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US spending cuts will hurt developing countries

Some $85 billion in government expenditure cuts have come into force in the US as a result of a deadlock in budget talks between the President and Congress. These cuts are expected to hit developing countries through the resulting contraction of what is a major export market and, more directly, through reductions in development and humanitarian aid.

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Poor countries hit by US spending cuts

The government spending cuts in the United States as the President and Congress fail to reach a deal will also affect poor developing countries as the aid budget especially for food and medicines is reduced.

by Martin Khor

On 1 March, the United States government had to introduce spending cuts of $85 billion for this year, as President Barack Obama and the US Congress failed to reach an agreement on how to reduce the budget deficit.

The so-called "sequestration" marked a new failure in the relations between the President and the Republicans in Congress.

The term "dysfunctional" is now commonly used to describe the US government system, as the deadlock between the President and Congress, and the animosity between the Democratic and Republican parties have blocked laws, policies and agreements.

The most visible manifestation of this dysfunctionality is the government's inability to come to grips with economic policy, especially by how much and how to reduce the budget deficit.

Republican budget deficit hawks are obsessed with slashing government spending to reduce the deficit. Prominent Keynesian-influenced economists like Paul Krugman and Joseph Stiglitz argue that cutting government spending in the midst of a weak economy is unnecessary and will tip the country into a new recession.

Obama himself is in favour of deficit-cutting but wants it done in a balanced way – by increasing government revenue through increased taxes on the rich (or closing loopholes that allow them to avoid taxes) and by lesser spending cuts that do not affect the poor.

The "sequestration" issue began in 2011 when a deadlock developed between Congress and Obama over the budget. Obama then proposed that a list of specific automatic spending cuts would go into effect on 1 March if no new deal was reached.

The proposed cuts were deliberately chosen to be so bad that Congress would not allow them to take effect. Or so Obama thought. He would use this as leverage to get the balance of tax increases and smaller spending cuts that he had in mind.

But in the end, the Republicans called his bluff, and now the spending cuts have come into effect – $1.2 trillion over 10 years, starting with $85 billion this fiscal year.

Impact on developing countries

The effects will be felt not only by Americans but also by the developing countries. They include the negative fallout on global growth, and expected cuts in aid going to poor countries.

The spending cut this year is estimated by analysts to induce a contraction of 0.6% of the economy. This comes at a bad time because the rich economies overall are already on a downward path. The Organization for Economic Cooperation and Development (OECD), the group of 34 rich countries, said the gross domestic product of its members fell by an annual rate of 0.6% in the last quarter of 2012. The European Commission meanwhile predicted that the eurozone economies would contract by 0.3% this year, which could prove to be optimistic given the recent political uncertainties in Italy.

The spending cuts in the US would add to the contractionary trend in the rich countries. The continued weakening of the Western economies will have adverse effects on exports, tourism, workers' remittances and incomes in developing countries.

There is another and more direct dimension to the impact the "sequestration" will have on the developing world. The US government's spending cuts will affect the budget for aid given to poor countries and to development programmes such as provision of medicines and food, according to a report by Inter Press Service (IPS).

The new US Secretary of State John Kerry revealed that the State Department and its aid agency USAID would have to cut $2.6 billion from their 2013 budget due to the sequestration. The cuts would include $200 million from humanitarian assistance and $400 million from global health programmes. For example, the US would reduce its contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria by $300 million this year, meaning there will be less medicines donated to poor countries.

Kerry has written to Congress stating that this reduction would reduce the

US' ability to provide food assistance to 2 million people and USAID would have to cease, reduce or not initiate assistance to millions of disaster-affected people, and this would "gravely impede" efforts at reducing AIDS-related and child deaths.

The IPS report also quoted Jeremy Kadden of InterAction (an alliance of NGOs aiding developing countries) as saying: "These cuts will cost lives. We've made very significant progress over the past 10 years, with real people improving their lives, and this would set that process back enormously, devastating actual people on the ground."

He estimated that the budget cuts would lead to some three million children losing access to the basic education they currently receive; two million people would suffer reductions in or stop receiving food aid, while 600,000 children would lose nutrition assistance.

And that is only the start, because the cuts in the aid budget are likely to increase in the following years.

Unlike in the United Kingdom, where the Cameron government decided not to cut its aid budget despite huge slashing of the overall government budget, there is no exemption for overseas spending in the US sequestration exercise.

The poor in the US will also be affected. About 600,000 low-income women and children will stop receiving food aid. Also affected in the $26 billion cut in domestic programmes are health, education, drug enforcement, national parks and Hurricane Sandy relief.

Low-income families will also be affected by a cut in public housing subsidies, which could hurt about 125,000 poor families, according to the *Guardian*. Government-funded daycare will also be cut, affecting over 30,000 kids. And educational programmes for disadvantaged children are likely to be hard hit.

The National Institutes of Health, which will suffer a 5% budget cut, is cancelling hundreds of research grants.

Another $16 billion in mandatory spending will be cut, including in Medicare, agriculture programmes and unemployment benefits.

The main cuts will however come from the military budget, down by $43 billion in 2013, on top of the $500 billion budget cut over 10 years agreed to in 2011. ❒

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

WTO General Council approves new slate of chairs for this year

A new lineup of chairpersons for the various WTO bodies and prospects for this year's Bali Ministerial Conference were among the subjects taken up by the WTO General Council at its 25 February meeting.

by Kanaga Raja

GENEVA: The General Council of the World Trade Organization (WTO) on 25 February took note of the consensus on the slate of chairpersons for the various WTO bodies for this year, and elected Ambassador Shahid Bashir of Pakistan as its new Chair, replacing Ambassador Elin Johansen of Norway.

In the now-approved slate, the WTO's Dispute Settlement Body (DSB) will be chaired by Ambassador Jonathan Fried of Canada, while the Trade Policy Review Body (TPRB) will be chaired by Ambassador Joakim Reiter of Sweden.

(According to trade officials, Ambassadors Bashir, Fried and Reiter – forming the so-called "troika" – will be overseeing the selection process for the next WTO Director-General, which will be entering a new phase in about a month's time when they begin consultations with members on which of the candidates they would like to see become the next WTO head.)

Ambassador Moncef Baati of Tunisia will chair the Council for Trade in Goods, while the Council for Trade in Services will be chaired by Ambassador Abdolazeez Al-Otaibi of Saudi Arabia.

The TRIPS Council will be chaired by Ambassador Alfredo Suescum of Panama, and the Committee on Trade and Development will be chaired by Ambassador Marion Williams of Barbados.

The Committee on Balance-of-Payments Restrictions will be chaired by Ambassador Paivi Kairamo of Finland, while the Committee on Budget, Finance and Administration will be chaired by Michael Stone of Hong Kong-China.

Ambassador Esteban Conejos of the Philippines will chair the Committee on Trade and Environment, while the Committee on Regional Trade Agreements will be chaired by Ambassador Francisco Lima Mena of El Salvador.

The Working Group on Trade, Debt and Finance will be chaired by Ambassador Faizel Ismail of South Africa, and the Working Group on Trade and Transfer of Technology by Ambassador Wafaa Bassim of Egypt.

According to trade officials, the chairs of the various negotiating bodies established under the Trade Negotiations Committee (TNC), which oversees the Doha Round of trade negotiations, remain unchanged.

Negotiations update

The General Council also took up the report by the Chair of the TNC. At an informal TNC meeting on 22 February, Director-General Pascal Lamy, in his capacity as TNC Chair, had presented his report to members.

Speaking again at the Council, Lamy said that at the informal TNC meeting "we focused on the DDA [Doha Development Agenda] elements that are being developed as part of the deliverables for [the] Bali [Ministerial Conference of the WTO to be held in December]: namely, Trade Facilitation, Agriculture and Development/LDC [least developed country] issues. The message that we would all have taken away from that discussion is clear: 'run faster or you will not make it to the Bali finishing line.' So, I would like to encourage you, like I did last week, to step up your engagement, listen to each other and accelerate work on all fronts."

He noted that Aid for Trade is another area that has to be added to the basket of deliverables for Bali. "Preparations for the 4th Global Review of Aid for Trade on 8-10 July are advancing well. Our monitoring exercise is harvesting a rich crop of unique information on how developing countries, and in particular LDCs, are seeking to connect to value chains, and on how donors are supporting this process."

Lamy said further: "Looking at other venues, and several delegations touched on this at the TNC, there could also be space for a positive outcome in other negotiating areas such as the ITA [Information Technology Agreement], where technical discussions are taking place to expand the product and member coverage of the Agreement. Or in Government Procurement, where work is now focusing on bringing into effect the revised Agreement."

In conclusion, he said, "we have the map and the timeline to get to Bali. We all know that it will take hard work, honest negotiations and a lot of goodwill to get there. With only around 20 weeks of work between now and the summer break, we need acceleration across the board in order to get there. At the TNC on April 11, we will have the next opportunity to assess progress in the DDA – in individual areas and horizontally and I call upon you to utilize the time between now and then productively and with result-oriented minds."

According to trade officials, delegations that spoke at the informal TNC meeting on 22 February had their statements put on record at the General Council meeting (see following article on the statements of delegations at that informal meeting).

Members that spoke at the General Council on 25 February following Lamy's report included Mexico, Chile, Peru, Egypt, Indonesia, Barbados (for the Small and Vulnerable Economies), Hong Kong-China, Cuba, Ecuador and Turkey.

According to trade officials, Egypt said that any early harvest that comes out of the Bali process would be part of the larger single undertaking. It must not be used to pre-empt in any way the single undertaking.

Anything that is agreed in this early harvest must be agreed by a multilateral consensus, and any outcome in Bali must take into account the importance of food security, the elimination of agricultural export subsidies and other forms of distortions in export competition, special and differential treatment (S&D), cotton and the LDC package, it added.

In addition, Egypt said, there must be a clear roadmap for the post-Bali process, which must be a process that is fully participatory, inclusive and transparent.

Barbados (for the SVEs) said that it is ready to make a contribution to the Bali package on the questions of trade facilitation, agriculture and development, and urged members to reflect on what is achievable. In addition to the Doha package, it said, it is important for members to realize that work in the regular committees is very important and that a fully operating WTO is a safeguard for the SVEs in the multilateral trading system.

On the post-Bali process, it stressed the need for a balanced package with full participation, inclusiveness and transparency.

Cuba pointed to a discouraging picture for Bali. It supported Egypt, the African, Caribbean and Pacific (ACP) Group, and the SVEs. It noted that there was quite a lot of discussion on trade facilitation but not enough on the agriculture proposals put forward by the G20 and G33 country groupings.

There is a need for an outcome in Bali, but one that delivers for developing countries. The single undertaking cannot be sidelined, it said, adding that there must be plenty of attention paid to the implementation issues, and there must be an outcome on duty-free quota-free (DFQF) market access for LDCs and on cotton. An outcome where the LDC issues are not resolved would be unacceptable.

Ecuador said that while trade facilitation is important, it must be balanced. Right now, it is not sufficiently balanced, because the Section II (pertaining to S&D and technical assistance and capacity building) part of the discussion has not been fully fleshed out. It highlighted the importance of S&D in the discussions, and the need for the process from here to Bali to be one with full participation, inclusiveness and transparency.

Ukrainian modification

Meanwhile, under the agenda item of Ukraine's GATT Article XXVIII notification (modification of schedules) whereby it would like to renegotiate some 371 tariff lines, trade officials said that the EU, Uruguay, the US, Switzerland, Canada, Egypt, Chile, Colombia, Iceland, Singapore (on behalf of ASEAN), Turkey, Hong Kong-China, Korea, Guatemala, Brazil, Japan, Paraguay, Mexico, China, Norway, Australia, New Zealand, El Salvador and Ecuador spoke on this issue.

Ukraine said that the WTO is a rules-based system and Article XXVIII provides scope for modifying schedules. Only 3% of its harmonized schedules were affected by this. It did not see how this was going to be disruptive for the multilateral trading system.

Noting that it had been criticized for raising tariffs to a high level, it asked how this could be the case since it had not set those levels yet.

Ukraine stated that its share of world trade is 0.45% and the share of world imports affected by this measure is 0.0009%. Questioning how this might be in any way a threat to the multilateral trading system, it said that it is allowed under WTO rules to implement Article XXVIII for legitimate policy purposes like any other WTO member.

According to trade officials, under the agenda item of "other business" at the General Council meeting, India expressed concern about the selection process for the next Director-General. It pointed to the unprecedented state of nine candidates. In the past, it said, there had been a process whereby at each subsequent phase, one of the candidates would drop out. This may not be possible this time around because there were so many candidates and such a short timetable, it said further, adding that this process should not in any way distract from the work on the preparations for the Bali Ministerial Conference. *(SUNS7534)* ❒

Members voice their views on possible deliverables at Bali

Prior to the General Council session, a 22 February meeting of the WTO's Trade Negotiations Committee had seen member states discuss at some length their expectations for the yearend Ministerial Conference and the way forward after Bali.

by Kanaga Raja

GENEVA: The WTO Trade Negotiations Committee (TNC), at an informal meeting on 22 February, heard a range of views from members concerning the package of possible deliverables at the upcoming ninth Ministerial Conference (MC9) in Bali in early December, as well as on the post-Bali process.

The views of members came following a statement at the meeting by WTO Director-General Pascal Lamy, in his capacity as Chair of the TNC, in which he had urged members to accelerate work on all fronts, shift to a higher gear and work with greater determination if they want to arrive at MC9 with a relevant package of deliverables.

At the meeting, Lamy had identified three areas which he said are now clearly emerging as deliverables for MC9: trade facilitation, agriculture and development/LDC issues (see *TWE* No. 539).

Speaking after Lamy, a number of delegations gave their own views as to what issues should constitute the package of possible deliverables at Bali.

For example, the African Group of countries highlighted issues pertaining to the development dimension, cotton, agriculture, food security, LDC issues, and special and differential treatment (S&D) as being of importance.

The LDC Group said that a deal on duty-free quota-free (DFQF) market access for LDC products is extremely important, adding that this is something on which a great deal of technical work does not need to be done, and that what is needed now is simply the implementation of the Hong Kong Ministerial Declaration (of 2005).

The African, Caribbean and Pacific (ACP) Group, pointing to the indication that trade facilitation, agriculture, development and LDC issues have emerged as areas of possible early harvest, stressed that an outcome in which only one of these is achieved would not be sufficient. There needs to be a balance, it added.

The Cotton-4 grouping recounted that it had a draft decision on cotton ready for the last Ministerial Conference, which was held in Geneva in December 2011, but since this became a non-negotiating conference, the draft decision had to be set aside. It hoped that it could get a decision taken on this in Bali.

South Africa, meanwhile, referring to the recent announcement by the US and European Union to launch negotiations on a trade and investment agreement, said: "When the historians of the GATT/WTO reflect one day, they will agree that the second biggest threat against the principle of MFN (or non-discrimination) since the Treaty of Rome in 1957 established the European Customs Union was the EU-US bilateral agreement. There is no doubt that if it succeeds, an FTA [free trade agreement] between the first and second biggest economies in the world will have a huge systemic impact against the multilateral trading system."

According to trade officials, Switzerland recounted the ministerial meeting that was held in Davos in January, mentioning that there was a constructive mood, that the members agreed on a step-by-step approach, and that there was a strong signal on the need for deliverables.

Representing the G10 grouping, Switzerland said that the G10 countries were prepared to engage on the difficult issues in agriculture. It made a strong plea that they be involved in any consultations on these issues.

Concern over impasse

Morocco (for the African Group) said that the impasse in the negotiations is of great concern to the group. It is very important that the Doha negotiations be concluded with respect to the existing mandate and that the acquis that has been generated be retained. It does see more energy and political will now, but the question is whether this can be translated into progress at the negotiating table.

It added that there is a need to do hard technical work in the weeks to come. The agriculture discussions will certainly have to become an important element of any early harvest, but there is a lack of clarity with respect to the scope and value of what might actually be there.

On the other questions that are important for early harvest, it said that anything pertaining to the development dimension, cotton, agriculture, food security, LDC issues, and special and differential treatment (S&D) are among the issues that are of importance to the African Group. It supported efforts by net food-importing developing countries (NFIDCs) to try and ensure greater food security.

On trade facilitation, Morocco said that there is a need for a balanced agreement, adding that it is open to creative approaches to trade-related technical assistance.

If there is to be an early harvest, it must be something that is achieved by consensus and must be on all areas that are up for discussion as part of this package. There must also be a commitment by all members that the negotiations would continue as soon as possible after Bali, and that a post-Bali roadmap would be needed, it said.

Nepal (on behalf of the least developed countries) said that although LDCs represent 12% of the world population, they generate less than 1% of world trade. Market access is a big concern for the LDCs and they continue to face difficulties with respect to a range of issues such as tariff peaks, non-tariff barriers (NTBs) and onerous rules-of-origin requirements.

It said that the percentage of LDC goods that currently receive duty-free quota-free market access in some cases does not exceed 50%, so getting a deal on DFQF market access is extremely important. This is something that would be a very critical part of helping the LDCs achieve the Millennium Development Goals, a programme and objective that many of these countries are not likely to achieve at the moment.

It added that DFQF is not a new issue, in that it has been on the table since 1996. It is not something on which there is a great deal of technical work that needs to be done. It's been agreed already in Hong Kong (in 2005 at the WTO's sixth Ministerial Conference). Most industrial countries and some developing countries have already implemented this programme, and what is needed now is simply the implementation of the Hong Kong Ministerial Declaration.

It also stressed the importance of cotton to the LDCs, adding that simplified rules of origin are another area of great importance. No country would lose when the LDCs gain, and it's time for members to think outside the box. The LDCs have set as an objective for themselves a doubling of their export share by 2020, and this cannot be achieved without international support.

Chinese Taipei [on behalf of the Recently Acceded Members (RAMs)] said that while there was some progress to report, in many areas, it was still unclear as to what was happening. MC9 cannot be a housekeeping Ministerial. There must be a negotiated outcome at the Bali Ministerial, it said, adding that it would like to see a process through which there is full participation, inclusiveness and transparency. This goes as well for the need to discuss what happens in the post-Bali process. It recalled that RAMs have already made extensive contributions to the WTO and their special situation should be taken into account in any of the negotiating fora.

Need for balance

Jamaica (on behalf of the ACP Group) said that clearly there has been an indication that trade facilitation, agriculture, and development and LDC issues have emerged as areas of possible early harvest, but an outcome in which only one of these is achieved would not be sufficient. There needs to be a balance. The LDC issues are of great importance, and this is an area where the proposals for the LDCs have the full support of the ACP Group.

On agriculture, it said that there is support for the proposals put forward by the G20 country grouping on TRQ (tariff rate quota) administration and by the G33 on food security. On trade facilitation, the ACP welcomed the efforts that have been taken as well as the progress that has been made, adding that there is an obligation to ensure that there is benefit that extends to all members, most notably to the developing countries. Adequate trade-related technical assistance and capacity-building would be required if there is going to be an effective agreement here, it said, underscoring the need for timely and effective implementation of any technical assistance programmes.

Brunei [on behalf of the Association of South-East Asian Nations (ASEAN)] supported Indonesia for the work that it has been doing to host MC9, adding that there is a need for a strong effort to ensure that this Ministerial ends successfully. There is a package that is emerging, it said, adding that on agriculture, it is encouraged to see that there is a higher level of engagement. In this context, it welcomed the G20 and G33 proposals.

Brazil (on behalf of the G20) said that agriculture is the centrepiece of the Doha Development Agenda (DDA) and should be the centrepiece for any early harvest. It is pleased with the way the TRQ administration proposal that it had put forward has been taken up and discussed. It hoped that the information that it is looking for on export competition will be available soon, adding that the G20 is working on a proposal on export competition.

The European Union said that Bali cannot be a housekeeping Ministerial, noting that there has been a lot of discussion on a package of deliverables. With respect to trade facilitation, it said that Section I and Section II (Section I pertains to commitments while Section II is on S&D, and technical assistance and capacity-building) should move in parallel. It said that it is prepared to engage with respect to the G33 proposal on food security, and hoped to have more information about this proposal soon. It, however, cautioned that it is important that members are guarded about putting forward any proposal that may tilt the balance of the existing package.

On the LDC issues, the EU said that it is glad to see that progress is being made. It warned against putting forward too many proposals on the table as members approach MC9. The reason members have been able to make progress up to now is that they have been able to curtail their appetites, it said.

MC9 will not be the end of the road but a first step. It may be small but meaningful and it will give a chance to move forward, but if it ends in failure, it will be extremely difficult to find a way forward, said the EU. For the post-Bali process, the EU said it is ready to engage with others on the other Doha issues after MC9, subject to other countries participating with the same level of enthusiasm.

Saudi Arabia (on behalf of the Asian Group) said that there is a need to have a negotiated outcome in Bali. This is very important for revitalizing the Doha Round, and is seen as not the end of the road but a way forward. The group is ready to support reasonable proposals in agriculture, trade facilitation and development areas and it is open to discussion on various modalities. There is a need to have a FIT (full participation, inclusiveness and transparency) approach to this.

Korea said that in Davos, it observed a sense of commitment and urgency. On trade facilitation, it said that it agrees with what Lamy said with respect to the approach. On development issues, it said that there is a need to have sufficient information on all the proposals and to keep the number of proposals on the table at a manageable level. It said that it needs to see more on the G33 proposal on food security. It supported what Lamy said on the post-Bali process.

Ghana supported the African Group and the ACP Group statements.

Japan said that it was very important that members see progress around Easter and that trade facilitation is an indispensable part of any Bali outcome. Among the non-Doha issues, it stressed the importance of the Information Technology Agreement (expansion) negotiations.

Cotton call

Burkina Faso (on behalf of the Cotton-4 comprising Burkina Faso, Benin, Chad and Mali) referred to the Hong Kong Ministerial Declaration which called for an ambitious, expeditious and specific outcome with respect to cotton, saying that this has not been implemented. There is a need to avoid the "Christmas tree" approach whereby governments decide to attach as many proposals as they can to a potential Bali outcome, thereby burdening the process and slowing things down.

It said that the Cotton-4 had a draft decision on cotton ready for MC8 (held in Geneva in December 2011), but because this became a non-negotiating Ministerial, that had to be set aside. It hoped that it could get a decision taken in Bali.

Pakistan said that there has been an acceleration in terms of what has been happening with the work. It's very important that an outcome emerges in Bali, and it is now something that seems possible. A small-step approach is important, as an outcome is needed that would enhance the credibility of the WTO with the general public and the media.

According to trade officials, the United States said that there would be a stocktaking around Easter, and it saw 11 April (the date of the next informal TNC meeting) as an opportunity for a "stocktake" or a "gut check".

It agreed with those that have said that the pace has picked up, and that the trade facilitation discussions are more substantive than they were three or four months ago. There is greater clarity – that's the good news, it said, adding that the bad news is that this clarity has revealed gaps rather than bridges between positions.

It suggested that one of the issues on trade facilitation would be that there would be greater specificity with respect to concerns. For example, in Section II when developing countries say they have concerns about being able to implement certain obligations, what it needs is concrete understanding of what those difficulties are so that any assistance can be targeted in a very accurate way. Where are the commitments seen as being onerous, where would there be problems down the line?

One of the missing elements is that governments are not yet asking themselves the "what if" questions, it said, adding that there must be a willingness to decide that the Section II approach would enable all parties to operate with some degree of flexibility. It looked at the trade facilitation negotiations as an opportunity to utilize and mobilize multilateral support resources which would be used with a great deal of flexibility by recipient governments in terms of timelines and in terms of how these funds were appropriated.

Many governments are already doing things like these with respect to trade facilitation in a regional or bilateral context, so why would the WTO be the only place where governments do not do this, it asked.

The US said that while people have said it is important that there be greater clarity and technical detail on trade facilitation, this is also true in agriculture. There is a contrast between the two proposals on the table. There has been a lot of work on the G20 proposal and it is calibrated for success over the limited timeframe. It's a proposal where technical work has been largely completed. There are binary decisions to be taken but these are not technical but are more political.

By contrast, the US said, the G33 proposal is not a case where there has been a lot of technical work done. The proposal is not yet calibrated to suit the limited timeframe. It is disappointed at the pace at which even basic questions are being answered. There is nothing like the information that is needed at this stage to see the scope of the problem.

Members must also be thoughtful about what can and cannot be done, and what they should be putting on the table, it said. They all have a very clear sense of what is doable and if they do not exercise an extreme amount of calibration, they will find ourselves heading for an outcome which is not good, the US added.

Systemic importance

South Africa agreed that the WTO is systemically too important to become marginalized in the trading system. "This organization is not just relevant to the world we live in, but is vitally important to strengthen cooperation, find creative solutions to the increasing number of global issues that the world expects us to address, and to prove that an equitable, balanced and development-orientated multilateral trading system is indeed possible."

"It is for this reason that we have rolled up our sleeves and have drilled down into the intricacies of customs co-operation, advance rulings, release and clearance of goods, expedited shipments, appeals procedure, etc."

It noted that members have put forward a number of issues that they feel should be part of the package of deliverables for Bali: these include a few issues in agriculture (TRQ administration, food security, export competition), S&D and issues of interest to LDCs (cotton, DFQF market access, etc). "However, as we move forward we are painfully aware that even this small package of issues remains challenging," it said.

In agriculture, there are some that are still concerned that the flexibilities developing countries seek for their food security may impact on their market access needs; there are others that are afraid to discuss the commitment they made in Hong Kong to eliminate export subsidies for fear of disturbing their protectionist agriculture lobbies; and for other major developed countries the request for transparency in TRQ administration may open the Pandora's box of market access in agriculture.

"LDCs, as we know, have been waiting for relief from the injustices of the trading system that continues to distort their trade and discriminate and marginalize them in global markets. However, their issues have been painted as red lines by some members," said South Africa.

Whilst a great deal of work is going on in trade facilitation, the underlying challenges hidden in several hundred brackets have begun to surface. The issues are detailed and complex. The process is still too cumbersome; there are facilitator-led processes, proponent-led processes, ambassador-led processes, friends-of-the-system-led processes and chair-led processes in the negotiating group underway, it said.

"Adding to the complexity of the challenge before us, the global economic context we live in today is not the most conducive to an expeditious result. The effects of the Great Recession are still lingering on. Global growth is anaemic, unemployment is still high and persistent, and emerging market economies have slowed down, threatening the progress made in reducing poverty."

"As we proceed to Bali, there are three major setbacks since Doha that bedevil this organization. The first is that the continuing impasse in the Doha Round has prompted many observers and indeed major opinion makers such as *The Economist* and the *Financial Times* to declare that the Doha Round is all but dead!

"However, the Doha Development Agenda incorporates the promise we made to address the underlying imbalances in the trading system. It contains the promise we made to address the needs and interests of developing countries for the first time since 1947. The continued impasse on it remains of concern to the vast majority of members."

Second, said South Africa, a disturbing trend began with the "new pathways" chosen by some members towards plurilateral and bilateral approaches instead of the multilateral approaches that the Doha mandate and the single undertaking clearly spells out. This is a cause for concern and serious reflection.

Thirdly, South Africa said, "we cannot simply allow the biggest news item on trade to pass without comment."

"When the historians of the GATT/WTO reflect one day, they will agree that the second biggest threat against the principle of MFN (or non-discrimination) since the Treaty of Rome in 1957 established the European Customs Union was the EU-US bilateral agreement. There is no doubt that if it succeeds, an FTA between the first and second biggest economies in the world will have a huge systemic impact against the multilateral trading system."

"Notwithstanding these challenges we should remain resilient, resourceful and determined not to move backwards from Doha but to build our new world on the principles of equity, inclusiveness, and balanced rules and development," South Africa added.

Achieving progress

China said that there is a better chance for success in MC9 if progress can be made by the spring. Members have worked hard to identify deliverables. In the short term, it is important to work creatively and pragmatically to achieve progress on a small package, it added, mentioning trade facilitation, S&D and agriculture. In the longer term, what is important is that MC9 is viewed as a stepping stone to the full conclusion of the Doha Round.

According to trade officials, India said that MC9 was going to be extremely important. It agreed with the areas that have been identified. The LDC and development issues have to come first and have to take centrestage. Other issues that are important include agriculture issues, and the two proposals that are on the table. Trade facilitation could also be a possible candidate. There has been a lot of work done on trade facilitation and agriculture, and it hoped to see similar engagement on the LDC issues where not much technical work is needed to be done.

India was encouraged by the spirit of engagement it has seen on trade facilitation and agriculture, but sounded a word of caution that a lot of technical work remained to be done on trade facilitation.

Argentina supported the G20 with particular emphasis on the export competition element. On trade facilitation, it said there cannot be a wait until the very end before the necessary technical work is done.

Bangladesh agreed with the LDC Group statement, particularly with respect to DFQF for LDCs.

Thailand said that time is very short and there is a need to set aside any tactical manoeuvres and to put faith in the chairs (of the various negotiating bodies) as they try to find common ground. On the post-Bali process, it said that it is very important to be committed to dealing with the broader issues as soon as possible after the conclusion of the Bali Ministerial.

Barbados said that with respect to trade facilitation, it was very important that vulnerabilities of certain countries be reflected in the text, and that there be some way of assessing imports versus exports in terms of the impact they may have. That is not yet in the text and it is important that this be seen.

Singapore said that it had a sense of deja vu and it's not a good one. Just saying that things are being done differently doesn't make things better. Some proposals that had been alluded to during the meeting had not even been put on the table yet, it added.

Uruguay emphasized the importance of getting something on export competition, which had been agreed at the Hong Kong Ministerial. It said that the G33 proposal requires more technical work and there is not much time left.

Oman (on behalf of the Arab Group) said that any early harvest must be accompanied by assurances that the rest of the work will be completed as soon as possible after MC9.

Colombia said it supported the G20 and G33 proposals. It would like to see progress made on trade facilitation. There still needs to be more clarity given on Section I technical issues, and there is a need as well to have assurances vis-a-vis the support that would come from enhanced technical assistance.

Australia (on behalf of the Cairns Group) said that it is pleased to see that they are getting a better sense of the way in which agriculture issues are being considered. It welcomed the G20's TRQ administration proposal. It also welcomed the start of consideration of the G33 proposal.

It mentioned the importance of eliminating export subsidies and all forms of export competition by developed countries as soon as possible. It was essential that more progress is made on this issue and it expressed hope that this issue will be resolved sometime soon. Bali will be a stepping stone to further reform in agriculture, it added.

Bolivia said that there needs to be a balance in the negotiations. More attention is being paid to trade facilitation and less to the areas of interest to developing countries. It supported the work being done by the G20 and G33, but it saw that industrial countries are putting obstacles in the way of progress in this area. An outcome in Bali without an agricultural outcome would be unacceptable.

It is also very important that something be achieved on development, but the existing so-called development issues are very difficult to assess in terms of what is on the table in a concrete way. This is not the case with DFQF and cotton, and it is very important that an agreement on this is obtained in Bali, it added.

According to trade officials, Lamy concluded by saying that there will be a TNC meeting on 11 April, adding that there is a lot of work to do. Trade officials said it has been suggested that the 11 April meeting could serve as an occasion for an assessment/stocktaking of where members are. *(SUNS7534)* ❒

"Stalling" could force acceptance of onerous TPP

US-spearheaded talks to craft a free trade accord spanning the Pacific region have come under fire from civil society groups concerned that the lack of transparency is masking a corporate-driven agenda.

by Carey L Biron

WASHINGTON: Civil society opposition here has strengthened against a US-proposed free trade zone that would include some dozen countries around the Pacific Rim.

As negotiators headed into a 16th round of talks in Singapore on 4-13 March, around 400 organizations urged the US Congress to demand greater transparency in the proceedings.

On 4 March, the first day of the negotiations, Medecins Sans Frontieres (MSF), a humanitarian group, called on President Barack Obama's administration to "end its stall tactics and revise its proposals for what otherwise promises to be the most harmful trade deal ever for access to medicines in developing countries."

Critics say civil society and other critical stakeholders have been systematically shut out of the negotiations, supplanted by corporate interests.

The proposal, known as the Trans-Pacific Partnership (TPP), currently comprises 11 countries (a 12th, Japan, is also contemplating joining). But the Obama administration has been clear that if passed, the zone would be open-ended in terms of future expansion.

That broad geographical sweep, together with the simultaneous negotiation of a lengthy but highly secretive list of contentious issues not necessarily related to trade, is leading critics to warn that the scope of any pending agreement could negatively impact on nearly half the globe.

And with the Obama administration now saying it wants to wrap up the negotiations by October, some TPP negotiators are reportedly worried that some of the most controversial issues up for discussion are being pushed to the very end in an attempt to "run out the clock".

According to a new brief released by MSF, US TPP negotiators are pushing for rules that would "enhance patent and data protections for pharmaceutical companies, dismantle public health safeguards enshrined in international law and obstruct price-lowering generic competition for medicines".

The result could be restrictions on access to affordable generic medicines for "millions" of people.

Judit Rius Sanjuan, US manager for MSF's Access Campaign, says her office heard that the last time the TPP negotiations included substantive talks on access to medicines was a year ago. At that time, nearly all negotiating partners reportedly rejected a draft chapter on intellectual property rights which included the patent provisions.

And while the White House has stated that it would be resubmitting a revised chapter on this issue, Sanjuan said it appeared that access to medicines was once again not on the agenda in Singapore.

"We are hearing from other negotiating teams that the pressure to finalize this agreement by October is rising, and they fear that if there is not more time for substantive discussion, this chapter could stand," she told Inter Press Service (IPS).

"We share the concern that this delay in presenting an alternative text is a US strategy to focus instead on the less controversial chapters and leave behind debate over access to medicines. But doing so would have huge consequences for developing countries."

In fact, imposing these types of new restrictions would run counter to previous international agreements and national legislation under which Washington has pledged to expand access to generic medicines.

Any restriction in access to such medicines would also affect the United States' own global health goals. According to Sanjuan, generics make up some 98% of the medicines used by PEPFAR, the United States' flagship anti-HIV/AIDS programme and the world's largest.

Secretive talks

Global health wouldn't be the only sector impacted by the TPP's passage. Also on 4 March, coinciding with the first day of negotiations in Singapore, around 400 groups from a broad range of backgrounds sent an open letter to the US Congress opposing the abnormally secretive way in which negotiations for the trade area have been run.

"This agreement will impact on how trade and investment are conducted in the Pacific Rim for decades, yet the ramifications aren't fully understood even by people who know about the TPP," Arthur Stamoulis, executive director of the Washington-based advocacy group Citizens Trade Campaign and an organizer of the letter, told IPS.

"This is an agreement that wouldn't just affect the economy and sustainability in these 11 countries, but has the potential to impact the economy and environment for literally half the world."

In lieu of official consultation, the

groups are offering recommendations for draft language on issues from environmental standards and human and labour rights to financial regulation and national sovereignty. Yet the central complaint has to do with lack of oversight and transparency.

"We find it troubling that ... US negotiators still refuse to inform the American public what they have been proposing," the letter states. "Shielding not only proposals but agreed-upon texts from public view until after negotiations have concluded and the pact is finalized is not consistent with democratic principles."

The groups are calling for an opening-up of the talks to both the US Congress and the public at large. They're also urging lawmakers not to authorize new "fast track" powers that would allow the president to send Congress trade pacts for straight votes without the possibility of amendments.

Free trade advocates tend to suggest that such powers are necessary to get other countries to agree to large-scale trade agreements in the first place, but President Obama had allowed the "fast track" legislation to lapse. On 1 March, however, the administration's new trade policy agenda noted that the president would work with Congress to re-authorize that authority.

The administration has used similar concerns to rationalize the high level of secrecy surrounding the negotiations, saying that greater transparency would upset delicate discussions.

Yet critics point out that draft trade texts at this point in negotiations are often made public, including by the World Trade Organization. Similar precedent exists from the Free Trade Area of the Americas, the trade zone agreed to in 2001 covering 34 countries, including the United States.

"There's a real reason why the draft has been kept secret from the US public – Americans wouldn't support a huge amount of the agenda that the [Obama administration] has been pushing," Citizens Trade Campaign's Stamoulis says.

"If they were to negotiate an agreement that put human rights ahead of corporate profit, creating more just and sustainable social policy, the TPP could be a tool for incredible good. But if you look at who has a seat at the table, with the public shut out and more than 600 corporate lobbyists included, there is nothing to indicate that's the deal we're going to get." *(IPS)* ❒

The economics and politics of the crisis

The policy response to the global economic crisis will hinge on which of three differing perspectives is seen as best explaining the cause of the crisis.

by Thomas Palley

Many countries are now debating the causes of the global economic crisis and what should be done. That debate is critical, for how we explain the crisis will influence what we do.

Broadly speaking, there exist three different perspectives. Perspective No. 1 is the hardcore neoliberal position, which can be labelled the "government failure hypothesis". In the US it is identified with the Republican Party and Chicago School economics. Perspective No. 2 is the softcore neoliberal position, which can be labelled the "market failure hypothesis". It is identified with the Obama administration and MIT economics.

Perspective No. 3 is the progressive position, which can be labelled the "destruction of shared prosperity hypothesis". It is identified with the New Deal wing of the Democratic Party and labour movement, but it has no standing within major economics departments, owing to their suppression of alternatives to orthodox theory.

The government failure argument holds that the crisis is rooted in the US housing bubble and bust which was due to failure of monetary policy and government intervention in the housing market. With regard to monetary policy, the US Federal Reserve pushed interest rates too low for too long in the prior recession. With regard to the housing market, government intervention drove up house prices by encouraging homeownership beyond people's means. The hardcore perspective therefore characterizes the crisis as essentially a US phenomenon.

The softcore neoliberal market failure argument holds the crisis is due to inadequate financial regulation. First, regulators allowed excessive risk-taking by banks. Second, regulators allowed perverse incentive pay structures within banks that encouraged management to engage in "loan pushing" rather than "good lending." Third, regulators pushed both deregulation and self-regulation too far. Together, these failures contributed to financial misallocation, including misallocation of foreign savings provided through the trade deficit. The softcore perspective is therefore more global but it views the crisis as essentially a financial phenomenon.

The progressive "destruction of shared prosperity" argument holds that the crisis is rooted in the neoliberal economic paradigm that has guided economic policy for the past 30 years. Though the US is the epicentre of the crisis, all countries are implicated as they all adopted the paradigm. That paradigm infected finance via inadequate regulation and via faulty incentive pay arrangements, but financial market regulatory failure was just one element.

The neoliberal economic paradigm was adopted in the late 1970s and early 1980s. From 1945 to 1975 the US economy was characterized by a "virtuous circle" Keynesian model built on full employment and wage growth tied to productivity growth. Productivity growth drove wage growth, which fuelled demand growth and full employment. That provided an incentive for investment, which drove further productivity growth and higher wages. This model held in the US and, subject to local modifications, also held throughout the global economy – in Western Europe, Canada, Japan, Mexico, Brazil and Argentina.

After 1980 the virtuous circle Keynesian model was replaced by a neoliberal growth model that severed the link between wages and productivity growth and created a new economic dynamic. Before 1980, wages were the engine of US demand growth. After 1980, debt and asset price inflation became the engine.

The new model was rooted in neoliberal economics and can be described as a neoliberal policy box that pressures workers from all sides. Corporate globalization put workers in international competition via global production networks supported by free trade agreements and capital mobility.

The "small government" agenda attacked the legitimacy of government and pushed deregulation regardless of dangers. The labour market flexibility agenda attacked unions and labour market supports and protections such as the minimum wage. Finally, the abandonment of full employment created employment insecurity and weakened worker bargaining power.

This model was implemented globally, in North and South, which multiplied its impact. That explains the significance of the Washington Consensus which was enforced in developing economies by the International Monetary Fund and World Bank by making financial assistance conditional on adopting neoliberal policies.

The new model created a growing "demand gap" by gradually undermining the income and demand generation process. The role of finance was to fill that gap. Within the US, deregulation, financial innovation and speculation enabled finance to fill the gap by lending to consumers and spurring asset inflation. US consumers in turn filled the global demand gap.

Varying policy prescriptions

These three different perspectives make clear what is at stake as each recommends its own different policy response. For hardcore neoliberal government failure proponents, the recommended policy response is to double-down on neoliberal policies by further deregulating financial and labour markets; deepening central bank independence and the commitment to low inflation; and further limiting government via fiscal austerity.

For softcore neoliberal market failure proponents, the response is to tighten financial regulation but continue with the rest of the existing neoliberal policy paradigm. That means continued support for corporate globalization, labour market flexibility, low inflation targeting and fiscal austerity.

For proponents of the destruction of shared prosperity hypothesis, the challenge is to replace the neoliberal paradigm with a "structural Keynesian" paradigm that repacks the policy box and restores the link between wage and productivity growth. The goal is to take workers out of the box and put corporations and financial markets in so that they serve the broader public interest.

That requires replacing corporate globalization with managed globalization; restoring commitment to full employment; replacing the anti-government agenda with a social democratic government agenda; and replacing labour market flexibility with solidarity-based labour markets.

The critical insight is that each perspective carries its own policy prescriptions. Consequently, the explanation which prevails will strongly impact the course of policy. That places economics at the centre of the political struggle as it influences which explanation prevails, and it explains why powerful elites and orthodox economists have an interest in blocking other perspectives. ❐

Thomas Palley is a Washington-based economist and author of The Economic Crisis: Notes from the Underground *(Createspace) and* From Financial Crisis to Stagnation: The Destruction of Shared Prosperity and the Role of Economics *(Cambridge University Press). This article, which is based on the latter book that has been released as a paperback, is reproduced from the Triple Crisis blog (triplecrisis.com/from-financial-crisis-to-stagnation-the-destruction-of-shared-prosperity-and-the-role-of-economics/, 1 March 2013).*

Europeans urge US action on financial transactions tax

With agreement having been reached among 11 EU countries to put in place a financial transactions tax, the US is now facing calls to do the same.

by Carey L Biron

WASHINGTON: Two European policymakers on 25 February called on their US counterparts to rethink opposition to proposals for a small tax on stock purchases and other financial transactions, which proponents say could raise hundreds of billions of dollars for poverty alleviation, action on climate change and financing international development.

"It's quite important for us to see others moving at the same time," Christopher Leslie, a member of the Labour Party and shadow financial secretary to the British Treasury, said at a panel discussion here.

"It's an incredibly brave journey by those countries in the European Union who have begun to enter into this ... but I also want to persuade the United States to have a little think about this as well. We can all take small steps together in the right direction."

The call came just weeks after 11 European Union member states (though not the UK) announced that they would aim to impose such a levy, called a financial transactions tax (FTT), by the beginning of next year. That move signified the first time that EU tax decisions have been made by less than consensus, as well as the first time that any FTT has been imposed internationally.

To date, some 23 countries have legislated in favour of some kind of FTT, including the UK, Switzerland, Hong Kong, Japan and others. The United States remains the only major financial centre not to do so.

"We are ready to lead the way to show that FTT can and should be applied," Algirdas Semeta, the European Commissioner for Taxation and Customs Union and the architect of the new 11-member agreement, said here on 25 February. "A precedent will be set with a regional FTT in 11 member states – this is a chance to prove the benefits of a well-designed FTT and to confound the long-time cynics."

Semeta says that several other countries have already expressed an interest in joining the new FTT zone – and hints at greater designs. "Today, a global FTT may seem a very remote possibility," he admitted. "But let's not forget that even two years ago the same could have been said of a harmonized FTT in the EU. New ground is being broken."

As for his current trip to Washington, Semeta continued: "We all know that the United States remains sceptical about the FTT. But the tax also has its supporters here, which I want to encourage."

US opposition

The idea of taxing transactions involving stocks, bonds and derivatives has been discussed by economists for decades. Yet it has seen a significant resurgence in recent years as governments around the world struggle to close holes in their budgets following the 2008 global economic crisis.

That budgetary drive has coincided with increased public and regulatory anxiety over the perception of an out-of-control financial sector in which speculation and over-leveraging are rife. Proponents say an FTT could cut down on the incentive to engage in short-term computer-driven trading involving split-second transactions, which critics say massively increases volatility in global financial systems.

Both the US government and business community remain against any such new levy. Yet until 1960, the United States, too, had an FTT, notes Lynn A Stout, a law professor at Cornell University, which she says proves that doing so is politically feasible.

"The single biggest obstacle that I see to [doing so again] is simply the enormous amounts of money the trading middlemen – who are the only people who reliably profit from secondary market trading – have poured into press releases and political donations to try to convince average Americans that somehow they will be harmed by this," Stout said at the 25 February panel discussion.

Indeed, in 2010 the International Monetary Fund (IMF) found that the US financial sector was notably under-taxed, and many are now hoping that the EU decision could provide evidence to end the argument.

"This will be significant in the US discussion, as one of the major critiques that came from the [Obama] administration a couple of years ago is that trades will move overseas, particularly to competitors in Europe," Nicole Woo, director of domestic programmes with the Center for Economic and Policy Research, a liberal think-tank, told Inter Press Service (IPS). "So this undermines that major critique, and also opens up the conversation to more seriously consider such an approach on our shores."

For the moment, however, President Barack Obama's administration has expressed opposition to the new EU proposal. A spokesperson for the US Treasury told IPS in an e-mail, "[W]e do not support the proposed European financial transaction tax, because it would harm US investors in the United States and elsewhere who have purchased affected securities."

While the former head of the Treasury Timothy Geithner was known for being sceptical of the efficacy of the FTT

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Illicit flows undermine human rights, says UN expert

Highlighting the worrying magnitude of illicit financial outflows from developing countries, a UN rights expert says that such fund movements impede development and the realization of human rights in the countries of origin.

by Kanaga Raja

GENEVA: "Illicit financial flows – generated from crime, corruption, embezzlement and tax evasion – represent a major drain on the resources of developing countries, reducing tax revenues and investment inflows, hindering development, exacerbating poverty and undermining the enjoyment of human rights," a United Nations independent expert has said.

In an interim report presented on 6 March at the 22nd session of the UN Human Rights Council taking place from 25 February to 22 March, Independent Expert on foreign debt Cephas Lumina said it is estimated that, on average, developing countries lost between $783 billion and $1,138 billion in illicit financial outflows in 2010.

The expert added that these flows have increased in real terms by an average 8.6% annually over the period 2001-10, suggesting that existing measures to tackle the problem have not had a significant impact. "It is notable that this rate of growth of illicit flows exceeded the average rate of economic growth (6.3 per cent per annum) of developing countries for the same period."

According to the Independent Expert's interim report, the magnitude and growth of illicit funds generated by crime, corruption, embezzlement and tax evasion, as well as their socioeconomic implications, underscore the need for robust policy responses that will not only curtail these flows but also ensure that countries of origin are able to use the maximum available resources for the realization of economic, social and cultural rights in accordance with the obligations assumed under the relevant international human rights instruments.

Lumina explained that financial flows may be illicit for two distinct although overlapping reasons.

First, they may relate to proceeds of crime, such as corruption, embezzlement, drug trafficking or illegal arms trade. The proceeds are subsequently laundered often through offshore deposits in secrecy jurisdictions and shell companies designed to hide illicit financial flows.

Second, although most illicit financial flows derive initially from legitimate economic activities, the transfer abroad of such funds in contravention of relevant laws (such as non-payment of applicable corporate taxes or breach of exchange control regulations) makes them illicit.

He noted that commonly used methods to evade taxation include trade misinvoicing and transfer mispricing.

According to the report, the Organization for Economic Cooperation and Development (OECD) estimates that a significant percentage of all international trade is intra-group trade occurring between related companies, thus providing a multinational corporation with opportunities to shift profits within companies in its own group to make sure that the accounts show high profits in low-tax jurisdictions.

"While tax evasion, breaking national tax laws, is illegal, many tax avoidance schemes comply with existing laws and regulations," the report says, adding that such tax evasion schemes are a concern to all countries struggling with tight budgets and cuts in essential services. However, owing inter alia to their resource constraints and heavy external debt burdens, developing countries tend to be the most severely affected by financial outflows related to such schemes.

Flow facilitators

"It is notable that most illicit financial flows are facilitated by tax havens, secrecy jurisdiction, shell companies that cannot be traced back to their owners, anonymous trust accounts, bogus charitable foundations, money-laundering techniques and questionable trade practices," says the report.

While in the past persons hid their involvement with funds derived from bribery, embezzlement of public funds, tax evasion or other forms of corruption through anonymous bank accounts or accounts in fictitious names, this option is becoming increasingly less available. The preferred method is the use of a corporate vehicle – this term is used to refer to companies or corporations, foundations and trusts.

A study by the Stolen Asset Recovery (StAR) Initiative, a joint initiative of the World Bank and the United Nations Office on Drugs and Crime (UNODC), showed that trust and company service providers, including those in OECD countries, often fail to exercise sufficient due diligence when approached to create or provide administrative services for such corporate vehicles to comply with the recommendations by the Financial Action Task Force (FATF).

According to the report, there is also evidence that, by failing to exercise due diligence, banks play a key role in facilitating illicit financial flows. A series of high-profile court cases in the United States and elsewhere have shown that international banks have frequently been negligent or complicit in the laundering of corruption proceeds or tax evasion.

On 11 December 2012, for example, the bank HSBC entered into a deferred prosecution agreement in terms of which it agreed to pay penalties of a little more than $1.9 billion for systemic and wilful violations of United States anti-money-laundering and foreign sanctions laws.

[Specialist financial blogs, like Naked Capitalism, have repeatedly drawn attention to the fact that such criminal activities of banks and financial institutions have been merely punished with financial penalties, in effect paid by shareholders, while the perpetrators – the corporations or their executives – have been spared criminal prosecution. From "too big to fail", banks have become "too big to jail". – Editor]

In the United Kingdom, the Independent Expert notes, a 2011 report by the Financial Services Authority based on a survey of the screening practices of British banks for politically exposed persons found that three-quarters of the banks surveyed did not properly establish the legitimacy of the funds deposited by such persons; over half failed to apply enhanced due diligence to high-risk politically exposed persons; and over a third "appeared willing to accept very high levels of money-laundering risk" from such clients.

The scarcity of data combined with lack of transparency on the part of banks and other financial intermediaries involved in illicit financial transactions renders it difficult to calculate illicit financial flows with a degree of certainty.

However, a number of studies have provided useful estimates. A recent study by Global Financial Integrity (GFI) concludes that, depending on the method employed, in 2010, developing countries lost between $783 billion and $1,138 billion in illicit financial outflows.

Transfer mispricing and trade misinvoicing are considered the prime factors for illicit financial flows, followed by illicit flows related to international drug trafficking and other criminal activities.

While flows of the proceeds of corruption out of developing countries account for only about 5% of all illicit financial flows, they have been estimated at $20-40 billion annually. This is still a very significant amount, representing between 15% and 30% of all official development assistance (ODA) currently received by developing countries.

The Independent Expert said he is concerned that, of the considerable amount of illicit funds referred to above, only a small proportion has been repatriated to the countries of origin.

According to the StAR Initiative, only $5 billion in stolen assets have been repatriated over the past 15 years.

A recent survey of 30 OECD member countries showed that only six of these had frozen assets worth slightly over $1.2 billion during the years 2006 to 2009, and they had managed to return only assets worth $227 million to foreign jurisdictions during these four years.

The Office of the UN High Commissioner for Human Rights (OHCHR) has estimated that only around 2% of the estimated funds of illicit origin annually leaving the developing world are repatriated to their countries of origin.

Similarly, a study analyzing the fate of assets stolen, embezzled or otherwise unlawfully obtained by 25 prominent political leaders after they were forced from office shows that the overall sum of stolen assets by these rulers and their family members was approximately $140 billion. However, only a small fraction (5%) of these assets have ever been traced and frozen abroad, and an even smaller fraction (2.4%) had been returned to new, legitimate successor governments.

According to the Independent Expert, studies indicate that most illicit financial outflows are from developing countries.

According to GFI estimates, 61.2% of all illicit financial flows from developing countries come from Asia, mostly due to massive outflows from China and India, the largest developing economies in the region. Illicit financial flows related to commercial transfer mispricing and trade misinvoicing are estimated to account for over 90% of illicit financial flows from this region.

Latin America and the Caribbean follow at 15.6%, with the Middle East and North Africa at 9.9%. Developing Europe follows with 7% of illicit flows, while Africa accounts for 6.3% of all illicit outflows from developing countries.

Lumina says that while at first glance illicit financial outflows from least developed countries (LDCs) may account only for a small portion of all illicit financial outflows worldwide, they have a particularly negative impact on social development and the realization of social, economic and cultural rights in these countries.

Given that LDCs account for less than 2% of world gross domestic product (GDP) and only about 1% of global trade in goods, illicit financial flows from these countries are in relative terms, compared to their small economies, very large.

The United Nations Development Programme has estimated that illicit flows from LDCs amounted, on average, to 4.8% of their GDP over the period 1990-2008. This means, that for every dollar received in ODA, on average, 60 cents exit these countries in illicit flows.

The total amount of estimated illicit financial flows for 39 LDCs for which sufficient data was available amounted to $246 billion, surpassing debt service payments of $164 billion and thus constituting the principal contributing factor to the net resource transfer from these countries to the rest of the world, estimated at $197 billion (all data for the period 1990-2008).

Going offshore

"There is a lack of comprehensive information pertaining to where illicit funds are held. While in some cases significant funds may be returned by corrupt or criminal actors and invested in private assets, such as land and luxury estates in the countries of origin, most funds remain offshore," says the report.

It finds that usually illicit financial flows "are laundered through a complex web of corporate vehicles based in secrecy jurisdictions and tax havens and are subsequently invested in shares, real estate or other assets, often together with wealth acquired through legitimate means."

Assets held offshore (that is, in jurisdictions where the investor has no legal residence or tax domicile) were estimated to amount to $7.4 trillion in 2009. While European investors hold the largest amount of assets offshore – mostly in Switzerland, the United Kingdom, Ireland and Luxembourg – the percentage of wealth held offshore by investors from Latin America, Africa and the Middle East is particularly high. According to the Boston Consulting Group, investors from Latin America, the Middle East and Africa hold between 23.5% and 33.3% of their wealth in offshore financial centres.

"In order to enhance efforts to tackle the problem of illicit financial flows, it is critical that the international financial system is made more transparent and that countries of origin and countries of destination improve their cooperation in the fight against these flows. Making the global financial system more transparent requires fundamental reforms," said Lumina.

The Independent Expert considered it desirable that all measures to tackle illicit financial flows be designed with the need to promote the realization of human rights of the populations of the countries of origin of illicit funds, particularly the poor who disproportionately suffer the negative effects of the shortage of resources resulting from illicit financial outflows.

Indeed, he added, such an approach would be consistent with the recognition (explicit or implicit) in most anti-corruption conventions of the negative impact of illicit financial flows on development, governance and human rights.

The Independent Expert also stressed that illicit financial flows should not be a human rights concern for states only. While states have the primary duty to respect, protect and fulfil human rights, the Guiding Principles on Business and Human Rights require business enterprises to "avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur" (Guiding Principle 13).

Business enterprises that contribute through transfer mispricing, tax evasion or corruption to significant illicit financial outflows and undermine the abilities of states to progressively achieve the full realization of economic, social and cultural rights cause adverse human rights impacts, Lumina concluded. *(SUNS7540)* ❐

Human rights and the post-2015 development agenda

A recent panel discussion at the UN Human Rights Council underlined the need for human rights principles to guide the setting of the UN's development agenda beyond the expiry of the Millennium Development Goals in 2015.

by Kanaga Raja

GENEVA: The United Nations Human Rights Council on 1 March held a high-level panel discussion on human rights mainstreaming, focusing this year on human rights and the post-2015 development agenda, particularly on the right to education.

The panel discussion, at the current 22nd session of the Council here, saw opening statements by UN Secretary-General Ban Ki-moon, UN High Commissioner for Human Rights Navi Pillay, and Luis Brites Pereira, Secretary of State for Foreign Affairs and Cooperation of Portugal.

There were also two keynote speakers, Sheikha Moza bint Nasser, Consort of the Emir of Qatar, Chairperson of the Qatar Foundation for Education, Science and Community Development and UNESCO's Special Envoy for Basic and Higher Education, and Amina J Mohammed, Assistant Secretary-General and Special Advisor of the Secretary-General on post-2015 development planning.

Panellists at the session included Irina Bokova, Director-General of the UN Educational, Scientific and Cultural Organization (UNESCO), Guy Ryder, Director-General of the International Labour Organization (ILO), Margaret Chan, Director-General of the World Health Organization (WHO), Rebeca Grynspan, Under-Secretary-General and Associate Administrator of the UN Development Programme (UNDP), and Yoka Brandt, Deputy Executive Director of the UN Children's Fund (UNICEF).

A concept note prepared for the session observed that as the 2015 Millennium Development Goals (MDGs) deadline gets closer, the international community has mobilized in order to prepare the post-2015 development agenda and address the remaining challenges. Several initiatives have been taken to prepare the ground for that purpose, it adds. These include the Secretary-General's UN Task Team, the High Level Panel of Eminent Persons (HLP) on the post-2015 development agenda appointed also by the Secretary-General, as well as the Open Ended Working Group (OWG) on sustainable development goals (SDGs) arising from the Rio+20 summit.

In this context, says the concept note, the Human Rights Council should play a central role in promoting a human rights-based approach to development. "Indeed, human rights are a central feature of the framework for developing the post-2015 development agenda; while they can contribute to the realization of post-2015 goals, the post-2015 agenda can help achieve the realization of human rights."

It stressed that the central role of the right to education – an overarching right essential for the enjoyment of all other human rights – in accelerating progress toward MDGs is now increasingly acknowledged.

Inextricably linked

In his opening statement at the panel session, the UN Secretary-General said that peace, development and human rights are inextricably linked. "Human rights are essential for achieving the Millennium Development Goals and advancing sustainable development. Today's panel discussion on the post-2015 development framework, therefore, is most timely."

Referring to his establishment of a senior-level UN System Task Team on the post-2015 agenda, Ban noted that the Task Team recommended that the post-2015 agenda be built on three fundamental principles: human rights, equality and sustainability. Agreeing with this, he went on to urge all stakeholders "to ensure that international human rights standards and principles help guide our post-2015 goals and objectives."

The right to education is a crucial part of this picture, he stressed, adding that far too often, people who need their rights most know their rights least.

"Despite progress, too many primary school age children are still not in school. Too many leave school without learning the most basic skills," he said, adding that education, health care, housing and the fair administration of justice are not privileges for the few but rights for all.

"Human rights are part of the DNA of the United Nations and the birthright of every human being," said the Secretary-General, underlining that every member of the human family has a right to grow and develop their full potential in a secure and sustainable environment.

"This requires the full commitment of Member States. Together, let us empower people, and build the world we want," he said.

In her opening statement, the UN High Commissioner for Human Rights said that throughout the post-2015 consultation process very clear calls for human rights have been heard – for civil and political rights, as well as for economic, social and cultural rights, and the right to development. "As we push further with the development of our post-2015 agenda, we in this room must listen to those voices."

The Millennium Development Goals were an important commitment for lifting many people out of poverty. But civil society, and the rights-holders themselves, were not sufficiently consulted in the process of shaping those goals, and their scope was largely limited to the socio-economic, she said.

"They did not address 'freedom from fear' – civil and political rights. Moreover, they focused on progress towards 'average' or aggregate targets, and this often masked very uneven advancement that ignored entrenched inequalities and discrimination. The MDGs were also weak on accountability, at national and global levels."

"So, perhaps it should come as no surprise that a number of initial MDG 'success stories' could not be sustained, and some of those societies are now embroiled in violence," said Pillay.

She said that firstly, because human rights frame a vision that is based on substantive equality and equal rights for all, a new self-standing global goal on "achieving equality" must be the powerful central message of the new, post-2015 agenda.

Secondly, "human rights clarify our post-2015 objectives. These must be universal rights, which include not only an essential minimum standard of services and access for all, in other words, 'freedom from want', but also freedom from fear: guarantees for personal security, political participation, and access to justice."

Pillay added: "A human rights approach will also require that we identify and dismantle discrimination – ensuring that development is fully inclusive, and that all outcomes in the development process enhance the position of the most disadvantaged."

"A human rights approach emphasizes accountability mechanisms – changing what commitments our post-2015 process should agree to monitor, i.e. based on human rights standards, and how we should agree to monitor them, i.e. in a participatory fashion."

She stressed that central to the human rights approach is the universal right to education. Education is a fundamental right in itself, and an important enabling right to claim and realize other human rights. Education is also essential to the achievement of the right to development – enabling all people, without discrimination of any kind, to take an active part in the process.

"In short, without respect for human rights, development is not equitable. And unless it is equitable, development can never be sustainable," said the High Commissioner.

"I urge you, therefore, to help build our post-2015 agenda on our solemn, shared international human rights standards and obligations, in order to unlock new ways to increase the impact and benefit of our work on behalf of rights-holders everywhere."

Promoting equality

A statement was also delivered at the session by Michel Forst on behalf of the group of 72 independent experts working on country-specific and thematic issues at the Human Rights Council.

In his statement, Forst called on the international community to place human rights, equality and non-discrimination, and sustainability at the heart of the post-2015 development agenda.

"The priorities for the post-2015 era must champion universal and fair development in all countries, where the protection and fulfilment of all human rights – civil, cultural, economic, political and social – for all are the overarching aims. The post-2015 development framework should enable citizens to monitor the commitments of their Governments and should place accountability at the core of the new global goals."

Forst, who chairs the Coordination Committee of the group of independent experts, noted that the creation of the MDGs thus far has been a driver for lifting millions of people out of poverty and reducing hunger and the number of preventable maternal and child deaths. The MDGs have harnessed the power of numbers to build consensus around critical global challenges by successfully consolidating governments' commitments.

"As we approach the 2015 deadline for the realization of the MDGs, the international community must cement the gains achieved, build on the lessons learned and aim higher and be more ambitious in order to realize freedom from fear and freedom from want," he said.

However, he pointed out, the MDGs remained silent regarding inequalities.

"We know that rising inequalities have powerful and corrosive effects; they threaten human development and suggest a trajectory that is contrary to the realization of human rights. For example, gender inequality and discrimination persists, is growing in some instances and violence against women continues to undermine efforts to achieve all the MDGs. So for all the successes of the MDGs, they did not manage to tackle inequalities, a priority outlined in the Millennium Declaration."

He added: "Our understanding of the social and economic benefits of equality has dramatically improved over the past decades. Equality is shown to have net positive impacts on a range of social and economic indicators as well as on the management and sustainable use of natural resources. As such, our ability to promote and protect human rights is influenced by rising inequalities and discrimination in all its forms."

In general, he noted, the MDGs have not reached the poorest of the poor and those suffering from exclusion in various forms.

"Even though the water target was met prior to the 2015 deadline, the truth is that we still have 780 million people left out, the majority of whom belongs to minorities, live in extreme poverty, in rural areas or informal settlements or homeless. 870 million people today are hungry not because of insufficient food production, but because they suffer from insufficient social protection. We cannot and should not be satisfied with development goals that exclude millions of the most marginalized and vulnerable people."

Contrary to the prevailing view that promoting equality would reduce efficiency and thus growth, Forst said that the truth is that equality supports economic development and ensures that growth is sustainable.

"We will need to address inequality once and for all as it constitutes one of the most persistent challenges that prevent millions of people from living a life in dignity. We will not be able to overcome the challenges by limiting ourselves to the obvious realities. We must aim for justice for all; those without a voice do not need charity."

He stressed that the post-2015 development agenda should include a standalone goal on equality in order to foster more inclusive forms of development. Individual targets and indicators should be set in such a way that each country's progress towards reducing inequalities is measurable.

The new goals must constitute incentives for change and this change must reach everyone. It is achievable; it is a matter of vision, political will and well-informed development policies, he said.

"A development agenda based on the equal protection and realization of all human rights for all is vital for sustainable development and the practical effectiveness of our actions for present and future generations. Let us accept our collective responsibility to create the future we want," he concluded. *(SUNS7538)* ❐

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approach, his replacement has yet to express a public opinion on the issue. However, according to polling in December on behalf of Friends of the Earth, an environment advocacy group, around 65% of US respondents support the idea of an FTT.

And Woo points out that some 15 bills with FTT-like initiatives were proposed in the US Congress last year, a spike that shows significant political interest. Although none of those bills became law, at least one would reportedly be re-tabled within the coming week, with others sure to follow.

Even with just 11 members, the EU FTT could bring in as much as $47 billion a year. In the United States, some say such a tax could result in $50 billion a year, far greater than the current yearly budget cuts being fiercely debated in Washington.

Yet even as lawmakers may become increasingly enticed by the prospect of such sums, the European Commission's Semeta is clear that part of that money will need to be used for international, collective responsibilities. "We should not forget that many developed countries have very high commitments in terms of financing development and climate change," he said.

"The best solution would be the introduction of such a tax globally ... and I will talk with the [Obama] administration about how we can progress in this area. Of course, I do not believe that my visit today will convince the administration to adopt this tax, but little by little we can progress on the subject." *(IPS)* ❐