full well that there is no ministerial mandate to approach these issues plurilaterally, said a trade envoy from a developing country who asked not to be quoted.

The Director-General cannot promote the plurilaterals in rule-making areas without a ministerial or General Council mandate, and by deputing his officials to suggest that the secretariat is

ready to offer technical or other assistance, he appears to be violating the Nairobi ministerial mandate, the envoy said.

In the past, for example, trade ministers had failed to reach “explicit” consensus on four rule-making Singapore issues such as trade and investment, government procurement, competition policy and trade facilitation. Subsequently, trade facilitation was brought into the Doha agenda in 2004 on grounds that the remaining areas in the Doha Development Agenda would be addressed on the firm footing of special and differential flexibilities and less-than-full-reciprocity commitments. Consequently, government procurement remained the subject of a closed-door plurilateral group.

There is no legal clarity as to whether there can be anything like open-ended plurilaterals for rule-making and binding commitments for e-commerce, MSME disciplines and investment facilitation. (SUNS8644) □

Azevedo moots return to old GATT-style dispute settlement

The WTO Director-General and the US may be envisaging an overhaul of the WTO mechanism for resolving trade disputes.

by D. Ravi Kanth

NEW DELHI: WTO Director-General Roberto Azevedo has begun efforts to set the ground for an alternative dispute settlement system at the WTO akin to the GATT (General Agreement on Tariffs and Trade) 1947 framework as suggested by the US Trade Representative (USTR) Robert Lighthizer several months ago, trade envoys told the *South-North Development Monitor* (SUNS).

The trade envoys were gathering here for a mini-ministerial meeting convened by India on 19-20 March.

The dispute settlement system based on the GATT 1947 required rulings/awards by the dispute panels to be negotiated among the parties as it was a non-binding mechanism.

[Until the 1988 ministerial mid-term review meeting of the Uruguay Round held in Montreal, all decisions in the dispute settlement process – from the stage of reference to a dispute panel to the adoption of the panel’s recommendations – required positive consensus, thus enabling one or another party to a dispute, even an intending intervener, to

block the process at any stage by denying consensus.

[After the then European Community had blocked adoption of rulings in what became known as the Italian pasta dispute and the French wheat flour dispute (over the EC providing subsidies to pasta producers and flour mills using wheat grown within the EC, as against cheaper imported US wheat), the US grew frustrated. This then became one of the unlisted issues under the rubric of “Functioning of the GATT system” that was part of the mandate for the Uruguay Round negotiations on goods trade.

[At Montreal, on the suggestion of the then GATT Director-General Arthur Dunkel, there was agreement that the dispute process should be unblocked and allowed to go forward automatically from the stage of panel reference until the panel rulings/recommendations were handed down. The adoption alone was left to be subject to consensus.

[It was in 1993, as the Uruguay Round accords were being concluded at official level, that, at the instance of the

US, the current integrated dispute settlement system was adopted as a part of the Round’s “single undertaking”. The US initially welcomed this when the Appellate Body (AB) stretched the single undertaking to dispute rulings, which went against developing countries like India, Indonesia etc. It was only when AB rulings went against the US over anti-dumping issues that the grievance has arisen! – SUNS]

Effectively, the US demands now would amount to a fundamental departure from the existing system wherein rulings issued by the Appellate Body are final and need to be implemented without any change.

Towards an alternative system?

One of the main issues on the agenda of the mini-ministerial meeting in New Delhi was how to overcome “the systemic challenges” facing the “dispute settlement arm” of the WTO.

Ahead of the meeting, the WTO Director-General along with the new chair of the WTO General Council, Ambassador Junichi Ihara of Japan, held a closed-door “green room” meeting with trade envoys from 20 countries, according to several envoys who asked not to be quoted.

During the meeting, Azevedo apparently suggested that, rather than pushing the US hard to continue negotiations on how to break the current impasse for selecting three new AB members, WTO member states must consider the blockage as given and act accordingly, said a trade envoy from an industrialized country, who asked not to be quoted.

Azevedo, according to the trade envoy, suggested they have to work on an alternative dispute settlement system that is not as strict and binding as the current mechanism.

The tenor of the green room meeting, according to another trade envoy from a developing country, was that “having given up on Doha and development, now members must give up on the binding dispute settlement system when it is most needed.”

But it is premature to discuss suggestions made by Azevedo before the AB becomes completely defunct in December 2019 when two more members – Thomas R. Graham and Ujal Singh Bhatia – complete their second terms, the envoy said.

After December 2019, the AB’s membership will fall below three and the AB will not be able to issue any rulings.

Against the current backdrop of three vacancies that remain unfilled because of the US opposition, another major test comes in April when the WTO's Dispute Settlement Body (DSB) will have to consider a second term for Shree Baboo Chekitan Servansing, who will soon complete his first term.

Servansing wants to continue for the second term, as has become the normal practice at the WTO over the years, according to the envoy. But Azevedo wants to consider new alternatives one and a half years before the AB becomes fully defunct, the envoy added.

US complaints

Azevedo's ideas are "surprisingly similar" to what USTR Lighthizer had said over the last one year, the envoy maintained.

The Director-General's argument that WTO members have to think in terms of new alternatives because the US is not prepared to resolve the impasse is dangerous, said another trade envoy.

"The DG is basically ending up with something that Lighthizer wants and it really means that we go back to the old, non-binding dispute settlement system," the envoy maintained.

The USTR spoke against the binding dispute settlement system several times last year.

Speaking at the Center for Strategic and International Studies in Washington DC in September, he had said, "There are a number of areas on which there is pretty broad agreement that the WTO Dispute Settlement Understanding [DSU] is deficient.

"There are transparency issues, there are issues with the staff, there are a whole variety of issues that we have a problem with ... Beyond that, the US sees numerous examples where the dispute settlement process over the years has really diminished what we bargained for or imposed obligations that we do not believe we agreed to."

"There have been a lot of cases in ... the trade remedy laws where, in my opinion, the decisions are really indefensible," he had said, suggesting that "many of the people there [at the AB] have free trade orientations, and we have tax laws that are struck down and we have other provisions where the WTO has taken the position that they are going to strike down something that should

(continued on page

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.

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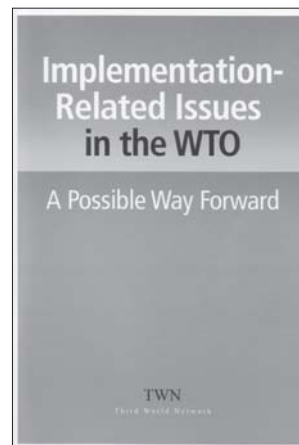
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Cash is still king in most countries

Despite increased use of electronic payments around the world, demand for cash remains robust, points out a new study.

by Chakravarthi Raghavan

GENEVA: Despite many innovations and efforts in many countries to move to “cashless” payments, the appetite for cash remains unabated and there is scant evidence of a shift away from cash.

This is the conclusion of a special feature paper published in the *BIS Quarterly Review* of March 2018. (The full text of the paper can be accessed at: https://www.bis.org/publ/qtrpdf/r_qt1803g.htm)

A footnote in the paper, which is authored by Morten Linnemann Bech, Umar Faruqui, Frederik Ougaard and Cristina Picillo, carries the usual disclaimer in such papers, namely, that the views expressed are those of the authors and do not necessarily reflect those of the Bank for International Settlements (BIS).

According to the paper, retail payment systems across the world continue to become faster and more convenient. Yet, despite increased use of electronic payments around the world, there is scant evidence of a shift away from cash.

As the appetite for cash remains unabated, few societies are close to “cashless” or even “lesscash”, note the authors. In fact, demand for cash has risen in most advanced economies since the start of the Great Financial Crisis (GFC). This resurgence appears to be driven by store-of-value motives (reflecting the lower opportunity cost of holding cash) rather than by payment needs.

Cash vs e-payments

In most advanced countries, cheques have disappeared or are dying a slow death. Credit or debit cards are now accepted by all but a few merchants. New electronic payment (e-payment) services are emerging around the world and are increasingly instant, ubiquitous and available around the clock. Many types of payment usually done with cash are going electronic. In Denmark, for example, church collection boxes and street performers now accept mobile payments. In China, fast food can be bought using “smile to pay” facial recognition technology. In the United States, college students pay for pizza and beers using

applications that broadcast the purchases to their social media friends. In general, innovations are putting the traditional bank-based payment system under pressure both within and across borders.

The proliferation of mobile phones has, in some developing countries, allowed payment systems to leapfrog those in more advanced economies. For example, in Kenya and other places, mobile payments flow without bank accounts.

Going forward, crypto-currencies as well as fintech applications – the subject of feverish innovation by both small startups and large firms – will likely further disrupt existing business models, according to the authors.

In addition, some central banks (e.g., Sveriges Riksbank) are considering the need to issue a digital version of cash.

Payments are currently seeing another period of rapid innovation and transformation. The use of e-payments is booming and technology companies as well as financial institutions are investing heavily to be the payment providers of tomorrow.

On the face of it, all this points to a shift away from cash (i.e., notes and coins). However, the data so far say otherwise. Despite continuing digitalization, “reports of the death of cash are greatly exaggerated”, say the authors.

Cash in circulation is, in fact, not dropping for most countries. The continuing demand for cash has been especially noticeable in advanced economies since the start of the GFC, and is likely driven by store-of-value motives rather than payment needs.

Based on the “Red Book” statistics on payment, clearing and settlement systems collected by the Committee on Payments and Market Infrastructures (CPMI), cash in circulation and card payments (a proxy for e-payments) have both increased since 2007. Only Russia and Sweden show evidence of substitution between cards and cash.

[Like the US Federal Reserve’s “Beige Book”, the name “Red Book” comes from the red cover when it was first published in 1985, explain the au-

thors of the paper in a footnote. It gives an overview of the transactional flows through payment, clearing and settlement systems (i.e., for retail and wholesale payments, central counterparties and securities settlement systems). Among other things, the data include the value of cash in circulation (by denomination), the number and value of card payments, and information on point-of-sale (PoS) terminals and automated teller machines (ATMs). The most recent edition of the Red Book, covering data for 2016, was published in December 2017. Starting with the 2018 version, the Red Book will be revamped, partly in order to capture more aspects of e-payments, such as online and contact-less methods, and the data in revised future versions should enable better analysis.]

Cash in circulation, a stock measure, is not equivalent to the use of cash for payments, a flow measure. However, comparable cross-country data on cash use are not available and cash in circulation is often used as a proxy.

Card payments and cash demand have generally increased since 2007. People are using cards for payments more frequently and for ever smaller transactions. This is driven, in part, by more people holding cards (in emerging market economies, EMEs) and greater availability of PoS terminals (in both emerging and advanced economies).

Nevertheless, the demand for cash remains robust around the world, except notably in some Nordic countries. Furthermore, many jurisdictions have seen an increased affinity for cash following the GFC.

In India, note the authors, towards the end of 2016 the Indian government announced the removal of all INR500 and 1,000 banknotes (i.e., demonetization) and the issuance of new INR500 and 2,000 banknotes. Cash in circulation dropped by more than 40% between 1 November and 31 December 2016. The latest data from the Reserve Bank of India (RBI), however, show that cash in circulation in February 2018 was almost back to its November 2016 level, according to the paper.

[The Indian government’s decision to make INR500 and 1,000 banknotes invalid was announced in the evening of 8 November 2016 by the Prime Minister, who mentioned three broad objectives: attacking corruption, counterfeit notes used in “terror financing” and the “black economy” (income and wealth that has evaded the taxman and is held in cash).

The official notification the next day mentioned only the last two objectives (but not the first).

[The notification (with several subsequent explanations, clarifications and changes) outlined where, how and till when the invalidated currency could be exchanged for valid currency, and the uses in the interregnum, where the invalid currency could still be legally used to make payments, such as in hospitals and for some other essential services. Much later, official pronouncements suggested that one of the aims of the demonetization was also to encourage “digitalization”, thus bringing more of the country’s informal economy into the formal. The entire exercise has become quite controversial within the country, with some echoes outside in financial media, blogs and websites.

[According to Rammanohar Reddy (in *Demonetisation and Black Money*, 2017, Orient Black Swan), the announcement invalidated INR14.18 trillion of currency or 86% of INR16.41 trillion of currency in circulation. As of the date of this writing, the RBI is yet to publish final data on how much of the demonetized notes were returned to the system and substituted, and how much got extinguished.

[In its annual report released on 30 August 2017, the RBI had said that “subject to future corrections based on verification process when completed”, the estimated value of the banned notes it “received” was INR15.28 trillion. This compared with the INR15.44 trillion of invalidated notes that were in circulation as of 8 November, according to data provided by the finance ministry to Parliament on 21 January 2017. In November 2016, the Indian Supreme Court had been officially told by the Attorney-General that around INR4-5 trillion (unaccounted or black money) would probably not find its way back into the system.

[In January 2017, the government decided to use data analytics to identify people whose deposits didn’t match their known sources of income. According to a finance ministry note to a parliamentary committee, demonetization had resulted in a 24.5% increase in the number of income tax returns filed till 5 August. According to the Prime Minister in his Independence Day speech on 15 August 2017, more than INR1.75 trillion deposited in banks after demonetization was under the scanner of tax authorities to identify people whose deposits didn’t match their known sources of income.

[According to the RBI, the volume of cash in the banking system has come down by 17%. Total currency in circulation fell from INR17.77 trillion on 8 No-

vember 2016 to INR14.75 trillion on 4 August 2017, according to the finance ministry. The invalidation also resulted in an increase in digital transactions. The number of digital transactions increased 56% between October 2016 and May 2017 to 1.1 billion. The costs of the entire exercise, according to the RBI’s annual report, resulted in a decrease in its income and increase in expenditure, effectively halving its net profit.

[Part of the confusion and controversy in India can be traced to the varying responses (with some caveats in footnotes) of the government and the RBI, at varying points of time, to Parliament, to members of the public seeking answers under Right to Information laws, and to international organizations like the IMF and BIS, and data provided in published RBI statistics. It will probably take some years before the real picture emerges and meaningful analysis becomes possible. – SUNS]

Card use

Around the world people are relying more and more on e-payments. Data on card payments (defined as e-payments made with a plastic card at a PoS terminal) are currently the most comparable and consistent cross-country data on e-payments in the Red Book.

The value of card payments for CPI member countries increased from 13% of GDP in 2000 to 25% in 2016, says the paper.

Not surprisingly, card use varies significantly across countries but there is no apparent difference between EMEs and advanced economies. The value of card payments (relative to GDP) is only around 10% in Germany, Japan and Mexico, but is over 40% in Korea, Saudi Arabia and the United Kingdom.

People hold more cards and use them more often. The average number of payment cards (e.g., credit and debit cards) per person in CPI member countries rose from 1.1 to 2.5 in the 2007-16 period. Cards issued in EMEs drove this increase, as cards per person were little changed in most advanced economies.

The frequency of card use increased from around 60 transactions per person on average in 2000 to close to 85 in 2016. In Australia, Korea, Sweden and the United States, the average person uses a card more than 300 times per year, while in India and Mexico the number is less than 25 times a year.

At the same time, the value of a typical card payment has declined. Over the last decade and a half, the average value of a card payment (in nominal terms) has

dropped from above \$60 to less than \$40. This decline has been most pronounced in Brazil, Korea and Russia. In 2016, the smallest average value of a card payment was around \$8, in Brazil and Russia.

One reason why cards are being used for an increasing number of ever smaller payments is better and more widespread infrastructure. PoS terminals used to be fixed terminals installed on counters but they have increasingly been replaced by more convenient mobile terminals. Lately, lower-cost smartphone or tablet-based PoS terminals have emerged, encouraging even smaller businesses to invest in them.

The density of PoS terminals has correspondingly risen. In CPI member countries, their density has doubled between 2007 and 2016 to 13 per thousand inhabitants. Density went up for all jurisdictions but the largest increases were in Canada and China. On average, there are 27 PoS terminals per thousand people in advanced economies and 11 in EMEs.

Cash demand

But cash still rules in many places. Cash in circulation (scaled by GDP) is frequently used as a proxy for cash demand. Since 2000, cash in circulation is up from 7% to 9% of GDP (on average) in a sample comprising CPI member countries and 22 additional countries.

According to the evidence found by the authors from data, the increasing demand for cash is driven, in part, by the lower interest rates (hence a lower opportunity cost of holding cash) that have characterized the post-crisis period. The increase is primarily due to an uptick in advanced economies following the GFC.

Overall, a majority of countries saw higher cash in circulation, with the largest increases occurring in Hong Kong SAR and Japan (by 9 and 7 percentage points of GDP, respectively). In contrast, in China cash demand declined by 5 percentage points of GDP.

Cash demand varies considerably across countries. While one might expect EMEs to have higher cash demand, no such pattern is evident from the data. According to the latest Red Book, for 2016, cash in circulation is below 2% of GDP in Sweden, but 10 times larger in Japan at 20%.

Demand even differs among countries that are otherwise similar in terms of economic and social characteristics. One such example is the Nordic region. At the start of the 2000s, Iceland’s cash-to-GDP ratio was as low as 1.2%, while Denmark, Norway and Sweden were clustered at around 3-4%. Since then,

cash demand has shown a secular decline in Sweden and Norway, while in Denmark it has remained stable at around 3.5%. However, in Iceland, cash demand has more than doubled since its banking crisis, and now exceeds that of Norway and Sweden.

As with cards, the infrastructure supporting cash has improved. Since their debut in 1967, ATMs have become the key means through which people access cash. Like PoS terminals, ATMs have also evolved; most ATMs now accept cash deposits and some also provide other banking services such as bill payments.

The number of ATM terminals per thousand inhabitants has surged over time. In CPMI countries, it has risen by 50% since 2007, from 0.4 per thousand people in 2007 to above 0.6 in 2016. Over the same period, the amount of cash withdrawn rose from 12% to 20% of GDP.

These increases were driven by rapid growth in EMEs, where the number of ATMs as well as the amounts withdrawn rose significantly. In contrast, for advanced economies ATM density is, in general, little changed since 2007. An interesting case is the Netherlands, where the density of ATMs declined, in part, because of a shift towards using the "cashback" option at the point of sale. The rapid rise in mobile payment solutions in China (e.g., AliPay and WeChat) has likely contributed to this decline in cash demand.

Lastly, the value of ATM withdrawals in advanced economies saw disparate trends. Withdrawals as a share of GDP fell for the Netherlands, Sweden and the United Kingdom, stayed unchanged for Belgium, France, Germany and Switzerland, and increased for Italy.

The relationship between ATMs and cash demand is not straightforward. ATMs can both boost and constrain cash demand. On the one hand, by facilitating easy access, ATMs increase cash demand. On the other hand, wider distribution of ATMs can reduce the amount of cash consumers hold, since they can withdraw it as needed. It is difficult to determine whether higher cash demand leads to a greater supply of ATMs or vice versa.

Uses of cash

Cash, like other forms of money, is used both as a means of payment and as a store of value. Banknotes sewn into a mattress are likely held for store-of-value

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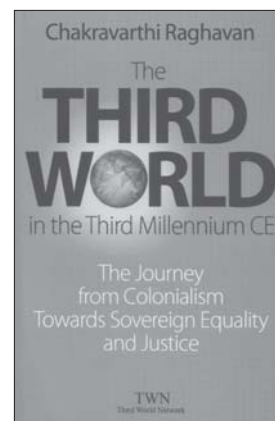
The Third World in the Third Millennium CE

The Journey from Colonialism Towards Sovereign Equality and Justice

By Chakravarthi Raghavan

The development path traversed by the countries of the Third World since emerging from the colonial era has been anything but smooth. Their efforts to attain effective economic sovereignty alongside political independence, even till the present day, face myriad obstacles thrown up on the global economic scene. This drive to improve the conditions of the developing world's population has seen the countries of the South seek to forge cooperative links among themselves and engage with the North to restructure international relations on a more equitable basis – not always with success.

In this collection of contemporaneous articles written over a span of more than three decades, *Chakravarthi Raghavan* traces the course of dialogue, cooperation and confrontation on the global development front through the years. The respected journalist and longtime observer of international affairs brings his inimitable blend of reportage, critique and analysis to bear on such issues as South-South cooperation, corporate-led globalization, the international financial system, trade and the environment-development nexus. Together, these writings present a vivid picture of the Third World's struggle, in the face of a less-than-conducive external environment, for a development rooted in equity and justice.



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The fiscal costs of PPPs in the spotlight

Held out as a preferred means of financing development projects, public-private partnerships may in fact end up being more expensive than traditional public procurement, cautions *María José Romero*.

Public-private partnerships (PPPs) are increasingly being promoted as a way to finance development projects. To pave the way for PPPs, donor governments and financial institutions, led by the World Bank Group, have set up multiple donor initiatives to promote changes in national regulatory frameworks, to provide advice and to finance PPP projects.

The value of PPPs in the developing world has grown rapidly since 2004: over an eight-year period, investments through PPPs increased by a factor of six, from \$25 billion to \$164 billion.¹ Since then, the trend has been more volatile: although investment in PPPs fell in 2013, they picked up again and continued to increase in 2014 and in 2015 (\$104 billion and \$118 billion, respectively).² 2016 saw another fall – to \$70 billion – due to declining investment in developing markets.³ But increased efforts by multilateral development banks to leverage private financing in both emerging and low-income economies indicate a more determined push towards reducing the risks for private sector investors.

Why PPPs have often proven costly

There is growing evidence that a more cautious stance towards PPPs may be warranted. The cost of PPPs may be one of their crucial weaknesses. Indeed, PPPs have certain characteristics which make them potentially more expensive than traditional public procurement. These characteristics include the cost of capital, profit expectations by the private partners, and transaction costs associated with the negotiation of complex PPP contracts.

The cost of financing for PPP projects is typically higher than for public sector works. The reason for this is simple: national governments can usually borrow money at lower interest rates than the private sector, because lending to private companies is normally riskier than lending to governments, which are less likely to default. In the case of the United Kingdom, 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%)”.⁴ In other words, the

costs of financing of PPP-operated services or infrastructure facilities were twice as high for the UK public purse than if the government had borrowed from private banks or issued bonds directly.

The costs of PPPs result not just from explicit liabilities, as stated in the contractual arrangements, but also from non-transparent contingent liabilities. These are financial obligations, the timing and magnitude of which depend on the occurrence of some uncertain future event outside the control of the government (for example, if the exchange rate of the domestic currency falls, or if the demand for the requested service or facility falls below a specified level). In many cases, governments have to guarantee above-average income streams in order to attract private investors. The list of guarantees offered to firms to make PPPs look ‘bankable’ may be substantial. They can include loan repayments, guaranteed rates of return, minimum income streams, guaranteed currency exchange rates and guaranteed compensation should new legislation affect an investment’s profitability.

Guarantees are more likely to be triggered in times of economic malaise or crisis (for instance, when the demand for a certain service goes down due to lower economic activity) rather than when the economy is doing well, but they can also be triggered as a result of poor planning. Experience shows that accurate demand projections are crucial for cost certainty. Unfortunately, in PPP projects, the incentives for rigorous analysis can be weak in both sectors, private and public. Some researchers have stressed that PPPs can involve an “optimism bias” because the strategic overestimation of demand is common practice.⁵ To take just one example which came to light in August 2017: a consortium operating the A1 Mobil, a PPP-run motorway between Hamburg and Bremen in Germany, was on the verge of insolvency and wanted to sue the state for damages amounting to €778 million.⁶ The company had been counting on revenue generated by tolls for trucks, but due to the financial crisis, traffic was below expectations.

In addition, PPPs often suffer from

a lack of transparency and limited public scrutiny, which can lead to poor decision-making resulting from less oversight, and can increase opportunities for corrupt behaviour. On the one hand, there are usually higher costs associated with poor transparency – including in accounting for PPPs – throughout the project cycle. The lack of transparency frequently leads to less informed fiscal policy decisions and encourages governments to go ahead with projects even when they can create fiscal problems in the future. Conversely, an increased level of transparency brings its own benefits as it increases democratic accountability of the PPP process and enables citizens and parliaments to understand who will pay what to whom, when, and from which budget.

Taken together, these factors tend to result in a heavy fiscal burden that undermines, in the medium and long term, the state’s capacity to support other services. It is therefore more important than ever to understand the conditions required to ensure that efficiency gains materialize, as these gains cannot be taken for granted. Interestingly, in most cases, evidence shows that efficiency gains depend on the sector, the type and size of projects, the private sector increasing capital investment as agreed in the contract, and the country context in terms of regulatory environment and governance.⁷

Finally, many governments record the costs of PPPs in financial statements and budgets in a way that creates a false incentive for using PPPs. Current accounting practices allow governments to keep the costs and liabilities of PPPs off the balance sheet, thus circumventing budgetary constraints. However, shifting public debt to government-guaranteed debt does not reduce governmental debt liabilities. Rather, it obscures accountability and hinders scrutiny by parliamentarians and the public.

Civil society concerns and demands

On the basis of a growing body of evidence collected over the years by civil society organizations (CSOs)⁸ and other stakeholders,⁹ in 2017, the European Network on Debt and Development (Eurodad) joined more than 150 organizations in launching a PPP Manifesto that highlights how promoting PPPs can pose risks to public finances, as well as undermining democratic accountability, and human and environmental rights.¹⁰

Eurodad strongly believes that PPPs would be less favoured than public procurement if: (a) they were transparently

accounted for and budgeted; and (b) the cost-benefit analysis and information relating to public contracting had to be publicly disclosed.

In order to avoid the fiscal burdens that PPPs can entail, policymakers as well as international organizations must take a more nuanced approach to PPPs. The World Bank has been playing a leading role in incentivizing PPPs by providing advice and financing to change national laws and to structure PPP projects. Civil society groups have repeatedly raised concerns about the active role of such a powerful institution. The launch of the “cascade” approach in April 2017¹¹ – which characterized the “private finance first” approach to development finance – raised red flags in relation to the screening tools needed to compare thoroughly the full costs and implications of the public and private financing options to implement development projects. CSOs are calling on the World Bank to stop favouring PPPs over other alternatives, ensure that governments undertake a careful cost-benefit analysis, and on this basis select the financing mechanism best suited for each project. International organizations advising governments must also be more straightforward about the full fiscal implications over the long term and the risk comparison of each option.

If, having carefully considered all the options, governments choose to go down the PPP route, they have a responsibility to be more transparent and accountable towards their constituencies. The contract value and long-term fiscal implications of each project must be included in national accounts, rather than being off the balance sheet. Full details of guarantees and contingent liabilities associated with PPPs, the conditions that will trigger them, and all PPP-related documents should be publicly disclosed. This will allow citizens to have a clear understanding of the fiscal risks involved and will increase democratic accountability. □

María José Romero is Policy and Advocacy Manager (Publicly-Backed Private Finance) at the European Network on Debt and Development (Eurodad). The above article first appeared on the Investment Policy Blog of the Investment Policy Hub website (<http://investmentpolicyhub.unctad.org/Blog>).

The United Nations Conference on Trade and Development (UNCTAD)’s project on Harnessing Public-Private Partnerships (PPPs) for Sustainable Development, hosted in the Division on Investment and Enterprise (DIAE), aims at supporting countries that seek to maximize the potential benefits of PPPs while limiting their potential pit-

falls. The project comprises a new Investment Policy Hub website, which will offer policymakers and other stakeholders a user-friendly, up-to-date online repository of policies, best practices and related resources that can be used to design and implement policies to maximize the contribution of PPPs to sustainable development. The website also hosts an online blog forum with frequent and varied contributions from policymakers, experts, academics and representatives of civil society organizations on how to best harness PPPs for sustainable development. The opinions expressed in this online blog forum are those of the contributors alone and do not necessarily reflect the opinion of the United Nations.

Notes

1. Eurodad’s calculations on the basis of the World Bank’s Private Participation in Infrastructure (PPI) database. Also available in: Mathieu Vervynckt and María José Romero (2017), “Public-Private Partnerships: Defusing the ticking time bomb”, Eurodad, <http://www.eurodad.org/files/pdf/1546817-public-private-partnerships-defusing-the-ticking-time-bomb.pdf>
2. Ibid.
3. World Bank Group (2017), “2016 Private Participation in Infrastructure (PPI) Annual Update”, <https://ppi.worldbank.org/~media/GIAWB/PPI/Documents/Global-Notes/2016-PPI-Update>
4. HM Treasury (2015), “The choice of finance for capital investment”, Briefing by the National Audit Office, <http://www.nao.org.uk/wp-content/uploads/2015/03/The-choice-of-finance-for-capital-investment.pdf>
5. Antonio Estache and Stéphane Saussier (2014), “Public private partnerships and efficiency: a short assessment”, European Centre for Advanced Research in Economics and Statistics (ECARES), <https://www.cesifo-group.de/DocDL/dicereport314-forum2.pdf>
6. *The Guardian* (2017), “Autobahn row hits German election: ‘we’re selling it off like a second-hand car’”, 20 September, <https://www.theguardian.com/world/2017/sep/20/row-over-autobahn-renewal-selling-it-off-like-a-second-hand-car-german-election>
7. María José Romero (2015), “What lies beneath? A critical assessment of PPPs and their impact on sustainable development”, Eurodad, <http://eurodad.org/files/pdf/559e6c832c087.pdf>
8. See, for example: Maria José Romero (2015), “What lies beneath? A critical assessment of PPPs and their impact on sustainable development”, Eurodad, <http://www.eurodad.org/whatliesbeneath>; Mathieu Vervynckt and María José Romero (2017), “Public-Private

Partnerships: Defusing the ticking time bomb”, Eurodad, <http://www.eurodad.org/files/pdf/1546817-public-private-partnerships-defusing-the-ticking-time-bomb.pdf>; CEE Bankwatch (2008), “Never mind the balance sheet”, https://bankwatch.org/wp-content/uploads/2011/06/never_mind_the_balance_sheet.pdf; Oxfam (2014), “A dangerous diversion”, <https://www.oxfam.org/site/www.oxfam.org/files/bn-dangerous-diversion-lesotho-health-ppp-070414-en.pdf>; Jubilee Debt Campaign (2017), “Double standards: How the UK promotes rip-off health PPPs abroad”, <http://jubileedebt.org.uk/wp-content/uploads/2017/08/Double-standards-final.pdf>

9. Many academics are conducting research on PPPs; see, for example, the EQUIPPPS network: <https://www.equippps.net/>

10. <http://eurodad.org/PPPs-Manifesto>

11. World Bank Group (2017), “Forward look – A vision for the World Bank Group in 2030. Progress and challenges”, <http://site.resources.worldbank.org/DEVCOMMINT/Documentation/23745169/DC2017-0002.pdf>. See Eurodad’s comments on the “cascade” approach here: <http://www.eurodad.org/imf-worldbank-spring-meetings>

(continued from page 10)

not happen instead of looking at the GATT agreement as a contract.”

Lighthizer said that “the DSU has evolved in a way that it creates new obligations and it has reduced a lot of our benefits. So coming to grips with that, both in the procedural realm but also just practically, is really what we have to worry about in the DSU. And it’s a fundamental part of the WTO.”

“We are objecting to the [dispute settlement] process because we don’t agree with the way in many cases the Appellate Body has approached this,” he said.

Lighthizer then pointed to the system “before 1995, before the WTO, under the GATT”, where there would be negotiations after a ruling was issued.

In short, Azevedo is now on a mission to achieve his two goals during the next one and a half years before the WTO’s twelfth Ministerial Conference. The two goals, according to the envoy, are plurilateralization of the WTO, and replacing a binding dispute settlement system with a non-binding one. (SUNS8645) □

(continued from page 13)

purposes but it is harder to tell whether a banknote in a wallet is held for one or the other motive.

A common way to try and disentangle the two types of cash demand is to assume that larger-denomination notes are mostly held as a store of value and smaller ones for payments.

The most valuable notes currently issued by CPMI members are Switzerland's CHF1,000 and Singapore's SGD1,000 notes. The most valuable note still in circulation (but no longer issued) is the SGD10,000, which at end-February 2018 was worth a cool \$7,600. The issuance of the CAD1,000 bill was stopped in 2000 and the European Central Bank plans to stop the issuance of the EUR500 banknote at the end of 2018.

In contrast, countries whose largest-denomination notes have the smallest value are China and South Africa.

The relative share of total cash in circulation accounted for by large notes varies greatly across the CPMI countries. For Mexico and Sweden, the large-denomination notes comprise less than 10% of the outstanding stock of cash in circu-

lation, while in Hong Kong SAR, Japan and Saudi Arabia, these notes constitute more than 75% of the total.

The evolution of large- and small-denomination notes suggests that cash is being increasingly used as a store of value rather than for payments.

Over the last decade, the demand for large-denomination notes has outpaced that for smaller denominations. In fact, a handful of countries (e.g., Korea and Russia) saw the demand for smaller-denomination notes decline and that for larger-denomination ones increase. Sweden is again an outlier: demand for all notes has decreased since 2007.

Other things being equal, the authors of the paper expect store-of-value demand to fall when the forgone interest of holding cash increases. In contrast, transactionary demand is expected to be less sensitive to movements in the policy rate.

The authors point to several uncertainties, including general (due to data problems) and country-specific ones where variations may be due to cultural factors (such as preference for cash as against use of financial intermediaries, and propensity to pay or to avoid / evade

tax etc), confidence in financial intermediaries, and other elements.

Higher levels of uncertainty (due to country-specific financial and economic uncertainty) may increase the demand for cash due to a number of precautionary motives, including diminished trust in financial intermediaries and less clarity about future payment needs.

Uncertainty would be positively related to cash demand, especially for the smaller banknotes.

Also, everything else being equal, cash demand is expected to be higher when the average age of the population increases. Survey evidence shows that younger people are more likely to use electronic means of payments, whereas older generations tend to be more attached to cash for payments.

Both the total and transactionary demand for cash are also inversely related to GDP per capita.

According to the paper, cash demand increases as the opportunity cost decreases. The impact of opportunity cost is statistically significant for total demand and for large notes but not for small ones. (SUNS8645) □

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