

THIRD WORLD *Economics*

TRENDS & ANALYSIS

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Trade tensions continue to simmer

Just as a full-blown trade war between the US and China was averted following a deal struck between the two countries, Washington has opened a potential new trade flashpoint by taking the first steps towards possible unilateral tariffs on automotive imports. This move marks the latest in a series of controversial US trade actions that have sparked great concern among trading partners, with China recently cautioning that such “unilateral and protectionist” measures could “fatally undermine the functioning of the WTO”.

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US intensifies trade war on several nations

After steel and aluminium, automobiles and automotive parts could be the next to be levied additional import tariffs by the US on national security grounds – a move that would aggravate already roiling tensions with Washington's trading partners.

by D. Ravi Kanth

GENEVA: US President Donald Trump opened another front for his continued unilateral trade actions on 23 May by ordering investigations on whether imports of autos, trucks and auto parts are undermining US national security.

Despite mounting concern over earlier additional duties of 25% and 10% on steel and aluminium imports respectively under the controversial Section 232 provisions of the US' Trade Expansion Act of 1962, the Trump administration decided to investigate under the same provisions whether "core industries such as automobiles and automotive parts [which] are critical to our strength as a Nation" are being undermined by imports.

According to a report in *Washington Trade Daily* on 24 May, "the investigation will determine whether imports of automobiles, including SUVs, vans and light trucks, and automotive parts into the United States threaten to impair national security as defined in Section 232."

If the investigation into autos and auto parts, to be conducted by the US Department of Commerce, results in a positive finding, then Trump could slap additional duties of 25% on autos and automotive parts.

"There is evidence suggesting that, for decades, imports from abroad have eroded our domestic auto industry," US Commerce Secretary Wilbur Ross said in a statement issued on 23 May.

"The Department of Commerce will conduct a thorough, fair and transparent investigation into whether such imports are weakening our internal economy and may impair national security," Ross said.

The Commerce Department maintained that imports of vehicles increased by 32% over the past 20 years while employment declined by 22%.

"The investigations will consider whether the decline of domestic automobile and automotive parts production threatens to weaken the international economy of the United States, including

by potentially reducing research, development and jobs for skilled workers in connected vehicle systems, autonomous vehicles, fuel cells, electric motors and storage, advanced manufacturing processes and other cutting-edge technologies," *Washington Trade Daily* said.

(The *Washington Post*, citing trade analysts, reported that the Trump administration's move was designed to put pressure on Mexico during the final stages of negotiations for a new North American trade deal. Initial reaction to the idea of an import tax on cars based on national security needs, the report added, was unfriendly, with one veteran trade lawyer saying it would prompt "pant-wetting laughter – followed by retaliation" among US trading partners. A unilateral move by the US to raise tariffs would also almost certainly be challenged at the WTO and lead to further retaliation by US trading partners. "It's flabbergasting. What makes the imports of cars a threat to the national security of the United States? It's flagrant protectionism," said one European official. – *SUNS*)

Before announcing the investigations on late 23 May evening, Trump tweeted that "there will be big news coming soon for our great American Autoworkers."

"After many decades of losing your jobs to other countries, you have waited long enough," Trump said.

Clearly, Section 232 seems to have been weaponized for ensuring support from American workers in key states ahead of the midterm elections to the US Congress.

"If they [the US] were to go ahead with such wide-ranging trade restrictions, it would throw the global market into confusion," said Hiroshige Seko, Japan's minister of economy, trade and industry. "There could be a negative effect on the WTO multilateral trading system. It's extremely regrettable."

"To treat auto imports like a national security threat would be a self-inflicted economic disaster for American consum-

ers, dealers and dealership employees," said Cody Lusk, president and chief executive of the American International Automobile Dealers Association.

The US imported more than 8 million cars and light trucks estimated at around \$191.7 billion. Significantly, more than half of the imports of 4.27 million came from Mexico and Canada, the US' two partners in the North American Free Trade Agreement (NAFTA) which are waging a grim negotiating battle with the US for rewriting NAFTA all over again.

On the face of it, Trump's latest Section 232 action on autos and automotive parts seems to be a subtle warning to Mexico and Canada that if they don't fall in line in the ongoing NAFTA negotiations, they will pay another price on their exports on the autos front.

"Using Section 232 against steel and aluminium was already a stretch, a violation of the WTO and against the spirit and letter of the law. Using it against autos would be preposterous," said Luis de la Calle, a former Mexican negotiator.

"The national security exemption is a privilege to use in case of war. This [latest action] has little to do with national security and a lot to do with national politics."

It remains to be seen whether the US would target China on autos and automotive parts after Beijing signalled on 22 May that it would reduce its tariffs on passenger cars from 25% to 15%.

Dispute action

Ahead of the investigations into autos and automotive parts, India launched dispute settlement proceedings in the WTO against Washington's controversial additional duties imposed on imports of steel and aluminium under the Section 232 national security provisions, saying that they violated global trade rules.

In a communication circulated to WTO members on 23 May, India sought consultations with the US. This request for consultations is the first step in the dispute settlement process at the WTO. If the consultations fail to settle a dispute within 60 days, the complaining party may request the establishment of a dispute settlement panel.

Separately, India, as well as Japan, Russia, Turkey and the EU, have each recently notified the WTO's Council for Trade in Goods of their plans to suspend concessions and other obligations on imports of goods from the US in response to the imposition of the steel and alu-

minium tariffs.

[All the notifications to the Council make similar points with varying nuances. These include: the US measures on imports of steel and aluminium all have characteristics of safeguard measures and hence Article XIX of GATT 1994 and the Agreement on Safeguards are applicable to them, even though the US has not notified them as such. Some of the notifications also point to the extent to which they have been applied selectively, namely against imports from some countries while exempting others, thus flagging violation of Article I of GATT 1994 (MFN principle). Each of the notifications has also listed a range of articles imported from the US on which counter-duties will be levied so long as the safeguard measures are in force. Some of the countries notifying have also separately raised disputes with the US over the

measures. – SUNS]

It is clear that the multi-pronged assault launched by the US through its unilateral crowbar trade measures, in tandem with its destructive actions at the WTO, can only be addressed if the developing countries as well as developed countries pursue a common strategy.

But global trade based on divisive mercantilist philosophy, which gives primacy to one's own dollars-and-cents gains, will pose a big obstacle for cooperative action.

Little wonder that Trump is able to steamroller countries by launching unilateral crowbar trade actions that almost resemble what an infamous Chancellor of a European country did in the run-up to and during the Second World War. (SUNS8687) □

Additional reporting by Kanaga Raja

US settles for low-ambition agreement with China

A full-scale trade conflict between the US and China has been averted with an agreement that is nevertheless seen to fall short of initial US demands.

by D. Ravi Kanth

GENEVA: After months of sustained threats and warnings of dire consequences, the US on 18 May settled for a low-ambition agreement with China.

The US has agreed to freeze the additional duties on steel and aluminum and other measures on \$150 billion of imports from China proposed on account of China's alleged violation of intellectual property rights, in return for increased exports of soybean, pork and other products to China.

China, which consistently maintained that it is not interested in a trade war, has secured a US commitment to "lift the ban on the sales of US components to Chinese telecoms group ZTE."

Beijing also ensured that Chinese companies and their investments abroad in high-tech companies would not be subjected to severe restrictions.

The two sides will negotiate a "framework" for finalizing the targets that each side has to fulfil in goods and services.

Issues related to imbalances in their bilateral trade, one of the most contentious issues given the sustained trade surplus that China enjoyed over the years

up till now, will also be addressed in the framework agreement.

China currently enjoys a surplus of more than \$337 billion in trade in goods with the US, while maintaining a deficit in services trade with Washington.

Give-and-take

Clearly, an arrangement involving all these issues cannot be a one-way street. It is bound to involve give-and-take on both sides. Therefore, it is doubtful whether Washington secured relief for its maximalist demands. If anything, the US threats to launch a trade war fell flat.

Several media reports in the US and elsewhere point towards the loss of face suffered by Washington in the weekend deal with China.

"The abrupt move towards detente has angered some hardliners, including several within the administration, who have assailed moderates [US Treasury Secretary Steven Mnuchin and others] for seeking a quick deal at the expense of pressing Beijing on longstanding grievances, including an escalating rivalry

over strategic technology, a sector where ZTE plays an important part," according to a news report in the *Financial Times* on 21 May.

"Last year, the Chinese telecoms group [ZTE] agreed to pay \$1.2 billion to settle US charges related to its business operations in Iran and North Korea, a case brought by the Obama administration. It was later accused of violating the terms of the deal by the Trump administration, which imposed sanctions which crippled the company," according to the *FT* report.

[A *New York Times* report on 22 May said the chances of a US win in its trade spat with China were undercut by infighting in the Trump team. The report specifically mentioned Mnuchin being contradicted and undercut by the US Trade Representative (USTR) Robert Lighthizer. Trump's chief economic advisor, Larry Kudlow, first told US media that China had agreed to reduce its trade surplus by \$200 billion, but 48 hours later said it was just a ballpark figure (and there was no agreement on figures). The report also cited Chinese officials as saying they were not sure that any agreement they may reach with Mnuchin would even be implemented. – *SUNS*]

China signalled its intention to increase imports of US farm products (soybeans, pork and other agricultural items) and energy and also reduce its \$337 billion trade surplus with Washington.

But, in return, the US will need to lift the sanctions on ZTE and remove other restrictions on Chinese companies.

If the initial responses to the deal from the "America First" trade hawks are any indication, Washington seems to have blinked first.

Trump was forced to defend the deal in the face of intense criticism from lawmakers on both sides of the aisle. He said the deal would bring down Chinese barriers to US goods "for the first time and be a boon to US farmers".

"Under our potential deal with China, they will purchase from our Great American Farmers practically as much as our Farmers can produce," Trump boasted in a tweet on 21 May.

The Senate minority leader Chuck Schumer tweeted that Trump and his team "have to be strong & not sell out for a temporary purchase of goods without fixing the real issue: stealing our [intellectual property], which costs us millions of jobs long-term."

Clearly, divisions within the US negotiating team – led by Mnuchin on the one side, and Lighthizer, who is a pro-

nounced China hawk and a champion of managed trade, on the other – came into the open.

The USTR said "getting China to open its market to more US exports is significant, but the far more important issues revolve around forced technology transfers, cyber theft and the protection of our innovation."

In short, China seems to have an upper hand in the trade war launched by the Trump administration against Beijing.

China is ready to provide some carrots to please Trump and allow him to claim a pyrrhic victory ahead of the mid-term Congressional elections in the US. But Beijing is not going to budge from its core trade interests at any cost, a China analyst had told *Mint* business newspaper ahead of the meeting.

The climbdown by the Trump administration to keep the new tariffs and

trade war with China on hold could face a backlash from the US Congress, which seems determined "to keep vital technology out of Beijing's grasp," according to another *FT* news report.

Apparently, "a key Senate committee on Tuesday is beginning the process of negotiating the final details of a bill that its authors said would give the Committee on Foreign Investment in the US more powers and increase scrutiny of Chinese investments, particularly in tech companies," the report said.

Is there a lesson for other developing and poorest countries from the US trade war against China?

Although many developing and the poorest countries are not as powerful as China, it is clear that they can still force a push-back on the US over its unilateral trade measures if they remain united on trade issues. (*SUNS*8685) □

China assails US over its "unilateralism and protectionism"

An 8 May WTO meeting that was "extraordinary in its intensity" had seen China decry US "unilateral and protectionist" actions which it described as "three hard blows" to the multilateral WTO system.

by D. Ravi Kanth

GENEVA: China tore into the "unilateralism and protectionism" unleashed by the United States in the multilateral trading system, cautioning members at the WTO's General Council meeting on 8 May that they face a grave moment since the establishment of the WTO in 1995, trade envoys told the *South-North Development Monitor* (*SUNS*).

In an extraordinary development rarely witnessed at a meeting of the General Council, the highest WTO forum between ministerial summits, China pointedly attacked the US for causing enormous damage to the multilateral trading system in general, and the WTO in particular, in three areas.

China said it had listed three items – selection of new Appellate Body (AB) members; US Section 232 investigations and measures on steel and aluminium products; and US Section 301 of the Trade Act of 1974 – on the General Council agenda to sensitize members to "the most urgent and burning question that the WTO has to answer now: how to respond to [the US] unilateralism and protectionism."

China's trade envoy Ambassador

Zhang Xiangchen said that before the end of the Uruguay Round negotiations, GATT contracting parties had severely suffered from unilateral and protectionist measures. To overcome the measures, he said, they negotiated and agreed on the Dispute Settlement Understanding (DSU) and other WTO agreements.

Consequently, "the prohibition on unilateral and protectionist measures became the bedrock and central elements of the multilateral trading system," the Chinese envoy maintained.

But a most dangerous and devastating situation has now arisen after the US has systematically challenged the "fundamental guiding principles by blocking the selection process of the Appellate Body members, applying restrictive trade measures under Section 232 and threatening to impose tariff measures of \$50 billion on goods imports from China under Section 301 of US domestic law," Zhang maintained.

"Any one of these three measures, if left untreated, will fatally undermine the functioning of the WTO," he cautioned.

The reality, he said, is that the WTO is currently confronted with "three hard

blows".

The Chinese envoy urged WTO members "to join efforts and defend our system, rules and order, defend the equal rights of all Members, and defend the dignity of the international law."

Thereby, "we can collectively strengthen and improve the multilateral trading system, and prevent the unilateral or protectionist actions from damaging this system and undermining international trade," Zhang said.

If members fail to safeguard the system, especially the Dispute Settlement Body and the Appellate Body, then "the crown jewel of the WTO" will rapidly lose its "brilliance."

Given hundreds of trade disputes that have been resolved since 1995 in which the AB had played a vital role in "ensuring the stability and predictability of the WTO system and its rules," it is a grim situation now that "only four of the seven Appellate Body members are in office."

"If the selection process is not launched, the functioning of the Appellate Body will be paralyzed, which will put the entire dispute settlement system in crisis," the Chinese trade envoy warned.

In the absence of the AB, rules will not be enforced and trust and credibility will be deeply undermined. "Ultimately, we will not be able to effectively control the unilateralism and protectionism," Zhang emphasized.

All issues can be easily addressed under the WTO framework, he said, arguing that US concerns over the AB cannot be linked with the selection process.

"The Member-driven mechanism does not mean that it is driven by only one single Member [the US]," the Chinese envoy maintained.

In short, "by taking the selection process as a hostage, the US is abusing the decision-making mechanism of consensus," Zhang emphasized.

He urged members, particularly the US, to start the commencing of the selection process so that the AB can resume its proper functioning at the earliest.

A large number of member countries – the European Union, Mexico, Cambodia, Zimbabwe, Russia, Honduras (on behalf of the informal group of developing countries without Israel), Uganda, Japan, Bolivia, Tanzania, Qatar, Benin, Guinea, Turkey, Norway, Hong Kong-China, Brazil, Venezuela, Canada, Pakistan, Maldives, Switzerland, Australia, Myanmar, Thailand, Liberia,

Kazakhstan, India, Guatemala, Korea and Egypt – spoke at the General Council meeting, sharing China's concerns in their respective nuanced interpretations.

"Ruptured trust"

In response, the US trade envoy Ambassador Dennis Shea said that the WTO rulebook has substantial value, including for the US. "Adherence to those rules has generally contributed to global economic stability," he admitted.

"But something has gone terribly wrong in this system when those charged [in the Appellate Body] with adjudicating rules are so consistently disregarding those very rules," the American envoy said, without offering some examples.

"What we are dealing with, fundamentally, is a steadily worsening rupture of trust on the part of the Appellate Body ... That ruptured trust has, in turn, placed in jeopardy the political sustainability of our entire dispute settlement system."

In a series of unsubstantiated charges against the AB, Shea said the US had warned about this for years, arguing that "the AB has not only rewritten our agreements to impose new substantive rules we Members never negotiated or agreed, but has also been ignoring or rewriting the rules governing the dispute settlement system, expanding its own capacity to write and impose new rules."

The US envoy said the AB failed to issue rulings within the stipulated 90 days. Similarly, the AB has decided that it can deem a person who "ceases to be a member of the Appellate Body" to continue to be a member, despite there being no basis whatsoever in the DSU for such actions, he said.

"We do not see how perpetuating the existing dysfunctions through a complacent approach to the filling of Appellate Body vacancies can advance that objective," the American envoy said.

Significantly, not one member took the floor to support the US complaints about the AB; if anything, China's assessment was shared by members who took the floor, said a trade envoy who asked not to be quoted.

(Trade observers also noted that in the early years of the WTO, as the AB handed down rulings that were favourable to the US view and against positions of developing countries, the US was an enthusiastic supporter of the AB and the DSU. – *SUNS*)

Section 232 measures

Commenting on the separate agenda item on the Section 232 measures, China cited several reports, including a report prepared by the US Department of Commerce, which showed that Washington's measures are not aimed at protecting "national security" of the US but rather at protecting the commercial interests of its domestic industries.

China said that the US measures on steel and aluminum would be tantamount to safeguard measures under the WTO's Agreement on Safeguards.

The Chinese envoy asked: if "imports subject to the restriction of the Section 232 measures on steel accounts for only 5% of the steel consumption of the US, will they threaten the 'national security' of the US?"

China said members must urge "the US to honour its obligations under the WTO Agreement and immediately withdraw its Section 232 measures, so that the normal order of international trade can be restored."

In an immediate response to China's comments on Section 232, the US trade envoy said it is ironic that China is raising the issue on steel and aluminium after having created the overcapacity. The US said it is puzzled by China's claim that it is the victim of the American measure, saying it is not a safeguard measure.

However, several countries – South Africa, Russia, Brazil, Uganda and Venezuela – expressed concern over unilateral measures on steel.

Japan said that the US actions on steel are regrettable, adding that unilateralism and tit-for-tat threats are not conducive to maintaining healthy trade relations.

The EU said the US measures on steel and aluminium are not driven by national security. Brussels argued that there will be systemic risks because of the use of security provisions under Article XXI of GATT. The EU also said issues concerning overcapacity stemming from subsidies are a cause for concern.

Turkey said that the US duties are safeguard measures under the guise of national security, while Switzerland expressed concern over the knock-on effect on its small steel producers.

China reminded the proponents of the overcapacity argument that when it kept its steel mills running in 2008 and sustained the world market, Beijing was praised by members. It maintained that it lost thousands of jobs in the steel in-

dustry following closures in the recent past.

Incompatible

China also challenged the US on the latter's Section 301 actions, saying it "is prima facie incompatible with the multilateral trading system."

China said it can withstand the Section 301 actions but "we are wondering, who is the next target?"

"History teaches us that if the unilateralism is unrestrained, it would bring destruction to the world economy and rip all members," China argued.

In a sharp response to the Chinese envoy's comments, US Ambassador Shea said China's state-owned enterprises are provided huge subsidies to acquire technologies. He said that the Chinese subsidies are also contributing to stealing of technologies from foreign companies.

"The truth is," said Shea, "it is China that is the unilateralist, consistently acting in ways that undermine the global system of open and fair trade."

The US envoy gave four types of technology transfer that include foreign ownership restrictions, China's regime of technology regulations which force US companies to license technologies to Chinese entities on non-market-based terms, and systematic investments for acquisition of foreign technologies and unauthorized intrusions.

The EU said that while it doesn't support unilateral measures, it remains concerned about forced transfer of technology.

Japan said it shares the US concerns about the lack of intellectual property protection, including licensing procedures. Tokyo urged the US and China to cooperate instead of resorting to tit-for-tat trade measures.

In concluding remarks, the Chinese envoy told his US counterpart that "as trade negotiators, let's bargain with each other, instead of biting each other."

By bringing the unilateral trade measures and violations perpetrated by the US to the General Council, and by pointedly telling the US that Beijing will not be cowed down by the incessant American threats, China has given a massive shot in the arm to other WTO members, including the erstwhile heavyweights such as the EU, Japan and Canada (which whisper their own concerns about the US), and an opportunity for all other members to join hands to face the grave

threat posed to the WTO, trade envoys said.

Summarizing the discussions on the above three agenda items at a press briefing on 8 May, WTO spokesman Keith Rockwell characterized the General Council meeting as being "extraordinary in its intensity", and said that many members which do not normally take the floor had views on these issues.

"Despite the intensity of this discussion," he said, "I think this was a discussion that we had to have. We had to have this discussion here and it was a very

good thing that it took place in the General Council. It showed that this is a place where these concerns can be raised and it showed as well the importance of having all of these members stating their views on this."

"It was quite unusual to see these two very prominent members [the US and China] really laying it all on the line in terms of what they think," said Rockwell, in reference to the discussions on the US Section 301 measures. (SUNS8679) □

Additional reporting by Kanaga Raja

WTO secretariat slated over work on pluris, ignoring DDA

At a separate meeting held a day before the General Council session, the role of the WTO secretariat in supporting informal plurilateral initiatives by certain member states came under scrutiny.

by D. Ravi Kanth

GENEVA: India, South Africa and several other developing and least-developed countries on 7 May raised a red flag at the WTO over the secretariat's controversial role in deliberately advancing work on plurilateral initiatives while ignoring multilateral work on unresolved mandated issues of the Doha work programme, trade envoys told the *South-North Development Monitor* (SUNS).

Without naming the United States, a large majority of developing and developed countries also slammed a "major industrialized country" for paralyzing the WTO through its unilateral trade actions and repeated attempts to block the selection process for filling the vacancies at the Appellate Body.

The developing countries voiced their criticism of the secretariat and of the US at an informal Trade Negotiations Committee (TNC) meeting at the WTO.

India, South Africa and other developing countries also categorically rejected attempts to alter the architecture for the special and differential flexibilities for developing countries by introducing "differentiation" as demanded by the US and a few other industrialized countries.

Indonesia, on behalf of the G33 farm coalition, India, China and several other developing countries called for accelerating work on the permanent solution for public stockholding programmes for food security, special safeguard mechanism (SSM) and other unresolved issues

in the Doha agricultural dossier.

The African Group, said Ambassador Xavier Carim of South Africa, will "underscore that special and differential treatment must be integral to any outcome on agriculture, and we would seek to ensure that LDCs [least-developed countries] and NFIDCs [net food-importing developing countries] are exempted from further commitments."

Secretariat role

At the informal TNC meeting, India and South Africa squarely brought up the role of the WTO secretariat in promoting the informal plurilateral initiatives while ignoring the mandated multilateral work as set out in the Doha work programme which is the basis for the continuation of the TNC.

India's trade envoy Ambassador J.S. Deepak said "the primary role of the WTO Secretariat is to support and strengthen the multilateral track" as per the Marrakesh Agreement Establishing the WTO, according to trade envoys familiar with India's stand. "Therefore," he argued, "the limited resources of the Secretariat should remain focused on mandated issues and existing areas of work in the WTO."

"We urge the Secretariat to accord priority to the work of the regular bodies and negotiating groups over the Joint Statement Groups [that were informally

launched on electronic commerce, domestic regulation for services, investment facilitation, disciplines for micro, small and medium enterprises (MSMEs), and economic empowerment of women] that were only informal groupings."

Despite repeated requests by India to update Mode 4 (short-term movement of services providers under the movement of natural persons), the WTO secretariat apparently refused to provide information on the ground that one or two members had blocked India's request.

Against this backdrop, India said it "reiterates its request to the Secretariat to update the Mode 4 submission before the CTS [Council for Trade in Services]."

Speaking on the secretariat's role, South Africa's Carim made two points:

"First, we all know this work [on joint ministerial statements for plurilateral initiatives] is not part of our multilateral process," said Carim. "They are informal processes and at this stage, it is not clear where they will end up."

"Second, questions have indeed been raised about the role of the Secretariat in these processes," he said. "To be fully transparent and to ensure impartiality on what is a divisive issue, we would welcome a focused discussion on the extent of the Secretariat's support in these processes under the Joint Statements."

Several other countries such as Uganda, Zimbabwe, Cuba and Bolivia also raised sharp concerns over the role played by the secretariat in promoting the plurilateral initiatives.

WTO Director-General Roberto Azevedo said the secretariat is ready to provide all assistance to the informal plurilateral initiatives.

Norway and several other countries praised the role of the secretariat in its work, including the assistance provided for plurilateral initiatives.

On joint ministerial statements issued on the margins of the WTO's eleventh Ministerial Conference (MC11) last December, India said there is "a new trend in Geneva in the form of joint initiatives in some areas."

"Though proponents say these plurilateral discussions are a stepping stone to multilateral agreements, we do not see the logic of having such discussions outside the WTO for e-commerce and domestic regulation in services where a multilateral mandate exists," said Indian envoy Deepak.

"India has also," said Deepak, ex-

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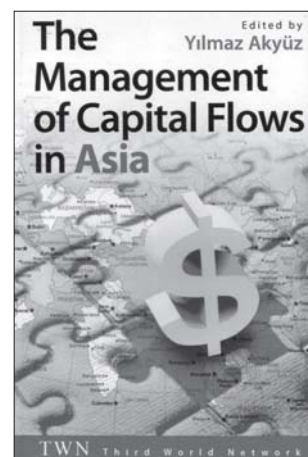
The Management of Capital Flows in Asia

Edited by Yilmaz Akyüz

THE 1997 Asian financial crisis brought home to the region's economies the importance of managing capital flows in order to avert financial shocks. This book looks into whether and how this lesson was taken on board by policy makers in Asia, and, accordingly, how capital account regimes in the region evolved in the post-crisis period.

The early years of the new millennium saw a strong surge of capital flows into Asian emerging markets amid conditions of ample global liquidity. In response to the influx of funds, these countries generally chose to keep their capital accounts open to inflows, dealing with the attendant impacts by liberalizing resident outflows and accumulating foreign exchange reserves. While this approach enabled them to avoid unsustainable currency appreciations and external deficits, it did not prevent the emergence of asset, credit and investment bubbles and domestic market vulnerability to external financial shocks – as the events following the 2007 subprime crisis would prove.

This book – a compilation of papers written in 2008 for the first phase of a Third World Network research project on financial policies in Asia – examines the above developments in relation to the region in general and to four major Asian developing economies: China, India, Malaysia and Thailand.



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AB chair calls for “constructive dialogue” on DSU concerns

Highlighting the “unprecedented challenges” facing the Appellate Body of the WTO, its chair has urged WTO member states to engage in constructive dialogue aimed at safeguarding the credibility of the body and the broader dispute settlement system.

by Chakravarthi Raghavan

GENEVA: The chair of the WTO's Appellate Body (AB) has called on WTO members to assume shared responsibility in order to maintain and preserve the trust and credibility that the WTO dispute settlement system in general, and the AB in particular, have built up over more than 20 years.

In the latest annual update on WTO dispute settlement, delivered at the Graduate Institute in Geneva on 3 May, Ujal Singh Bhatia admitted that 2017 “will be remembered as an extraordinarily strenuous year for the Appellate Body and the WTO dispute settlement system as a whole.”

The complexity of current cases as well as the inability to fill three outstanding vacancies has led to “unprecedented challenges” for the Appellate Body, Bhatia said. These challenges stem from two inter-related factors.

On the one hand, the high number and complexity of appeals currently before the AB is stretching its ability to staff cases and complete the work in a timely fashion; on the other hand, the composition of the AB is currently down to only four members due to the WTO Dispute Settlement Body (DSB)'s inability to fill three outstanding vacancies.

The Appellate Body was engaged in appellate proceedings throughout the year. It circulated five reports touching, among other things, on members' terms of accession to the WTO, the SPS Agreement, the Anti-Dumping Agreement, the SCM Agreement, the Import Licensing Agreement, the GATT 1994, and the Dispute Settlement Understanding (DSU).

The exceptionally large appeals in the Article 21.5 Airbus and Boeing proceedings, filed in 2016 and July 2017, respectively, occupied a significant portion of Appellate Body staff resources throughout the year.

The secretariat also assisted an arbitrator in issuing her award concerning the reasonable period of time for implementation of panel and Appellate Body reports in an anti-dumping and subsidy

case.

Six new appeals were filed in 2017, followed by another two in the first months of 2018. Such a heavy workload, coupled with chronic resource constraints, caused some of these appeals to be staffed and hearings to be scheduled with delays of several months.

“We expect more disputes, including the complex Plain Packaging case, to be appealed soon. Overall, the Secretariat divisions that assist panels have estimated that over ten panel reports could be issued to the parties during the course of this year. By all indicators, the Appellate Body will remain busy in the foreseeable future.”

Stalemate

While these figures and prospects confirm the commitment of WTO members to a robust and effective appellate system, they also stand in stark contrast to the political crisis the WTO is currently facing.

The second terms of office of AB members Ricardo Ramirez-Hernandez and Peter Van den Bossche expired in June and December 2017, respectively. Furthermore, Hyun Chong Kim resigned from the AB effective on 1 August 2017. As a result, three AB seats were left vacant and should have been filled “as [vacancies] arise”, as required by Article 17.2 of the DSU.

Unfortunately, despite the numerous DSB meetings held since February 2017 until now, WTO members remain unable to reach a consensus to initiate the appointment process for three new Appellate Body members, despite a joint proposal for the purpose by more than 60 WTO members.

While the reasons for this impasse are well-known, more interesting – and alarming – are the consequences of the ongoing stalemate.

First, the fact that the AB is now operating at half-capacity, i.e., with only four active members, is seriously under-

mining the collegiality of its deliberations, reflected in Rule 4 of the Working Procedures for Appellate Review. Second, the lack of a proper geographical representation threatens to dilute the legitimacy of the AB. Finally, the decrease in serving members is likely to cause further delays in appellate proceedings.

Unless WTO members take swift and robust action to remedy this situation, there may soon come a time when divisions of three AB members can no longer be formed, thereby effectively paralyzing appellate proceedings. Such a paralysis would not concern only the AB, but would have profound implications on panel proceedings as well. Indeed, the AB and panels are part of one dispute settlement mechanism, and one cannot properly function without the other.

Imagine, for instance, a scenario where a panel report is appealed but no appellate division can be formed to hear that appeal. Under current DSU rules, the adoption of the panel report has to be suspended pending the appeal, but the AB itself would not be in a position to complete its proceedings.

Such a scenario would entail the de facto demise of the “negative consensus” rule that has characterized the WTO dispute settlement system since 1995. While the rule would remain on the DSU books, any losing party could prevent the adoption of the panel report by appealing it to a paralyzed AB.

The consequences of such a scenario working out are obvious. Circumventing the disciplines of the DSU would not automatically time-warp us back to the GATT era: the more likely result is the spread of the paralysis to the panel process.

Bhatia disagreed with suggestions that weakening the WTO's dispute settlement arm would help revitalize its negotiating function.

“The prospect of agreeing on new multilateral trade rules,” Bhatia said, “would lose much of its traction if the negotiating Members were not confident as to the principled and effective enforcement of those rules. Hence, the paralysis of the Appellate Body would cast a long and deep shadow on the continued operation of the multilateral trading system as a whole.”

“What is to be done? The answer lies firmly in the hands of WTO Members. For over 20 years, trading nations have shown an unfaltering commitment to

independent and impartial dispute settlement. Aside from the sheer number of disputes that have been submitted to panels and the Appellate Body, it is worth mentioning the almost total absence of instances where Members have, upon losing a ruling, explicitly chosen not to implement it."

(To date, the US has not implemented rulings requiring it to change its domestic law on anti-dumping so as to eliminate the leeway on "zeroing", though it has never said, even while differing from the rulings, it will not implement them, merely repeating the mantra that the action is pending before Congress.)

Bhatia added: "While losing parties and sometimes other Members have criticized individual rulings, these critiques have rarely challenged the overall authority or legitimacy of the WTO dispute settlement mechanism. It is, therefore, incumbent on Members to evaluate whether that commitment continues to exist today, in a world that is witnessing the resurgence of sovereign-tist tendencies in trade relations."

"Engagement and dialogue are also of the essence. As Chair of the Appellate Body, I have been holding consultations with a number of delegations that make frequent use of WTO dispute settlement. The vast majority of my interlocutors, while expressing deep concern about the current situation, reaffirmed their desire to preserve the system in its current configuration."

"The principles enshrined in the DSU continue to be acceptable to all Members. The present debate is about whether the Dispute Settlement System has been faithful to them. That is a debate certainly worth having."

"As far as the Appellate Body is concerned, I am well aware that there remains room for improvement in our proceedings. A number of decisions, for instance, have been criticized for being excessively technical and therefore indecipherable for lay readers. Other rulings were accused of being too broad in scope and addressing issues that were not strictly necessary to provide a positive solution of the dispute at hand."

"Whatever one thinks of those critiques, they provide useful food for thought and offer guidance as to how to further enhance the functioning of the Appellate Body. In recent years, a number of initiatives have helped simplify

and streamline the content of reports.

"In particular, the section devoted to conclusions now summarizes the key points of the reasoning for the benefit of readers who do not wish to go through the entire text. Moreover, except in some mammoth disputes such as the Large Civil Aircraft cases, the length of reports has been significantly reduced. None of the decisions issued in 2017, for example, exceeds 70 pages in length."

"It is our shared responsibility to

maintain and preserve the trust and credibility that the WTO dispute settlement system in general, and the Appellate Body in particular, have built up over more than twenty years."

"Only by embracing this responsibility and engaging in constructive dialogue will the WTO Membership succeed in nurturing and sustaining a system that is uniquely effective, but which cannot be taken for granted." (SUNS8679) □

(continued from page 7)

plained its "reservations on the introduction of new issues such as Investment Facilitation and MSMEs in the WTO till issues under the Doha Work Programme are addressed."

On behalf of the African Group of countries, South Africa said "previous Ministerial mandates and Members' submissions prior to MC11, including submissions by the Group, should continue to guide the negotiations."

The African Group also reiterated its "support for the development objectives embedded in the [Doha Development Agenda], particularly in respect of placing the needs of developing countries at the heart of the work programme."

Special and differential treatment

Commenting on the "development file", South Africa, on behalf of the African Group, raised three points. First, the African Group said that it remains committed to advancing the G90 proposals on special and differential treatment in accordance with the mandate establishing the Committee on Trade and Development in Special Session.

Second, it is imperative to address the proposals of the G90 countries on special and differential treatment on a war footing.

And third, the African Group will not support proposals for limiting the scope of the special and differential treatment flexibilities or altering the architecture of development as set out in the Marrakesh Agreement. The Group needs developmental flexibilities to pursue economic development, particularly in the industrial sector.

India said that "special and differential treatment provisions for all developing countries and least-developed countries are an integral part of the WTO agreement and this principle would need to be protected in all future agreements

as well."

Ambassador Deepak said India will not accept any approach based on selection for availing of special and differential flexibilities.

China said that "the fundamental question for development is capacity divide", emphasizing that "special and differential treatment provisions are written in black and white in the WTO rulebook."

Beijing maintained that they are not so-called "perks or advantages", rather they are the limited tools to fill the capacity gap and necessary means for developing countries to exercise the right to develop their economy.

Several other developing countries said they will not accept any changes in the special and differential treatment architecture.

On the other hand, the US launched a broadside against the existing architecture for special and differential flexibilities for developing countries.

"We have unfortunately allowed some clumsy and blunt structures – notably, self-designation of development status, and an apparent inability to distinguish among different kinds of developing countries – to get in the way of our collective progress," said Ambassador Dennis Shea, the new deputy US Trade Representative and Ambassador to the WTO.

He said that a meaningful discussion on this issue is currently underway. Shea emphasized that members must "look for ways to break out of old patterns, as we [the US] see little likelihood of any future multilateral outcomes if the issue of development status is not fully addressed."

In sum, the informal TNC meeting brought into the open the dubious role of the WTO secretariat in advancing plurilateral initiatives while turning its back on the mandated multilateral issues of the Doha work programme, trade envoys said. (SUNS8678) □

Challenges and opportunities in commodity markets

A recent meeting convened by the United Nations Conference on Trade and Development (UNCTAD) explored the links between commodity dependence and development.

by Kanaga Raja

GENEVA: The volatility on international commodity markets over the past decade highlights the importance of diversification and strengthening domestic value addition through structural transformation for commodity-dependent developing countries, the UN Conference on Trade and Development (UNCTAD) has said.

This is one of the main conclusions in an UNCTAD Secretariat Note prepared for the tenth session of the multi-year expert meeting on commodities and development, which took place here on 25-26 April.

Among its other findings, UNCTAD said that commodity markets displayed diverse patterns in 2017. While prices of minerals, ores and metals increased, in particular during the second half of the year, prices of food commodities and agricultural raw materials decreased significantly. Overall, commodity prices remained significantly below their peak values of 2011.

In opening remarks at the expert meeting on 25 April, Isabelle Durant, the Deputy Secretary-General of UNCTAD, pointed out that 67% of developing countries – 91 out of 135 countries – depend on commodities or on a handful of raw materials. That is a very significant percentage and unfortunately it has not changed much for the better over the last two decades, she said. For the least developed countries (LDCs), this percentage is even higher – 80% of LDCs are (commodity) dependent.

Durant noted that commodity dependency makes countries very vulnerable to price fluctuations and price collapses. “How can we deal with the challenge of the Sustainable Development Goals (SDGs) when the fluctuations in the prices of raw materials have an impact on food security and on poverty indicators in developing countries?” she asked.

The deputy head of UNCTAD highlighted the importance of policies to deal with the negative effects of commodity dependency, otherwise these countries

are simply not going to be able to enjoy their potential for development.

She underlined that diversification is crucial when it comes to countries that are dependent on commodities. In this regard, she highlighted the need for investment in education, and the need to bolster institutions and infrastructure.

Also needed are an appropriate fiscal policy that is sustainable and soundly managed and assessed, as well as monetary policy which is also stable and promotes growth, said Durant.

Developments in key commodity markets

According to the UNCTAD Secretariat Note, which is titled “Recent developments, challenges and opportunities in commodity markets”, overall, commodity prices remained significantly lower than at the peak of the last commodity boom in the 2000s.

While commodity prices increased across the board in 2016, the picture in 2017 was much more complex, it said.

On the one hand, the prices of minerals, ores and metals significantly increased in 2017, driven by strong demand and concerns over supply for some base metals. On the other hand, the upward trend in prices of food and agricultural raw materials that began in 2016 reversed in 2017.

On energy markets, the most notable development in 2017 was the rise of the price of oil to a two-year high, triggered by supply cuts agreed to by major Organization of the Petroleum Exporting Countries (OPEC) and non-member producers, first in December 2016 and extended subsequently in May 2017 and again in November 2017.

UNCTAD noted that commodity price fluctuations have been moderate in the past five years. The last time the UNCTAD non-oil nominal commodity price index recorded a monthly swing of more than 5% was in October 2011. However, individual commodities have experienced substantial price fluctuations.

The UNCTAD food price index reached its lowest value in seven years, at 191.1 points, in January 2016. Over the following six months, the index trended upward mainly due to El Nino-related adverse weather conditions that caused output shortfalls and uncertainties.

Since mid-2016, food prices have been fluctuating around a downward trend. All sub-indices of the UNCTAD food price index saw marked losses between January and November 2017, with tropical beverages experiencing the sharpest drop, at -8.8%.

Grain prices have been generally trending downward since 2012, mainly due to strong production and increasing stocks.

The 2016/17 season marked a record production of wheat and maize, leading to the largest ever recorded global supply of grains. As a consequence, the price of maize (yellow No. 3) reached its lowest level in more than a decade, at \$156 per ton in November 2017.

The price of wheat (hard red winter No. 2) stood at \$191 per ton in April 2017, down 4.5% year-on-year, but thereafter climbed to \$233 per ton in July 2017 due to concerns over drought affecting yields in Canada and the United States. In November 2017, the price of wheat stood at \$221 per ton, 8.9% higher than in January 2017.

Going forward, grain markets are expected to remain fairly stable, subject to favourable weather conditions. The International Grains Council projects wheat and maize production for the 2017/18 season at 749 million tons and 1,040 million tons, respectively, slightly below the levels in the 2016/17 season.

“Strong demand forecast is projected to lead to a moderate reduction of maize stocks, which could generate a mild price increase, while wheat stocks are expected to increase slightly, despite growing consumption.”

Rice markets saw a brief price rally in the second quarter of 2017, when the price of Thai rice increased by 18.7%, from \$375 per ton in April to \$445 in June, fuelled by heightened import demand and the finalization of the government's programme to liquidate rice stocks. Thereafter, the price of Thai rice receded and stood at \$390 per ton in November 2017, 4.8% higher than in January 2017. The market outlook for rice remains calm, with production forecasts only slightly below the record crop of the 2016/17 season.

Sugar markets are forecast to feature

a global supply surplus in the 2017/18 season, following two seasons of deficit. Going forward, forecasts of a record global supply suggest that price increases are not to be expected for the upcoming season despite growing demand.

The UNCTAD vegetable oilseeds and oils price index showed a downward trend between August 2011 and September 2015, losing 42.7% of its value during the period. In 2016, this trend somewhat reversed, owing to shortfalls in production of oilseeds such as soybeans in South America and palm oil in South-East Asia, due to adverse weather conditions caused by El Nino.

Forecasts for 2017/18 show increasing demand but also rising total oilseed production, and prices are thus expected to remain fairly stable.

According to UNCTAD, the price of cocoa beans started to trend downward in July 2016 amid predictions of increasing production in West Africa and a forecast supply surplus for the 2016/17 season.

Fuelled by expectations of significant production increases in Cote d'Ivoire and Ghana, and a record supply surplus, the price of cocoa beans averaged 89 cents per pound, its lowest level in almost a decade. The price of cocoa beans remained subdued throughout the second and third quarters of 2017, and thereafter moderately increased to 96 cents per pound in November 2017, based on concerns over excess rain in Cote d'Ivoire that had spread crop diseases.

Overall, the cocoa market is expected to remain in surplus, and cocoa bean prices are therefore unlikely to increase significantly in the near future.

UNCTAD also said that the price of tea is expected to remain volatile in 2018, as weather-related risks in the main growing regions make supply forecasts difficult.

Prices of agricultural raw materials followed a steep downward trend between the peak of the commodity boom period in 2011 and 2015. For instance, the price of rubber (ribbed smoked sheet No. 3) plummeted from 626 cents per kilogram in February 2011 to 165 cents per kilogram in January 2015, a decrease of 73.6%.

In March 2016, major producers, including Indonesia, Malaysia and Thailand, set in force an export quota scheme, which induced a trend reversal and brought the rubber price up to 223 cents

per kilogram in April 2017.

However, rubber prices dropped again thereafter and stood at 160 cents per kilogram in November 2017. In December 2017, the governments of Indonesia, Malaysia and Thailand decided to withhold exports of 350,000 tons of rubber through 31 March 2018, which can be expected to stabilize prices in the near term.

The price of cotton (cotton outlook index A) declined by 70.7%, from 230 cents per pound at the peak of the last commodity price boom in March 2011 to 67 cents per pound in January 2015. Thereafter, prices remained essentially flat through March 2016 when an upward trend set in. The cotton outlook index A reached 89 cents per pound in May 2017, which constituted a 26.1% increase on a year-on-year basis, before receding to 80 cents per pound in November 2017.

The International Cotton Advisory Committee predicts global production to increase by 11% to 25.4 million tons in 2017/18, slightly higher than the projected global demand of 25.2 million tons; hence, also taking significant global stocks into consideration, a decrease in the cotton price in 2018 seems likely.

Minerals, ores and metals

UNCTAD said that mineral, ore and metal prices trended downward for almost five years following their peak in early 2011. Between February 2011 and January 2016, the UNCTAD minerals, ores and metals price index fell from 418 points to 178 points, corresponding to a loss of 57.3%. The downward trend was broken in 2016 with the price index reaching 239 points in December 2016. This price rally was mainly driven by supply cuts and uncertainties, in particular in the markets for nickel, copper and zinc.

On a year-on-year basis, the UNCTAD minerals, ores and metals price index gained 37.8% in January 2017. This upward trend was briefly interrupted at the end of the first quarter, but resumed at the beginning of the third quarter. The UNCTAD minerals, ores and metals price index stood at 271 points in November 2017, up 10.1% from 246 points in January 2017.

According to UNCTAD, the price of iron ore is strongly driven by consumption in China, as the country imports more than two-thirds of total seaborne iron ore. In particular, steel production

in China is an important indicator of the demand for iron ore.

As growth in steel production in China slowed in 2014 and turned negative in 2015, the price of imported iron ore at the port of Tianjin lost 70.3% of its value, from \$136 per dry ton in December 2013 to \$40 per dry ton in December 2015. Thereafter, the price of iron ore picked up and almost doubled between January and December 2016, based on recuperating demand from China and reduction of output from high-cost mines.

Weakening demand for steel in China and oversupply concerns caused a drop in the price of iron ore, to \$57 per dry ton in May 2017. The iron ore price was volatile during the second half of 2017 and stood at \$64 per dry ton in November 2017, 21.1% lower than in January 2017.

"Going forward, favourable supply conditions and projections of low growth for steel demand in 2018 make substantial price increases unlikely in the near future."

The price of aluminium fluctuated around an upward trend in 2016 and 2017, based on strong demand growth and closures of aluminium smelters in China. Between January 2016 and November 2017, the London Metal Exchange aluminium price increased by 42.0%, from \$1,479 per ton to \$2,101 per ton in November 2017. Looking ahead, a potential deficit in global aluminium markets in 2018 could induce further price increases.

Precious metal prices increased significantly in the first half of 2016, driven by geopolitical and macroeconomic uncertainty and low interest rates in major economies, said UNCTAD.

Gold and silver prices decreased in the last quarter of 2016 amid the US Federal Reserve Board raising the policy rate and a strengthening of the US dollar. In 2017, the price of gold was volatile and stood at \$1,282 per troy ounce in November 2017, 7.5% higher than in January 2017.

The price of silver was more volatile than the price of gold in 2017, averaging 1,698 cents per troy ounce in November 2017, only slightly higher than at the beginning of the year.

Going forward, said UNCTAD, further increases in US policy rates remain a key downside risk to the price of precious metals, while upside risks include geopolitical conditions and potentially a

weaker US dollar.

Renewable energy

According to UNCTAD, the International Energy Agency projects global renewable electricity capacity to expand by over 920 gigawatts between 2017 and 2022, an increase of 43%.

Substantial capacity growth in onshore wind and solar photovoltaics contributed to a record growth in renewable electricity capacity of almost 165 gigawatts in 2016. For more than a decade, solar photovoltaics showed the highest growth rate in terms of renewable energy consumption followed by wind.

China continues to account for the largest share of global expansion in renewable energy sources, with large additions both in onshore wind and photovoltaic capacity. The capacity for renewables is growing in many countries and regions, including India, the United States and the European Union.

The growing deployment of renewable energy technologies has led to significant reductions in costs, which has enhanced the competitiveness of renewables in comparison with fossil fuels.

For instance, said UNCTAD, onshore wind has become one of the cheapest sources of electricity, with a levelized cost of electricity of \$0.07 per kilowatt hour for plants commissioned in 2016, lower than that from coal-fired power plants in member states of the Organization for Economic Cooperation and Development (OECD).

"Further potential cost reductions in renewables over the medium term are substantial, with the levelized cost of electricity of solar photovoltaics, concentrated solar power and offshore wind potentially dropping by 59%, 43% and 35%, respectively, by 2025."

Key policy issues

The UNCTAD paper drew attention to several key issues concerning the recent developments in the commodity markets, including promoting inclusive development in commodity-dependent developing countries, ensuring efficient risk management in domestic commodity sector policies, and promoting and benefiting from a transition towards sustainable energy.

It said that there are several direct and indirect linkages between developments in the international commodity markets and the Sustainable Development Goals. For instance, commodity

price shocks can impact both food security and poverty indicators in developing countries.

"In this context, it should be noted that the extent to which developments in international commodity markets affect economic and social conditions in developing countries depends on existing policy frameworks."

Policies such as social safety nets can mitigate the negative impact of commodity price shocks on the low-income segments of a population, while redistributive policies are needed to ensure windfall revenue is more widely shared.

The experience of some countries during the commodity boom of the 2000s could be seen as illustrative, said UNCTAD.

In this regard, between 2004 and 2010, Zambia, a major exporter of copper, experienced annual average gross domestic product per capita growth of above 5%, driven by the sharp increase in global copper prices. During the same period, however, official data indicate that the poverty head count ratio and the prevalence of undernourishment increased, from 56.7% and 48.5% to 64.1% and 51.7% of the population, respectively.

UNCTAD said that this example demonstrates that there is no automatic process linking commodity price booms with improvements in the living conditions of the poor in commodity-dependent developing countries. Rather, policies should be adopted to ensure that upward commodity price movements contribute to meeting the Sustainable Development Goals.

UNCTAD also said that when designing national commodity sector policies, the links between international commodity markets and local conditions need to be considered.

In this context, managing risks due to unanticipated commodity price movements is of key importance. Recent developments in the cocoa sector in Cote d'Ivoire provide important lessons in this regard.

As part of reforms in the cocoa sector, a mechanism of forward selling anticipated crop and guaranteed minimum producer prices was introduced. At the beginning of the 2016/17 marketing season, when the international price of cocoa stood at 123 cents per pound, the government set producer prices at around 85 cents per pound.

However, the price of cocoa thereafter plummeted to 90 cents per pound in July 2017. Many traders who had agreed to buy cocoa in advance defaulted on

their contracts as the margin between producer prices and international market prices was not sufficient to make a profit. Consequently, the livelihoods of many smallholder farmers who depended on cocoa as their main source of income were threatened.

"Equitable risk sharing along the value chain and efficient overall risk management are crucial to avoid excessive hardship in case of unfavourable international commodity price developments," said UNCTAD.

Risk management tools could include insurance mechanisms or stabilization funds. In general, commodity sector policies should aim at ensuring that commodity price movements do not harm the most vulnerable segments of the population.

Low fossil fuel prices represent an obstacle to the expansion of renewables. Particularly in electricity generation, there is direct competition between natural gas and coal, on the one hand, and renewable energy sources such as wind and solar photovoltaics, on the other.

A supportive policy environment is therefore crucial to maintain momentum for a transition towards a sustainable global energy architecture. This includes scaling back harmful and costly subsidies for fossil fuels, which the International Monetary Fund estimated at \$5.3 trillion in 2015.

Also, policies supporting the deployment of renewables, such as setting targets for the share of renewables in the national energy mix and ensuring access to finance for investments in renewables, remain important, the UNCTAD paper concluded.

Diversification and value addition

In an accompanying thematic document for the expert meeting titled "Diversification and value addition", UNCTAD outlined the challenges faced by commodity-dependent countries that are vulnerable to volatile commodity export prices.

Based on the classification of 191 countries into different commodity export dependence groups, and the level of concentration of each country's exports, UNCTAD said it found a statistically significant relationship between concentration, the level of development (as proxied by country group) and the type of commodity each country exports.

This indicates that the type of commodity dependence matters for development, it said.

According to the Secretariat Note,

there is ample empirical evidence linking the degree of economic and export concentration and diversification with development.

Production tends to become more diversified as income increases until, at a relatively high level of income, concentration starts to increase owing to specialization. Also, economies tend to become more diversified as they move out of early development stages than when they are already developed.

With respect to the relationship between export concentration and economic development, diversification increases as income per capita grows, but after a certain level, diversification decreases again. In addition to income per capita, major determinants of export concentration include a country's size (larger countries are more diversified), distance from major markets (remote countries are less diversified) and market access.

While most empirical studies on the relationship between concentration and development have proxied economic development by the level of income, a negative relationship between concentration in the export of commodities (that is to say, commodity dependence) and the human development index has also been found, it said.

In addition, the strength of the relationship changes with the level of commodity dependence and the type of commodity on which a country depends, and the negative effect is strongest in countries where commodities account for more than 60% of total merchandise exports.

Although diversification and value addition are relevant for all commodity-dependent countries, they bear particular importance for countries specializing in the production and export of the most volatile commodities, for example, petroleum, gold, rice, cocoa, coffee and cotton.

Policies designed to address commodity dependence and export concentration must take into account country specificities, including the type of commodity a country is dependent on and the major constraints on diversification, said UNCTAD.

These policies may be grouped into two broad categories: (a) horizontal policies that aim at generating the overall economy-wide conditions that are needed for diversification and value addition to occur; (b) targeted policies that are specifically directed at industries, sectors or products in order to promote these objectives. (SUNS8671) ☐

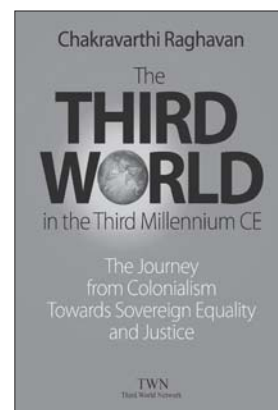
The Third World in the Third Millennium CE

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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Agricultural trade liberalization undermined food security

Jomo Kwame Sundaram and Anis Chowdhury make the case for allowing developing countries to actively support their domestic agriculture in the interests of food security.

Agriculture is critical for achieving the Sustainable Development Goals (SDGs).

As the Food and Agriculture Organization (FAO) notes, "From ending poverty and hunger to responding to climate change and sustaining our natural resources, food and agriculture lies at the heart of the 2030 Agenda."

For many, the answer to poverty and hunger is to accelerate economic growth, presuming that a rising tide will lift all boats, no matter how fragile or leaky. Most believe that market liberalization, property rights and perhaps some minimal government infrastructure provision are all that is needed.

The government's role should be restricted to strengthening the rule of law and ensuring open trade and investment policies. In such a business-friendly environment, the private sector will thrive. Accordingly, proactive government interventions or agricultural development policy would be a mistake, preventing markets from functioning properly, it is claimed.

The possibility of market failure is denied by this view. Social disruption, due to the dispossession of smallholders, or livelihoods being undermined in other ways, simply cannot happen.

Flawed recipes

This approach was imposed on Africa and Latin America in the 1980s and 1990s through structural adjustment programmes of the Bretton Woods institutions (BWIs), contributing to their "lost decades".

In Africa, the World Bank's influential Berg Report claimed that Africa's supposed comparative advantage lay in agriculture and its potential would be best realized by leaving things to the market. If only the state would stop "squeezing" agriculture through marketing boards and other price distortions, agricultural producers would achieve export-led growth spontaneously.

Almost four decades later, Africa has been transformed from a net food ex-

porter into a net food importer, while realizing only a small fraction of its vast agricultural potential.

Examining the causes of this dismal outcome, an FAO report concluded that "arguments in support of further liberalization have tended to be based on analytical studies which either fail to recognize, or are unable to incorporate insights from the agricultural development literature".

In fact, agricultural producers in many developing countries face widespread market failures, reducing their surpluses needed to invest in higher-value activities.

The FAO report also noted that "diversification into higher value added activities in cases of successful agriculture-led growth ... require significant government intervention at early stages of development to alleviate the pervasive nature of market failures".

In the wake of Haiti's devastating earthquake in 2010, former US President Bill Clinton apologized for destroying its rice production by forcing the island republic to import subsidized American rice, exacerbating greater poverty and food insecurity in Haiti.

For nearly two centuries after independence in 1804, Haiti was self-sufficient in rice until the early 1980s. When President Jean-Claude Duvalier turned to the BWIs in the 1970s, US companies quickly pushed for agricultural trade liberalization, upending earlier food security concerns. US companies' influence increased after the 1986 coup d'état brought General Henri Namphy to power.

When the elected "populist" government of Jean-Bertrand Aristide met with farmers' associations and unions to find ways to save Haitian rice production, the International Monetary Fund (IMF) opposed such policy interventions.

Thus, by the 1990s, the tariff on imported rice was cut by half. Food aid from the late 1980s to the early 1990s further drove food prices down, wreaking havoc on Haitian rice production, as more

costly, unsubsidized domestic rice could not compete against cheaper US rice imports.

From being self-sufficient in rice, sugar, poultry and pork, impoverished Haiti became the world's fourth largest importer of US rice and the largest Caribbean importer of US-produced food. Thus, by 2010, it was importing 80% of rice consumed in Haiti, and 51% of its total food needs, compared with 19% in the 1970s.

Double standards

While developing countries have been urged to dismantle food security and agricultural support policies, the developed world increased subsidies for its own agriculture, including food production.

For example, the European Union's Common Agricultural Policy (CAP) supported its own farmers and food production for over half a century.

This has been crucial for ensuring food security and safety in Europe after the Second World War. For Phil Hogan, the EU's Agriculture and Rural Development Commissioner, "The CAP is at the root of a vibrant agri-food sector, which provides for 44 million jobs in the EU. We should use this potential more."

Despite less support in some developed-country members of the Organization for Economic Cooperation and Development (OECD), farmers still receive prices about 10% above international market levels on average.

An OECD policy brief observed, "The benefits from agriculture for developing countries could be increased substantially if many OECD member countries reformed their agricultural policies. Currently, agriculture is the area on which OECD countries are creating most trade distortions, by subsidizing production and exports and by imposing tariffs and non-tariff barriers on trade."

If rich countries can have agricultural policies, developing countries should also be allowed to adopt appropriate policies to support agriculture, to address not only hunger and malnutrition but also other challenges including poverty, water and energy use, climate change, as well as unsustainable production and consumption. After all, tackling hunger is not only about boosting food production, but also about enhancing capabilities (including real incomes) so

that people can always access sufficient food.

As most developing countries have modest budgetary resources, they usually cannot afford the massive agricultural subsidies common to OECD economies. Not surprisingly then, many developing countries “protect” their own agricultural development and food security.

Hence, a “one size fits all” approach to agricultural development, requiring the same rules to apply to all with no regard for different circumstances, would

be grossly unfair. Worse, it would also worsen the food insecurity, poverty and underdevelopment experienced by most African and other developing countries. (IPS) □

Jomo Kwame Sundaram, a former economics professor, was Assistant Director-General for Economic and Social Development at the Food and Agriculture Organization of the United Nations (FAO), and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007. Anis Chowdhury, Adjunct Professor at Western Sydney University (Australia), held senior United Nations positions in New York and Bangkok.

Drug companies getting away with murder? Round up foreign targets – Trump

President Donald Trump has blamed high drug prices in the US on ... foreign countries. **Brook K. Baker** takes issue with this claim.

President Trump famously declared on the campaign trail that drug companies were “getting away with murder” and that his administration would tackle the problem of extortionate drug pricing.

A major plank of his drug-price policy, announced on 11 May during a rambling speech, was to identify new targets for Big Pharma’s profiteering – foreign countries – that he alleges unfairly “extort unreasonably low prices from US drug companies”, which thereby shift the burden of financing biopharmaceutical research and development onto American patients and taxpayers. “The US pays more to subsidize the enormous cost of research and development.” What costs a few dollars in a foreign country costs hundreds in the United States.

Resorting to Cold War red-baiting, Trump’s Pharma sidekick, Health and Human Services Secretary Alex Azar, former president of Eli Lilly USA, on 10 May called foreign price controls and formularies that try to better match drug prices to therapeutic effectiveness, “socialized healthcare.” He decried the successful efforts of other governments to curtail excessive pricing as “foreign free-loading” where “foreign governments, socialist single-payer systems, get a better deal” and where more restrictive formularies leave patients unable to access some innovative medicines.

These comments trace the rhetoric of the US Trade Representative (USTR) in its recent Special 301 Report 2018: “Pric-

ing and reimbursement systems in foreign markets that are not market-based, or that do not otherwise appropriately recognize the value of innovative medicines and medical devices, present significant concerns. Such systems undermine incentives for innovation in the health care sector. It is important that trading partners contribute fairly to research and development for innovative treatments and cures.”

Trump echoed Azar’s comments, calling other countries’ global freeloading “unfair and ridiculous.” He specifically called on the USTR to “fix this injustice as a top priority with every trading partner.” He ended by saying that “America will not be cheated any longer and especially will not be cheated by foreign countries.”

Flawed argument

There are almost too many flaws in the Trump/Azar/USTR pronouncements to recount. The first is that drug companies do not price medicines to recoup research and development (R&D) costs or to amass resources to conduct the next round of groundbreaking research. Drug companies spend more on marketing and advertising than they do on R&D. They earn far more in profits, even after paying for R&D, than they spend on R&D itself. Moreover, most of the R&D they do undertake is essentially wasted, from a public health perspective, on trying to “evergreen” their monopolies

through tweaks of existing medicines, through me-too efforts to encroach on other blockbuster drugs, or through research designed to produce selective evidence they can use to shill their products. They rarely engage in breakthrough research, opting instead to piggyback on National Institutes of Health (NIH) and university research, paid for by taxpayers but transferred to Big Pharma companies with no restrictions concerning affordable pricing.

As a further test of companies’ intentions and practices with respect to prioritizing research and development, one might ask what companies have done with the hundreds of billions of dollars they have repatriated this year and in the past in response to tax giveaways from Republican Presidents. Lo and behold, the evidence is overwhelming that the money is not invested in new R&D, nor in expansion of research and manufacturing facilities or job creation. Virtually all of it is used for stock buybacks and dividends to reward stockholders and to pad the pay of corporate executives.

The second big flaw in the President’s pronouncements is that higher drug prices overseas will result in lower prices in the US. Pharmaceutical executives must really be chuckling over this one. Drug companies with exclusive rights over a medicine set prices to maximize profits – nothing else and certainly nothing less. They charge what the market will bear, as proven over and over again. The result is hepatitis C medicines from Gilead that cost over \$1,000 a pill when first introduced, even though the cost of production is estimated at \$1 a pill. The result is new cancer medicines costing hundreds of thousands of dollars a year for small survival benefits. The result is more and more focus on so-called orphan drugs benefitting relatively small numbers just because there are even more monopoly protections in those areas, resulting in medicines leaping towards a \$1-million-per-patient price.

What the drug companies are seeking – and getting – from the President is a free shot to extract more monopoly profits from other countries – full stop. They like money whether it’s euros, pounds, yen or rands. In exchange for Trump’s promise to use all of the US’ considerable trade and diplomatic pressure to coerce foreign governments to fork over more taxpayer money or to grant even stronger, longer and broader mo-

nopoly protections for medicines in trade agreements, Trump has a one-sided, irrational expectation that foreign and US drug companies will reduce prices in the US to offset increased sales elsewhere.

Has any Pharma executive actually promised this? Has any drug company actually lowered drug prices in the US on any drug at any time in response to increased earnings abroad, such as those occasioned 23 years ago when the drug companies used US trading power to win global expansion of their intellectual property rights? Of course, the answer is no. We have had steadily increasing domestic drug prices even as Big Pharma has secured increasing global hegemony over drug pricing through misguided maximalist intellectual property policies.

Why does Trump engage in this magical thinking? Is he really that blind to the excesses of monopoly power? Or does he think that the American public is just plain dumb? I'll bet he's betting on dumb.

The third flaw is more subtle. Instead of learning from the efforts of other countries to control drug prices and to focus pharmaceutical innovation on better

therapies, not just new and sometimes even inferior therapies, Trump misrepresents the value for money we are getting from our current innovation system and ignores existing tools we have to moderate drug prices now. He is also mortgaging the future by burying the big ideas that might lead to more prioritized medical innovation and more affordable and equitable access in the future. He is blinding himself and Congress to immediate means to moderate prices, to increase real generic competition, and to explore new incentive systems for collaborative, open-source research and affordable pricing both internally and in concert with other governments.

The fourth flaw will lead to a human rights crisis. Trump and the USTR are not seeking higher prices in rich countries alone. They are also pursuing trade pressures and trade agreements that will inexorably raise prices in low- and middle-income countries as well. The US has sought stronger patent and data monopolies in all of its trade agreements involving low- and middle-income countries in recent years. In the North American Free Trade Agreement (NAFTA),

there is evidence that the US is seeking pharmaceutical-related intellectual property protections in excess of what had been achieved in the now rejected Trans-Pacific Partnership Agreement. The bulk of drug prices in many poor countries are paid out of pocket. Developing countries have insufficient tax revenues to pay higher drug prices while still delivering other essential public services. The 15 million people awaiting treatment for HIV and their governments cannot afford higher drug prices. For them, the price of higher prices is death.

Lining up new foreign victims for Pharma's murderous pricing while getting nothing in return is pure folly. It's not even smoke and mirrors – Trump's policy speech on making foreign countries pay is a blueprint created by Pharma's architects, to whom Trump is just an apprentice. □

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