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Testing times for world economy

The global economy continues to struggle to achieve strong and sustained growth, with developed economies remaining weak even as developing countries experience deceleration, according to the United Nations Conference on Trade and Development (UNCTAD). Adding to the concerns facing many developing economies are capital outflows and currency depreciations triggered in large part by the prospect of a shift in the United States' monetary policy stance.

Also in this issue:

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Sustained global economic recovery still elusive

The world economy remains sluggish as domestic and international imbalances persist and inappropriate macroeconomic policy stances prevail in many countries, according to a UN development body.

by Kanaga Raja

GENEVA: "The global economy is still struggling to return to a strong and sustained growth path" and world output growth is forecast to decelerate further from 2.2% in 2012 to 2.1% in 2013, the United Nations Conference on Trade and Development (UNCTAD) has said.

In its flagship *Trade and Development Report 2013*, released on 12 September, UNCTAD said that developed countries will continue to lag behind the world average, with a likely 1% increase in gross domestic product (GDP), due to a slight deceleration in the United States and a continuing recession in the euro area.

Developing and transition economies should grow by about 4.7% and 2.7% respectively, it added. "Even though these growth rates are significantly higher than those of developed countries, they remain well below their pre-crisis levels. Furthermore, they confirm the pace of deceleration that started in 2012."

At a 12 September media briefing, Mukhisa Kituyi, the new Secretary-General of UNCTAD, who replaced Supachai Panitchpakdi on 1 September, said that for about five years, as the crisis in the world economy has refused to go away, UNCTAD has been very consistent in its argument that the traditional paradigms – the traditional assumptions – about getting out of the financial crisis do not appear to be part of the solution.

New thinking and new approaches are needed urgently at the global and national levels in areas of economies to be emphasized but importantly in looking afresh at unfettered deregulation in particular in financial markets and how it impacts on national policy, planning and projection, he added.

Analyzing recent trends in the global economy, the UNCTAD report said that economic activity in many developed countries and a number of emerging market economies is still suffering from the impacts of the financial and economic crisis that started in 2008 and the persistence of domestic and international imbalances that led to it. However, continuing weak growth in several countries may also be partly due to their current macroeconomic policy stance.

Among developed economies, growth in the European Union is expected to shrink for the second consecutive year, with a particularly severe economic contraction in the euro area. Private demand remains subdued, especially in the eurozone periphery countries (Greece, Ireland, Italy, Portugal and Spain), due to high unemployment, wage compression, low consumer confidence and the still incomplete process of balance sheet consolidation.

Given the ongoing process of deleveraging, expansionary monetary policies have failed to increase the supply of credit for productive activities. In this context, continued fiscal tightening makes a return to a higher growth trajectory highly unlikely, as it adds a deflationary impulse to already weak private demand.

The report said that while foreign trade (mainly through the reduction of imports) contributed to growth in the euro area, this was more than offset by the negative effect of contracting domestic demand, which even the surplus countries have been reluctant to stimulate. This perpetuates disequilibrium within the eurozone and reduces the scope for an export-led recovery of other countries in the zone.

"Hence, despite the fact that the tensions in the financial markets of the euro area have receded following intervention by the European Central Bank (ECB), prospects for a resumption of growth of consumption and investment in these countries remain grim."

Japan is bucking the current austerity trend of other developed economies by providing a strong fiscal stimulus in conjunction with monetary policy expansion with the aim of reviving economic growth and curbing deflationary trends. An increase of government spending on infrastructure and social services, including healthcare and education, has been announced, to be accompanied by efforts to boost demand and structural policies oriented towards innovation and investment.

To complement these efforts, UNCTAD noted, in April 2013, the Bank of Japan announced that it will increase its purchase of government bonds and other assets by 50 trillion yen per year (equivalent to 10% of Japan's GDP) in order to achieve an inflation target of 2%. Overall, these measures could help maintain Japan's GDP growth at close to 2% in 2013.

The United States is expected to grow at 1.7%, compared with 2.2% in 2012, due to a new configuration of factors. Partly owing to significant progress made in the consolidation of its banking sector, private domestic demand has begun to recover. The pace of job creation in the private sector has enabled a gradual fall in the unemployment rate.

"On the other hand, cuts in federal government spending, enacted in March 2013, and budget constraints faced by several State and municipal governments are a strong drag on economic growth. Since the net outcome of these opposing tendencies is unclear, there is also considerable uncertainty about whether the expansionary monetary policy stance will be maintained."

Main growth drivers

By contrast, said UNCTAD, developing countries continue to be the main drivers of growth, contributing to about two-thirds of global growth in 2013. In many of them, growth has been driven more by domestic demand than by exports, as external demand, particularly from developed economies, has remained weak.

UNCTAD forecast developing countries to grow at the rate of 4.5-5% in 2013, similar to 2012.

"This would result from two distinctive patterns. On the one hand, growth in some large developing economies, such as Argentina, Brazil, India and Turkey, which was subdued in 2012, is forecast to accelerate. On the other hand, several other developing economies seem unlikely to be able to maintain their previous year's growth rates. Their expected growth deceleration partly reflects the accumulated effect of continuing sluggishness in developed economies and lower prices for primary commodity exports, but also the decreasing policy stimuli which were relatively weak anyhow."

The combination of these factors may also affect China's growth rate, which is expected to slow down moderately from 7.8% in 2012 to about 7.6% in 2013. Even though this would be only a mild deceleration, it is likely to disappoint many of China's trading partners.

Among the developing regions, East, South and South-East Asia are expected to experience the highest growth rates in 2013, of 6.1%, 4.3% and 4.7%, respectively. In most of these countries, growth is being driven essentially by domestic demand.

In China, the contribution of net exports to GDP growth was negligible, while fixed investment and private consumption, as a result of faster wage growth, continued to drive output expansion. Encouraged by various incomes policy measures, domestic private demand is also supporting output growth in a number of other countries in the region, such as India, Indonesia, the Philippines and Thailand.

Economic growth in West Asia slowed down dramatically, from 7.1% in 2011 to 3.2% in 2012, a level that is expected to be maintained in 2013. Weaker external demand, especially from Europe, affected the entire region, but most prominently Turkey, which saw its growth rate fall sharply from around 9% in 2010 and 2011 to 2.2% in 2012, but it is expected to accelerate towards 3.3% in 2013.

Growth in Africa is expected to slow down in 2013, owing to weaker performance in North Africa, where political instability in some countries has been mirrored in recent years by strong fluctuations in growth. In sub-Saharan Africa (excluding South Africa), GDP growth is expected to remain stable in 2013, at above 5%. The main growth drivers include high earnings from exports of primary commodities and energy as well as tourism, and relatively strong growth of public and private investment in some countries.

Growth is set to remain relatively stable in Latin America and the Caribbean, at around 3%, on average, as a slowdown in some countries, including Mexico, is likely to be offset by faster growth in Argentina and Brazil.

In 2012 and the first months of 2013, regional growth has been driven mostly by domestic demand based on moderate but consistent increases in public and private consumption and investment. Governments generally turned to more supportive fiscal and monetary policies in a context of low fiscal deficits and low inflation for the region as a whole.

According to the report, domestic demand will continue to support growth in 2013 based on rising real wages and employment, as well as an expansion of bank credit. In addition, a recovery of agriculture and investment should contribute to better economic performance in Argentina and Brazil after weak growth in 2012.

On the other hand, owing to sluggish international demand and lower export prices of oil and mining products (although they remain at historically high levels), a slowdown is expected in the Bolivarian Republic of Venezuela, Chile, Ecuador, Mexico and Peru.

There has been a downward trend in the economic performance of the transition economies since 2012. The impact of the continuing crisis in much of Western Europe caused the economies of South-Eastern Europe to fall into recession in 2012, and they will barely remain afloat in 2013. The members of the Commonwealth of Independent States (CIS) maintained a growth rate of over 3% in 2012 based on sustained domestic demand, but this is expected to slow down slightly in 2013.

The report noted that the continuing expansion of developing economies as a group (in particular the largest economy among them, China) has led to their gaining increasing weight in the world economy, which suggests the possible emergence of a new pattern of global growth. While developed countries remain the main export markets for developing countries as a group, the share of the latter's contribution to growth in the world economy has risen from 28% in the 1990s to about 40% in the period 2003-07, and close to 75% since 2008.

"However, more recently, growth in these economies has decelerated. They may continue to grow at a relatively fast pace if they are able to strengthen domestic demand and if they can rely more on each other for the expansion of aggregate demand through greater South-South trade. However, even if they achieve more rapid growth by adopting such a strategy, and increase their imports from developed countries, this will not be sufficient to lift developed countries out of their growth slump."

UNCTAD also pointed out that international trade in goods has not returned to the rapid growth rate of the years preceding the crisis. On the contrary, it decelerated further in 2012. And while the outlook for world trade remains uncertain, the first signs in 2013 do not point to an expansion. After a sharp fall in 2008-09 and a quick recovery in 2010, the volume of trade in goods grew by only 5.3% in 2011 and by 1.7% in 2012. This slower rate of expansion occurred in developed, developing and transition economies alike. "Sluggish economic activity in developed countries, particularly in Europe, accounted for most of this very significant slowdown."

Overall, said UNCTAD, "this general downward trend in international trade highlights the vulnerabilities developing countries continue to face at a time of lacklustre growth in developed countries. It is also indicative of a probably less favourable external trade environment over the next few years, which points to the need for a gradual shift from the reliance on external sources of growth towards a greater emphasis on domestic sources."

Policy differences

According to UNCTAD, the analysis has revealed that neither the developed economies nor the developing and transition economies have been able to return to the rapid growth pace they experienced before the onset of the latest crisis.

Since the factors that underpinned the pre-crisis economic expansion were unsustainable, endogenous adjustment mechanisms or automatic stabilizers are not likely to restore them. Moreover, relying on such a strategy will not succeed in returning economies to their previous growth pattern, nor is it desirable.

Many proponents of structural reforms believe their main goals should be to improve competitiveness and restore the strength and confidence of financial markets. These goals are supposed to be achieved by short-term measures such as the compression of labour costs and fiscal austerity.

"However, so far, this approach has delivered disappointing results. Other proposals include radical measures, such as more flexible labour markets, lower social security coverage and a smaller economic role for the State. However, none of these proposed reforms are likely to solve the structural problems, and may even aggravate them, because they appear to be based on a flawed diagnosis," asserted UNCTAD.

The discrepancies between developed and developing countries with regard to employment generation reflect their different growth performances, it said.

In developed countries, the strategy of creating jobs by reducing (or allowing a reduction of) real wages has not delivered the expected results in the presence of slow, or in some cases negative, output growth. Such wage policies have an adverse impact on aggregate demand, which makes private firms less willing to invest and to hire new workers. Reducing the price of labour does not lead to the expected outcome of equilibrating demand and supply on the labour market, because lowering the price of labour (the real wage) reduces not only the costs of producing goods and services, but also the demand for those goods and services.

"Attempts to overcome employment problems by lowering wages and introducing greater flexibility to the labour market are bound to fail because they ignore this macroeconomic interdependence of demand and supply that causes the labour market to function differently from a typical goods market," the report stressed.

In the current policy debate, there is broad agreement about the goals but not about how best to achieve them, and sometimes the means appear to be confused with ends. Restoring growth and employment levels, reducing public debt ratios, repairing banking systems and re-establishing credit flows are generally shared objectives.

However, disagreement on priorities, on the appropriate policy tools, as well as on the timing and sequencing, leads to quite different, and sometimes opposite, policy recommendations. For instance, the dominant view in most developed countries and in several international organizations, at least since 2010, has been that fiscal consolidation is a prerequisite for sustained growth because it will bolster the confidence of financial markets and prevent sovereign defaults.

Those opposed to this shift towards fiscal austerity see fiscal consolidation as a long-term goal which would be achieved through sustained growth, and not as a precondition for growth. In this view, premature fiscal tightening will not only be very costly in economic and social terms; it will also be counterproductive, because, with slower growth, fiscal revenues will be lower, and the public-debt-to-GDP ratio is unlikely to decline or may even rise further.

"Despite growing evidence that fiscal austerity hampers GDP growth, many governments are unwilling to change this strategy as they believe they do not have enough policy space for reversing their fiscal policy stance; instead, they are relying on monetary policy for supporting growth and employment."

However, said UNCTAD, there is little scope for monetary policy to further reduce interest rates in developed economies, as these are already extremely low. In addition, so far, unconventional monetary policies (i.e., quantitative monetary expansion) have failed to revive credit to the private sector. Banks and other financial institutions that have access to liquidity will not automatically increase their supply of credit commensurately, as they may still have to consolidate their balance sheets.

Moreover, even if they did expand their credit supply, many private firms would be unlikely to borrow more as long as they have to consolidate their own balance sheets without any prospect of expanding production when they face stagnant, or even falling, demand. This is why using monetary policy for pulling an economy out of a depression triggered by a financial crisis may be like "pushing into a string".

On the other hand, said UNCTAD, central bank interventions (or announcements of their intentions) have proved remarkably effective in lowering risk premiums on sovereign debt. Thus, monetary and fiscal policies may be used for different purposes for tackling the crisis. Fiscal policy, given its strong potential impact on aggregate demand, could be used to support growth and employment instead of trying to restore the confidence of financial markets through fiscal austerity. Meanwhile, central banks could enlarge their role as lenders of last resort to generate that confidence and maintain interest rates at low levels. Moreover, these central bank actions to support credit and growth are more likely to succeed if they are accompanied by an expansionary fiscal policy.

Structural vulnerabilities

According to the report, since the late 1970s and early 1980s, policies based on supply-side economics, neoliberalism and finance-led globalization have involved a redefinition of the role of the state in the economy and its regulatory tasks; an extraordinary expansion of the role of finance at the national and international levels; an opening up of economies, including a reduction of trade tariffs; and a general increase in inequality of income distribution.

The resulting new roles of the public, private and external sectors, the expansion of finance and the increasing income concentration altered the structure and dynamics of global demand in a way that heightened vulnerabilities, eventually leading to the crisis.

"In other words, the present crisis was not the unfortunate result of some misguided financial decisions; rather, it was the culmination of a number of structural problems that have been building up over the past three decades, which created the conditions for greater economic instability."

In order to achieve sustained global growth and development, there has to be consistent growth of household income, the largest component of which is labour income obtained from the production of goods and services. However, over the past three decades, labour income in the world economy has been growing at a slower pace than the growth of world output, with some diverging trends over the past decade.

"The observed declining trends in the share of labour income – or wage share – have often been justified as being necessary in order to reduce costs and induce investment. However, wage income constitutes a large proportion of total income (about two thirds in developed countries), and is therefore the most important source of demand for goods and services. Thus, sizeable reductions of such income relative to productivity gains will have tangible negative effects on the rate of household consumption. And, to the extent that productive investment is driven by expectations of expanding demand, second-round effects of lower consumption on investment would seem unavoidable."

In addition to these negative effects on long-term growth, greater income inequality also contributed to the financial crisis. The links between expanding finance and rising inequality operated in two ways. The larger size and role played by the financial sector led to a greater concentration of income in the hands of rentiers (both equity holders and interest earners) and a few high-wage earners, especially in the financial sector.

Concomitantly, greater inequality led to rising demand for credit, both from households whose current income was insufficient to cover their consumption and housing needs and from firms that distributed a disproportionate share of their profits to their shareholders. This led to a financial bubble that eventually burst, leaving many households, firms and banks in financial distress.

The UNCTAD report emphasized that another long-running trend since the early 1980s has been the diminishing economic role of the state in many countries by way of privatization, deregulation and lower public expenditure. This served to increase economic fragility in different ways.

Another factor contributing to those crises since the 1980s has been widespread financial liberalization, which is another major aspect of the reduced economic role of the state. Financial deregulation, coupled with the extraordinary expansion of financial assets, allowed macroeconomic policies limited room for manoeuvre, and their effects came to be increasingly swayed by reactions on financial markets.

Moreover, as the access of governments to central bank financing was limited, the financial sector gained greater influence over policymakers. This interaction between developments in the financial sector, together with the weakening of government and central bank influence on the economy, generates a particular problem when a recession does not result from cycles in the real sector of the economy, but instead from over-indebtedness of the private sector as a whole.

The value of global financial assets grew from $14 trillion in 1980 to $56 trillion in 1990 and $206 trillion in 2007; and in current GDP terms it tripled, from 120% of GDP in 1980 to 365% in 2007. This expansion was accompanied (and encouraged) by extensive deregulation of national financial markets and the progressive liberalization of international capital movements. As a result, cross-border capital flows jumped from $500 billion in 1980 to a peak of $12 trillion in 2007.

Between 1980 and 1995, the stock of foreign-owned financial assets represented around 25% of global financial assets. This share increased to 28% in 2000, 38% in 2005 and almost 50% in 2007-10, when foreign-owned assets exceeded $100 trillion, or 150% of world output.

"This more prominent role of financial markets carries the risk of greater economic instability, because these markets are intrinsically prone to boom-and-bust processes, especially if they are loosely regulated," cautioned UNCTAD.

The extraordinary expansion of the financial sector over the years has also been accompanied by changes in its patterns of operation, which contributed to an increase in financial fragility. These included a high level of financial leveraging, an increasing reliance on short-term borrowing for bank funding, the extension of a poorly capitalized and unregulated shadow financial system, perverse incentives that encouraged excessive risk-taking by financial traders, a reliance on flawed pricing models and the "lend and distribute" behaviour that weakened the role of banks in discriminating between good and bad borrowers.

The pro-cyclical bias of bank credit was exacerbated by value-at-risk models and the Basel rules on bank capital, which allowed banks to expand credit during booms, when risks seemed low and the price of collaterals rose, and obliged them to cut lending during downturns. The vulnerability of the financial system also increased as a result of its growing concentration and loss of diversity. Much of its operations today are handled by "too-big-to-fail" institutions which tend to take on far greater risks than would be taken by smaller institutions.

"It is possible that some of the characteristics of the credit boom in developed countries are being replicated in developing countries, with some variations. Asset appreciations and private spending that exceeds income are often supported by capital inflows, usually channelled through domestic financial institutions. In such cases, currency mismatches between debt and revenue tend to generate or reinforce the credit boom-and-bust cycle."

Through these different channels, the growing size and role of the financial sector, together with its present structure and modes of functioning, have become a major source of economic instability and misallocation of resources in many countries. It has also facilitated the rise of international imbalances, another key structural problem.

Global imbalances

UNCTAD explained that increasing current account imbalances and the expansion of international finance are closely intertwined. In the immediate postwar era, there are unlikely to have been any countries that had large external deficits for extended periods of time. But such deficits have become more and more common in the era of financialization that started in the 1980s and deepened from the 1990s onwards.

By the end of the 1990s, a tendency towards rising global imbalances re-emerged, owing largely to current account deficits in a few developed countries where credit-driven expansion became prevalent. This tendency was reinforced by the adoption of export-led strategies by developed-country exporters of manufactures, such as Japan and a few North European countries, followed by Germany.

"Export-led growth strategies, to the extent that they have frequently led to trade surpluses, are only sustainable if other countries maintain trade deficits over a long period. In short, the success of such strategies in some countries relies on external deficits in other countries, and the willingness and capacity of the deficit countries to pile up external debt."

But since the crisis, developed countries with deficits seem to be less willing and able to play the role of global consumer of last resort due to their ever-increasing indebtedness. Despite this, policymakers in some countries are trying to respond to weaker domestic demand by gaining export market shares through improved international competitiveness. This is particularly the case with those crisis-hit countries that were running large current account deficits before the crisis and have undertaken recessionary adjustment programmes.

The most common measure adopted, at least in the short run, has been internal devaluation, particularly through wage compression. However, this simultaneous action by several trade partners contributes to a global compression of income and reinforces a race to the bottom. This not only has negative effects on global aggregate demand, since a country's lower wage bill constitutes a demand constraint that affects other countries as well, but it also undermines their efforts to gain competitiveness.

UNCTAD argued that a global mechanism to help rebalance external demand will not be effective if it places the entire or most of the burden of adjustment on deficit countries. Such an asymmetric adjustment is deflationary, since debtor countries are forced to cut spending while there is no obligation on the part of creditor countries to increase spending, which leads to a shortfall of demand at the global level.

"It would be preferable, from an economic and social point of view, if surplus countries assumed a greater role in the rebalancing process by expanding their domestic demand. Ideally, an asymmetric expansionary approach would be the most effective way to restart global output growth on a sustainable basis. In such an approach, the adjustment burden would be taken on primarily by the surplus countries by way of stronger wage increases and fiscal expansion," it concluded. *(SUNS7654)* ❒

Turmoil in emerging economies

The recent G20 summit discussed a new phenomenon – economic turmoil beginning in some major developing countries. Coordination to prevent future crises is still elusive.

by Martin Khor

What a difference half a year makes. At the G20 summit of the world's major economies held in the first week of September, attention turned to the weakening of the emerging economies.

This was a contrast to previous summits. Then, the major developing countries were seen as the drivers of global growth, as the developed countries' economies were faltering.

For two years or so, the European crisis was the focus of anxiety. The American economy was also plagued with domestic problems. The economies of the developing world, including China, India, Brazil and Indonesia, were the safety net keeping the global economy afloat.

But in its report for the G20 summit in St. Petersburg, the International Monetary Fund (IMF) had to do an embarrassing about-turn. It reversed its previous theory that the emerging economies were on the fast track and keeping global growth going. It now warned that the stagnation in these countries is now a drag on the global economy.

Victims

Developing countries' leaders correctly point out that their economies have been victims to the developed countries' monetary policies, especially the United States' "quantitative easing" (QE), under which the US Federal Reserve has been pumping $85 billion a month into its banking system.

A lot of this ended up in developing countries' equity and bond markets, as US investors searched for higher yields there, since the US interest rates have been kept near zero.

However, when the Fed chairman indicated the QE would be "tapering off" and long-term interest rates started rising in response, the capital invested in developing countries has been flowing back to the US.

Vulnerable emerging economies have been hard hit, and worse may yet come. Especially vulnerable are those which have a current account deficit, since they depend on capital inflows to fund these deficits.

The outflow of needed capital and the increased risk have caused their currencies and their stock markets to plunge. This in turn leads to more capital outflow, due to anticipation of further falls in equity prices and in the domestic currency itself. The currency depreciation also fuels inflation.

Thus, former stalwarts India, Indonesia, Brazil, South Africa and Turkey are now the victims of a vicious circle.

In Indonesia, the currency fell in the first week of September across the 11,000-rupiah-to-the-dollar mark (it was 9,500 a year ago), as the July monthly trade deficit rose to $2.3 billion and the annual inflation rate hit 8.8% in August.

In India, the currency fell to 68 rupee to the dollar (from 56 a year ago) before recovering to 65 rupee after a well-received inaugural media conference by the new central bank governor on 5 September.

India's current account deficit is running at around $90 billion a year, making it very dependent on capital inflows. In mid-August, the government introduced limited capital control measures including restricting citizens' money outflows to $75,000 a person (from $200,000 previously) and restraining local companies' investments abroad.

The current account deficits are also significant in South Africa ($25 billion in the latest 12 months), Brazil ($78 billion) and Turkey ($$54 billion), making them vulnerable to the vagaries of capital flows.

The South African rand has fallen in value by 18%. President Jacob Zuma blamed the currency slide on the potential tapering of the US quantitative easing. "Decisions taken by countries based solely on their own national interest can have serious implications for other countries," he justifiably complained.

Countries affected have a few policy tools to deal with the situation. One is to try to stabilize the currency through the central bank purchasing the local currency by selling the US dollar. But this is expensive, and the country may draw down its reserves, especially if speculators keep betting that its currency will fall by more. This is the bitter lesson that Thailand and others learnt in the 1997 Asian financial crisis.

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Azevedo takes over as WTO DG in adverse international scenario

The WTO's new Director-General Roberto Azevedo is confronted with the continuing impasse in the Doha Round trade talks as well as the prospect of making changes in the running of the organization, notes *Chakravarthi Raghavan* in the following article, written in the first week of the Brazilian's tenure.

GENEVA: The new Director-General of the World Trade Organization, Roberto Azevedo, who took over on 1 September and is due to speak to the WTO General Council on 9 September and outline his ideas on speeding up the preparatory work for a mini-package deal at the Bali Ministerial Conference, faces an international scenario more adverse than when he was elected to that office in May.

In a message posted on the WTO website, Azevedo has underscored the forthcoming ninth WTO Ministerial Conference in Bali (3-6 December) as a key priority and that "a successful meeting there will provide a much needed shot in the arm for the global economy and the WTO."

Azevedo is due to make his first international appearance at the summit meeting of the Group of 20 major economies in St. Petersburg this week, whose formal agenda is for the G20 leaders to focus on the global economic situation and provide some guidance for governmental actions by various members, in the wake of the US Federal Reserve and other central banks reversing course on their five-year-old unorthodox monetary measures to prop up the economy.

Even the hint of a "tapering" has resulted in stormy weather for the leading emerging economies, whose strong growth (mainly based on speculative free capital inflows) has provided considerable support over the last five years for a global economy buffeted by the financial crisis in the US and other centres.

All the major emerging economies (including Brazil, India, Indonesia and Turkey) are witnessing dramatic falls in the values of their currencies vis-a-vis the US dollar, and have been forced to, or are in the process of, hiking up interest rates to support their currencies.

As such, even if it had been feasible and equitous for them to make the type of concessions that the US and Europe have been demanding for a package deal at Bali (with no give from the developed countries), it will no longer be so.

Unfortunately, the G20 summit has been effectively derailed by the crisis in Syria.

No doubt, despite the open and hidden wrangles now expected over Syria at the summit, the G20 will still come up with some anodyne statements for a successful Bali meeting and the conclusion of the Doha Round – but it will make no more difference than the statements of the G8 since 2005, and the G20 since 2008.

Negotiating impasse

In the kind of macroeconomic situations they are facing, it will be virtually impossible for any of the developing countries to act on the trade front.

The negotiations on the key issues appear to be still at an impasse.

While the US and Europe continue to demand concessions from the leading emerging markets and other developing countries on the so-called trade facilitation agreement (where everyone else is being asked to harmonize their systems to the US procedures), the US and the EU are refusing to make any concessions on the limited proposals in agriculture.

The issue of food security raised by the developing-country G33 grouping, and for the mini-package to include the parts of the draft agriculture modalities text on this aspect, remains unresolved.

The US is standing firm on its position of "no concessions", while India has adopted food security legislation guaranteeing provision of minimum food requirements to its huge population of the poor and needy. And with India facing elections next year, no government there can give up on this and also make concessions to the US on trade facilitation.

Ministers of developing countries going to Bali will be faced with two major issues:

- First: Is any mini-package that may emerge between now and Bali sufficiently balanced to enable them to take on more commitments and make concessions to the US on trade facilitation?

As it stands, neither the US nor the EU seems willing to yield on the key developing-country issues: neither on a package for the least developed countries nor on ending agricultural export subsidies, nor enabling developing countries like India, Indonesia and others to provide food security to their poor without infringing the WTO Agreement on Agriculture.

Could any of the leading developing countries (both India and Indonesia, among others, are due to go through general elections next year) once again yield to the US and the EU at the WTO in this situation?

- Second: Can they do so and agree on a Bali package on a provisional basis as envisaged in the Doha Ministerial Declaration and its single-undertaking work programme, or would they be expected to commit the folly of a definitive trade facilitation accord to satisfy the US?

Secretariat operations

From the narrower focus of the WTO itself, ex-Brazilian ambassador to the WTO Azevedo, who has the reputation among his former colleagues as a believer in the system, faces the prospect of making changes in the way the trade body's secretariat functions.

First and foremost, since the time of Renato Ruggiero, WTO Directors-General have tended to bypass the accredited ambassadors, choosing to go over their heads and deal with ministers and heads of government/state. This approach has not produced any tangible results, only media headlines.

How Azevedo will strike a balance will be watched with some interest by his former colleagues.

Second, Azevedo's predecessor Pascal Lamy, during the latter's term as EU Trade Commissioner, managed to overload the WTO agenda with the Doha Work Programme launched in 2001 as a single undertaking, thereby buying 10 years' time for EU agricultural reforms (for the EU to do some box-shifting in its agriculture support measures), as Lamy told an informal EU Parliament meeting shortly after the Doha Round was launched.

After taking over as Director-General of the WTO, Lamy ran the WTO secretariat over the last eight years with a small tight group led by his chef de cabinet, with other officials merely carrying out orders.

[Before leaving office, Lamy managed to reward his chef de cabinet, Arancha Gonzalez of Spain, by getting her appointed as head of the International Trade Centre, run jointly by the WTO and the UN Conference on Trade and Development (UNCTAD). The ITC was set up in 1964 with a narrow focus of providing technical assistance to developing-country enterprises (and now the transitional economies too) to promote exports. Gonzalez's curriculum vitae shows that her main experience so far has been in secretariat administrative jobs – as Lamy's chef de cabinet when he was EU Trade Commissioner, and then moving with him from Brussels to Geneva as his WTO chef de cabinet.]

Under eight years of Lamy's stewardship as Director-General, the WTO secretariat organizationally is in a shambles, according to several secretariat officials unwilling to be cited. Secretariat morale has been low, with many directors and senior officials out of the loop of secretariat policy and decision-making processes.

Another failing, one for which the membership is responsible, apparently has been that while the WTO, at US insistence, from the beginning insisted on its officials, members of dispute panels and of the Appellate Body, signing on to a "no conflicts of interest" provision of sorts, Lamy's own contract did not appear to have had such a provision.

According to some trade diplomats, only the current chair of the WTO's Budget Committee, Michael Stone of Hong Kong-China, appears to have raised this question – which surfaced as an issue a couple of years ago when Lamy accepted a post as Director of the Thomson Reuters Founders Share Company. Thomson Reuters is a news agency, as well as a financial service provider in terms of the WTO Financial Annex definitions.

Early in 2009, a dispute was raised at the WTO by the US and the EU against China over restrictions the latter had placed on the operations of the news agencies AP, Dow Jones, Reuters and Bloomberg as financial service providers. The dispute itself was settled among the parties in consultations, but until end-2009, the terms of the settlement had not been notified to the WTO.

At the time the story of Lamy's appointment to the Thomson Reuters Founders Share Company Board came out in end-December 2009 (a Brazilian paper first published the story, including the monetary payments – annual remuneration to attend meetings and travel and other expenses – attached to the job), the WTO, in response to queries, announced that Lamy was turning over any payments as Director to WTO charities. But this did not resolve issues of conflicts of interest. Developing-country members seemed concerned about such a conflict of interest, but not one raised it at the General Council.

Why the chairs of the Budget Committee in earlier years did not raise the issue is not clear, but when this year's chair brought it up, the majors advised him to let things go as Lamy would soon be leaving office.

Some trade diplomats said even the Budget Committee's oversight of the WTO budget, both appropriations and spending, has been less than desirable.

How Azevedo, as a former Brazilian diplomat (and Brazilian diplomacy has a longer history than that of other developing countries), will set things right remains to be seen. But if he does, it will perhaps go a long way to setting the WTO as an organization on a sound footing. *(SUNS7649)* ❐

Success at MC9 has to be first priority, says new DG Azevedo

Acknowledging that "our negotiating arm is struggling", WTO head Roberto Azevedo has stressed the importance of reaching a successfully negotiated outcome at the WTO's Bali Ministerial Conference in December.

by Kanaga Raja

GENEVA: The new WTO Director-General Roberto Azevedo, at a special meeting of the WTO's General Council on 9 September, stressed that his full priority will be to ensure that members achieve a successfully negotiated outcome at the ninth Ministerial Conference (MC9) in Bali this December.

Azevedo, who took office on 1 September, replaced Pascal Lamy who demitted office on 31 August. Azevedo also gave a press conference on the sidelines of the General Council meeting (see below).

In his first statement at the General Council as Director-General, Azevedo said that members are meeting at a crucial moment, with the global economy in a state of flux.

Many economies are still struggling to recover from the effects of the financial crisis. Meanwhile, others continue to emerge, forming new trading relationships and fundamentally shifting the landscape of the global economy. The challenges of development remain huge, he said.

In these challenging times, he believed that the role members play in the WTO is even more important, and that the multilateral trading system remains the best defence against protectionism and the strongest force for growth, recovery and development.

"Yet, as I take on this role, it is clear that the system is in trouble. Progress has stalled," he said, pledging to do all he can to rebuild trust and faith in the organization and in the multilateral trading system.

Azevedo also stressed that he will be an inclusive Director-General working closely with everyone – from the Geneva representatives to ministers, from the secretariat to wider stakeholders, from the smallest to the largest delegations.

He further said that he will also have transparency as a fundamental yardstick in all areas of work, also in administrative matters.

"The perception is paralysis"

"Our negotiating arm is struggling," he pointed out, adding that this is just one part of the work in the WTO. The WTO is about more than Doha. But increasingly the work on the negotiating front has come to define how the WTO is perceived by the world, he said.

"And the perception is that we have forgotten how to negotiate. The perception is ineffectiveness. The perception is paralysis," he said, cautioning that the failure to address this paralysis casts a shadow well beyond the negotiating arm, over every other part of the work.

"It is essential that we breathe new life into negotiations. We must send a clear and unequivocal message to the world that the WTO can deliver multilateral trade deals. That's why success at the Bali Ministerial Conference is vital – this has to be our first priority."

"Success in Bali would bring huge benefits, improving people's lives, including for the poorest amongst us, and boosting trade at a critical moment for the global economy ... But I will say this: while the benefits of success would be great, the consequences of failure would be even greater. It would strengthen current negative perceptions, setting us back in all areas of our work."

He said that members' ability to respond to the demands of an ever-changing world is under threat, and the future of the multilateral trading system is at stake. And if the system is not working, then, in the end, everybody loses. Those who lose the most would be the smallest and most vulnerable economies.

"We have a duty to deliver for them," he said, adding that the world will not wait for the WTO indefinitely. It will move on, and it will move on with "choices that will not be as inclusive or efficient as the deals negotiated within these walls".

The WTO has other priorities too, Azevedo noted. "We must continue to strengthen the implementation and monitoring functions of the WTO to maintain vigilance against protectionism. This is one of the most important aspects of our work."

"Let me assure you, I understand the importance of all of the organization's key functions and I will not lose sight of any of them. But today, we must focus on the here and now. We must look towards delivering on our first priority: Bali," he said.

"Success in Bali will be a boost to everything we do, allowing us to make progress across the board. A successful 9th Ministerial Conference will give us back our confidence that we are on the right track."

A way forward

The Director-General however said that Bali is not the end of the road, and that delivering on Doha has to be part of any future agenda. "We need to discuss some of the contentious issues that have divided us for so long. We must look with fresh eyes at possible options."

He said that he had ideas about "how we can do this – but before we discuss the wider agenda we must restore trust among us and confidence that we can deliver agreements and build a viable path forward on Doha. We need to start this now."

First, he said, he is going to be transparent, open and inclusive. He added that he will be a hands-on Director-General and that he will roll up his sleeves and will be by members' side at the table. Between now and Bali, he said, he will be away from Geneva only when strictly necessary.

"My full priority will be to ensure that we achieve a successfully negotiated outcome in our 9th Ministerial."

Second, Mr Azevedo said that he wants to set out a clear process to deliver success in Bali. "Time is short. Our work must start here and now. That's why I will be commencing intensive consultations with members immediately, starting this week..."

This will be in a variety of formats and configurations at ambassadorial level, and the focus will be on the three key elements of trade facilitation, development and some elements of agriculture, he said. He added that his intention is to have "a rolling set of meetings", giving the opportunity for everyone's voice to be heard across all these issues.

He stressed the need to bring the three Bali elements together now. "They must move simultaneously in our so-called horizontal process. We need to tackle the difficult issues to identify, early in the process, where the possible trade-offs may lie. And we must constantly be reviewing progress."

Noting that many of the big issues that divide members are political, he said that as time is limited, he also wants to start getting capitals more involved in order to overcome impasses, narrow gaps and move members closer towards an agreement. Senior officials must be ready to come to Geneva at certain junctures over the next few weeks, he added.

The development component will be vital in this process, he stressed, adding that he will be listening closely to the developing and the least developed countries to make sure that their interests are taken into account.

There are just 84 days until the Ministerial Conference, he pointed out, underlining that all aspects of this work must start to deliver results quickly, and that flexibility will be key.

"We should always remember what the consequences of failure would be. It would set us back in all areas of our work, undermining the WTO, and compounding the sense that we can't negotiate."

Some capitals are already looking elsewhere towards other solutions which won't be multilateral – second-best solutions which leave many of the big challenges unaddressed.

"That's not in the interests of all of us here and it's not in the interests of the world. We must be committed to deliver a deal before we get on the plane to Bali. It is vital that we succeed," he said, adding that the intermission is over and that it's time the WTO was back at the centre of the world stage.

Success and failure

Asked at a press conference later as to what he would consider a success, and a failure, at Bali, Azevedo said that the success is "if we can reach negotiated outcomes of a multilateral format."

The WTO since 1995 has not delivered any single negotiated outcome of a multilateral nature, he said, adding, "I think it's time we do that."

Azevedo stressed that the balance, the ambition and the gains that will be perceived will depend a lot on the deal itself and what was possible for members to negotiate. As far as he is concerned, any multilateral deal is a good deal because if it is multilateral, it is acceptable and deemed to be a good thing for all members.

For him, a failure today would be no negotiated outcomes. "I think that's essentially what I would see as a failure, but failure sometimes teaches things, so I'm looking for positive outcomes. That's what I hope will happen in Bali and I realistically believe it's possible."

Responding to another question, Azevedo said that his first, second, third and fourth priority is the WTO. "Whatever is good for the WTO is what I will be seeking. The Doha Round is clearly a very important part of what we do. The WTO has come to be defined by whatever happens to the Doha Round."

"I have been saying over and over again that the WTO is much bigger than Doha. We have many other pillars of work here which are important and which affect the lives of people and the way that businesses operate every single day. But in public perceptions [and] eyes, what defines the WTO today is whatever happens in Doha," he said.

"So I will be looking at Doha very closely. It will be our priority. Part of Doha is Bali, so Bali is not a non-Doha negotiation. It is actually Doha negotiations, only not the whole single undertaking. That is something that we had agreed at MC8, the previous Ministerial Conference," he added.

"So, let's do things one step at a time. The first step is try to conclude negotiated outcomes in Bali, which is Doha also, and then let's see what kind of roadmap we can agree on that will take us to a process which will be after Bali but also have a very important element on the Doha Round."

The Director-General also announced that the original forecast made in April this year of 3.3% growth in global trade for 2013 has been revised downwards to 2.5%, and that for 2014, global trade growth has been revised downwards from 5% to 4.5%. *(SUNS7650)* ❐

US, Malaysia skirmish over tobacco in TPPA talks

Negotiations to draw up a free trade pact for the Pacific region are now hamstrung by differences over the proposed exclusion of tobacco products from the deal's liberalization commitments.

by Carey L. Biron

WASHINGTON: Between concluding rounds of negotiations towards the Trans-Pacific Partnership Agreement (TPPA), a major US-proposed free trade treaty, a divisive fight has heated up over the extent to which countries should be allowed to regulate the sale of foreign – potentially far cheaper – tobacco products.

In duelling proposals offered during the latest round of negotiations, in Brunei in late August, the United States and Malaysia put forward starkly different approaches. While Washington is urging that tobacco products be given no special consideration, the Malaysian government has countered that these items should receive a special "carve-out" exempting them from a broader lifting of trade restrictions.

Now, critics of the US proposal are hoping to emphasize the health implications of these proposals ahead of the next round of 12-country TPPA talks, slated to take place here in Washington starting 18 September. The administration of US President Barack Obama had initially hoped to have a final agreement text by October, but that now looks extremely unlikely.

"Under other trade agreements, tobacco companies are currently using their investment provisions to attack public health regulations," Arthur Stamoulis, director of the Citizens Trade Campaign at Public Citizen, a Washington-based consumer watchdog, told Inter Press Service (IPS).

"For this reason, many feel there needs to be a broad carve-out in this agreement for tobacco, if public health is going to be protected. Fortunately, as negotiations get further along and the negotiators get into thornier issues, there's a lot more people paying attention to these talks."

New York Mayor Michael Bloomberg, a long-time proponent of greater tobacco control, recently suggested that the US proposal could directly contribute to "tens of millions" of deaths globally.

The potential results of the US proposal are fairly clear, with repeated evidence going back to at least the 1980s. For instance, according to findings by the Government Accountability Office, the US Congress's main watchdog, after international tobacco companies moved into South Korea in 1989, teenage smoking increased fourfold within the first year.

"There's no question about it," Ellen R. Shaffer, co-director of the Centre for Policy Analysis, a group focused on trade and health issues, told IPS. "When you lower tariffs on cigarettes, prices become cheaper, greater numbers of kids and poor people become addicted, and overall health gets worse."

Dangerous

Advocates of tougher restrictions are warning that the US scheme would be particularly dangerous to developing countries. Not only could the proposal open these economies to potentially cheap cigarettes coming from other countries, but it would also make them vulnerable to expensive litigation from powerful tobacco interests if these countries try to impose trade restrictions.

Smoking rates in the United States and many other developed countries have come down dramatically in recent years, in part on the back of a unique wave of international agreement about tobacco's deleterious health effects.

Indeed, the world's only international health accord, the Framework Convention on Tobacco Control, which entered into effect in 2005, has been ratified by 176 countries – including each of the dozen in the TPPA negotiations, except for the United States.

Yet smoking rates are rising in many developing countries. With tobacco use having led to roughly 100 million deaths during the last century, experts now estimate that it could cause upwards of a billion deaths this century – more than 80% of which will likely be in developing and middle-income countries, according to the World Health Organization.

In the TPPA negotiations, the new US position rescinds an earlier draft proposal that included an exemption for tobacco control measures. Instead, the new proposal simply recognizes that countries are allowed to put in place health regulations, similar to other treaties.

It also offers a compromise of sorts. If any tobacco-related trade dispute were to arise due to the imposition of health-related regulations, health officials would be encouraged to engage in consultations before any settlement process goes forward.

The US Department of Health and Human Services has signed off on the new proposal, with the agency's deputy secretary, Bill Corr, stating that the "proposed language ... will make a difference for tobacco control and public-health efforts".

Yet such provisions still constitute a "retreat ... and fail to prevent tobacco control measures from being challenged as violations of trade agreements", according to Susan M. Liss, executive director of the Campaign for Tobacco-Free Kids, a US advocacy group, reflecting similar sentiments recently expressed by several US health associations.

On the other hand, Liss said in a statement, the Malaysian proposal "is appropriate and necessary to stop the tobacco industry from continuing to challenge tobacco control measures as trade violations, a tactic the industry increasingly has used around the world to fight efforts to reduce tobacco use."

Indeed, not only are countries such as the United States and Australia currently fighting lawsuits brought by tobacco companies against various tobacco control laws, but such suits are increasingly being aimed at developing countries. Uruguay, for instance, is currently battling former tobacco giant Philip Morris over a law that requires particular packaging for cigarettes.

"Developing countries are particularly at risk from these trade rules and challenges simply because they do not have the financial and legal wherewithal to defend against trade suits brought against governments," the Centre for Policy Analysis's Shaffer says.

"The international tobacco industry has changed dramatically in recent years, and this constitutes a two-pronged strategy: first, to shoot down existing tobacco control regulations and, second, to have a chilling effect on countries that may be thinking about instituting regulations."

Shaffer, too, lauds the Malaysian government's proposal, which she says has reportedly met with "some favourable reception, including reportedly from Japan, which would be encouraging given that country's economic strength."

Although tobacco no longer makes up a large percentage of the US economy, pressure on the Obama administration surrounding the TPPA negotiations has come from business interests worried about a "slippery slope" effect – that an exemption for cigarettes would eventually lead to additional exemptions for a range of other products.

The US Chamber of Commerce, the country's largest business lobby group, has been increasingly vocal in recent days on the TPPA tobacco proposals.

"[We risk] opening Pandora's box by setting a precedent that others will try to follow for additional 'unique' products in ways that could be very damaging to American workers, farmers, and companies," John Murphy, the Chamber's vice president for international affairs, wrote in the week of 2 September.

"Following this example, other governments may seek similar treatment for alcoholic beverages, snack foods, genetically-modified organisms (GMOs), or a range of other products – the export of which supports many American jobs." *(IPS)* ❐

(continued from page 6)

Another policy measure is capital controls. Ideally this should be imposed to prevent inflows. But most countries allow the inflows in the good times, and then when these suddenly turn into outflows, the boom-bust problem is laid bare.

Malaysia in 1998-99 imposed controls on outflows of both residents and foreigners, which was effective in stopping the crisis. It was heavily criticized at that time, but now even the IMF is recommending capital controls if the situation is bad enough.

Ultimately there have to be international reforms to prevent excessive capital flows from the source countries, and developed countries have to be disciplined so that their economic policies do not have negative fallout effects on developing countries.

But we will have to wait for such useful international coordination on capital flows and economic policies to take place. ❐

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.

Work begins on financing sustainable development

A UN expert committee charged with identifying financial resources to fund sustainable development commenced its work in late August, reports *Bhumika Muchhala*.

NEW YORK: The long-awaited work of an experts' committee on sustainable development financing, a key outcome of the United Nations' Rio+20 conference, has finally started.

The Intergovernmental Committee of Experts on Sustainable Development Financing held its first session on 28-30 August at the UN headquarters in New York.

However, in contrast to most multilateral discussions and intergovernmental processes in the UN, the session was closed not only to external stakeholders but also to the member states that are not part of the committee membership of 30 states.

The outcome document of the Rio+20 Conference on Sustainable Development in June 2012 established three key processes within the UN to further develop and sustain momentum on sustainable development, and to integrate the sustainable development mandate with the post-2015 global development agenda, which is to take the place of the Millennium Development Goals targeted for 2015.

The three processes are: (1) the Open Working Group on Sustainable Development Goals, mandated to develop a set of sustainable development goals; (2) the Intergovernmental Committee of Experts on Sustainable Development Financing, mandated to identify financial resources and actions as part of the means of implementation; and (3) the process to develop a technology facilitation mechanism, mandated to identify new ways to enable developing countries to access technology for sustainable development.

These key substantive processes are expected to complete their work by September 2014, at which time intergovernmental negotiations on the post-2015 global development agenda will commence. The final reports from these processes will serve as the foundation for the negotiations.

The two co-chairs of the Intergovernmental Committee of Experts on Sustainable Development Financing are from Nigeria and Finland. Respectively, they are Mansur Muhtar, Executive Director for Nigeria, Angola and South Africa at the World Bank, and Pertti Majanen, former Finnish Ambassador to Ireland.

Work clusters

The current work of the Committee is to decide on the establishment of clusters and working groups. Three clusters will start in a sequenced manner; the first two will commence immediately and the third after the second session of the Committee is held in December.

The three clusters are:

1. Assessing financing needs, mapping of current flows and emerging trends, and the impact of domestic and international environments;

2. Mobilization of resources and their effective use, which is further divided into three areas: (a) domestic resources (public and private), increasing effectiveness and mobilizing additional resources; (b) external resources (public and private), increasing effectiveness and mobilizing additional resources; and (c) blended finance (domestic and international) and new initiatives; and

3. Institutional arrangements, policy coherence and governance issues.

Co-chair Majanen said that the Committee agreed to officially organize themselves around the work of these three clusters, and to amend these clusters as needed, based on further discussion as the work of the Committee proceeds.

The purpose of organizing the Committee around these specific workstreams is to facilitate an open process that allows for the participation and input of all 30 members of the Committee through the facilitation roles given to 2-3 coordinators who have been identified for each of the three clusters.

The names and country affiliations of these individual coordinators are not yet available at the time of writing.

Majanen added that "the process of the Expert Committee as it is mandated implies synergies of existing instruments and a view toward preparing a report to propose effective solutions to facilitate the mobilizations of resources to finance sustainable development in the context of the Post-2015 framework."

The first session of the Committee also agreed on the dates of subsequent meetings which span the course of a year: the second session (2-6 December), third session (3-7 March 2014), fourth session (12-16 May 2014) and fifth session (18-22 August 2014).

In response to the strong concerns regarding the closed nature of the meeting expressed by some member states as well as civil society organizations (CSOs), the co-chairs mentioned that there is an outreach plan for all external stakeholders that is currently addressed by the Committee.

Specifically, there will be multi-stakeholder consultations and interaction meetings with UN agency staff.

(There is a CSO letter that calls out against the exclusive and non-transparent manner in which the first session of such a critical Expert Committee was held. The letter, which has now been signed by dozens of organizations and networks worldwide, is addressed to the two co-chairs of the Committee and states: "Failure to uphold the well-established principles and modalities of multi-stakeholder participation agreed in the UN Financing for Development process and to provide a platform to the many civil society organizations with expertise on development finance and financial and economic expertise that have historically engaged in it, and those that haven't but have valuable contributions, would be regrettable. It would represent a dramatic retrogression on the status of civil society participation in financing for development discussions at the United Nations, clouding the objectives of generating trust and broader support towards the Committee's outputs. But it would also be a great loss for the Committee insofar as it would exclude a key source of non-governmental inputs that stand to be of great relevance to the workings of this Committee and to governments.")

With regard to the terms on which the Committee will organize its deliberations with external stakeholders, the co-chairs mentioned that they have just begun to look at some principles by which to organize their interactions.

The co-chairs noted that the Committee is currently based on the Monterrey Consensus and the Doha Declaration on Financing for Development processes. Both processes formulate important parts of the Committee's work. However, a lot of developments have also passed since both of these processes, so the question now is to discern the actions needed on the Committee's part for outreach and forward-looking improvements.

At the conclusion of the first session, the Committee decided to have a very open and informative dialogue by listening to and learning from stakeholders, as this will be an indispensable part of the process.

The Committee stated that it fully intends to integrate a very specific outreach strategy in its modalities of work.

However, no details are available yet.

The co-chairs also confirmed that the Committee's financing considerations and mandate authorize them to integrate their final report into the UN's post-2015 global development agenda process.

Financing for Development process

Several CSOs with observer status at the UN Economic and Social Council (ECOSOC) have also noted that the deliberations of the Committee have the ability to shape discourse and make decisions on financial means of implementation for both the post-2015 global development agenda and the Financing for Development follow-up process.

Within the UN General Assembly, there has been an ongoing debate as to whether the content of Financing for Development should be merged with that of sustainable development.

The CSOs stress that while the sustainable development agenda is critical, it should be coherent with and additional to the broader development agenda, including the process of Financing for Development.

Whether there is a decision to merge the two processes of Financing for Development and sustainable development, or to keep them separate, civil society groups urge for consistency and coherence between the two areas.

In particular, the CSOs highlight that the recurring act of postponing the decision on a date for a post-Doha Financing for Development conference is very problematic.

The follow-up conference was supposed to be held by 2013 at the very latest. However, as of now, there has been a lack of any decision-making in the General Assembly (despite repeated attempts by the Group of 77 and China in the negotiations within the General Assembly's Second Committee to agree to a date and agenda for the conference).

There is some concern that developed countries in particular want the five sessions of the Expert Committee on sustainable development financing to subsume the Financing for Development conference and process.

CSOs, in particular the NGO facilitators of the Financing for Development process, have expressed grave concern regarding such a simplistic amalgamation. They argue that the two processes must remain distinct in order to reflect that while the topics are connected and interdependent, the means of implementation and some of the analyses on the international financial architecture are distinct and must be addressed separately. *(SUNS7652)* ❒

"Responsible mining" as buzzword

"Responsible mining" has come to mean different things to different people. To *Robin Broad*, it should entail a comprehensive notion of economic, environmental and social responsibility.

Buzzwords and fuzzwords – terms that became popular but mean vastly different things to different people. We've had a long list: development, sustainability, good governance, civil society, accountability. "Corporate responsibility" should certainly be on that list. And the avalanche of new buzzwords and fuzzwords continues: emerging markets, inclusive growth, resilience.

But today's buzzword winner is: responsible mining. Meaning what exactly? Well, not surprisingly, as is the case with most buzzwords, it means whatever the user wants it to mean. So, let me try to distinguish among the top four uses of "responsible mining."

To most corporate mining executives and, alas, also to many government officials, mining is responsible if it focuses on maximizing economic growth which, in turn, maximizes economic profits, which will make everyone better off and in the most efficient way. This, of course, is what neoclassical economic theory tells us. Socially, this will be responsible because the economic benefits will multiply and trickle down to the poor. In terms of environmental impact, the "environmental Kuznets curve" purportedly proves that, at least in theory, as a country grows in economic terms, certain environmental pollutants decrease.

Current examples of governments seeming to define "responsible mining" along these lines include Guatemala and Honduras, which have significantly increased the number of licences with global mining corporations, and also numerous governments across Africa. Most mining firms embrace this argument: "An engine of growth & prosperity," announces the OceanaGold sign that greets me and other visitors at its Didipio gold and copper mine in the Philippines.

A second use of "responsible mining" presents a slight variation on this, with the mining firm stating a clear commitment to that other buzzword, "corporate responsibility." Typically, this does not involve changing the production process itself. Rather, the corporation commits to using some of its profits to do something "good." So, for instance, in the Philippines, Australian-headquartered OceanaGold has committed to "responsible mining" that translates into planting trees at nearby sites and contributing to medical missions and supporting community programmes in education and other areas.

"Responsibility" is in the eye of the beholder, or buzzword user. Indeed, OceanaGold's open-pit Didipio gold/copper mine received an official rebuke by the Philippines' Commission on Human Rights in 2011. Citing OceanaGold's forcible and illegal demolitions, the harassment of residents by the police and the indigenous community's right to culture, the Commission recommended the revocation of OceanaGold's mining licence.

A third definition of "responsible mining" focuses on "responsibility" in terms of who gets the economic and financial benefits of mining. Just as the first definition builds on mainstream economic theory, this third is modern-day structuralism à la Raul Prebisch. Structuralists focus on how to get maximum economic benefits to the South (be it a specific country or the South in aggregate terms) rather than to the North.

This "paradigm" of responsible mining focuses on increasing the taxes that corporations pay to the Southern government (or doing away with tax holidays). So, for instance, the Philippine government is currently deliberating revising its mining law to increase the taxes paid by mining companies and therefore government revenues from mining. A more "progressive" version of this structuralist definition focuses on the distribution of such tax revenues within the mining country, by looking at the amount of tax that stays on a local (municipal or provincial) level versus what goes to the federal government.

The final definition of "responsible mining" is what, at least in my mind, it should really mean: a more comprehensive notion of economically, environmentally and socially responsible mining. Socially, as I have witnessed in the Philippines, Guatemala and El Salvador, the presence of mining corporations invariably brings conflict and death to previously peaceful municipalities. Responsible mining should require the free, prior and informed consent of local communities, especially before any corporate "contributions" to local officials or communities. Environmentally, responsibility involves careful assessment – based on full information and by a knowledgeable and objective party other than the mining corporation – of possible environmental impacts of the mining. This includes all chemicals used in the mining process (typically cyanide used to separate gold from the rock), the toxins released by the mining (for example, arsenic is often released in El Salvador and elsewhere) as well as overall "acid-rock drainage", and the broader environmental impacts and risks.

If this sounds like pie in the sky, it is not. A notable case of using this broader definition of "responsible mining": the government of El Salvador has not issued new mining licences since 2008, primarily because the key watershed that would be affected is the watershed for the majority of the country and is already severely polluted. So too, in this fourth definition, economic benefits (wages, taxes, etc.) from a mine's limited life are weighed against social and environmental impacts. This is actually what the Salvadoran government attempted to do through what it called a Strategic Environmental Review, overseen by both the Ministry of the Environment and the Ministry of the Economy.

In sum, all "responsible mining" is not alike. It is important to ask: "responsible mining" for whom and by whom?

The first sentence of the website of a gold-mining firm that is suing the El Salvador government over a mining licence that the government denied might make you think you have landed on the homepage of a rare responsible mining corporation: "Pacific Rim is a mineral exploration company … committed to excellence in environmental stewardship and social responsibility." Buzzword alert. Indeed, in El Salvador, as in the Philippines and elsewhere, grassroots communities and a handful of elected officials are trying to give deeper meaning to the definition of "responsible mining," so that it is no longer a buzzword or fuzzword. ❐

Robin Broad is a Professor of International Development at the School of International Service, American University, Washington, DC. Her most recent book, co-authored with John Cavanagh, is Development Redefined: How the Market Met Its Match. *The above article is reproduced from the Triple Crisis blog (triplecrisis.com/buzzwords-responsible-mining/, 3 September 2013).*

Sliding back to the Victorian Age

The world is regressing towards egregious levels of inequality, but, asks *Roberto Savio*, are today's democracies doing anything about it?

SAN SALVADOR: A recent report by the Centre for Analysis of Social Exclusion at the London School of Economics called attention to the fact that, at the present rate of inequality, by the year 2025, the United Kingdom will have returned to the unequal society of the end of the 19th century.

In other words, we are going back to the times of Queen Victoria!

In 2010, the incomes of the chief executives of the 100 largest companies in the UK increased by 49%, while the average pay rise was just 2.7%. According to a European Banking Authority report, in 2010 and 2011, 2,436 UK bankers earned more than one million euro per year, against 162 in France and 36 in the Netherlands.

Nearly 50% of the funding of Britain's Conservative Party comes from the financial sector. No wonder that British Prime Minister David Cameron is obliged to choose the City over Europe.

The world trend is exactly the same. In China, there are 1.3 million millionaires. In its last report, *Forbes*, the magazine for the rich, happily informed its readers that the 2013 Forbes Billionaires list now boasts 1,426 names – including 122 in China – with an aggregate net worth of $5.4 trillion. "We found 210 new ten-figure fortunes," it says.

What this means is that the combined wealth of the Forbes billionaires is now larger than the US budget, which is $3.8 trillion for this year. Actually, they overtook the US budget three years ago. And if we take just the 10 billionaires at the top of the Forbes list, together they hold an amount of $451.5 billion.

In other words, we could fill a 300-seat plane with the 300 richest persons in the world, yet their wealth exceeds the combined wealth of three billion people: nearly half of humankind.

Nobel laureates Paul Krugman and Joseph Stiglitz have written extensively on how social injustice hampers development and creates economic crisis, and Krugman has documented the increase in inequality which accompanied the crises of 1929 and 2008. In the 1930s, huge steps were taken to tackle inequality and vested interests.

In today's world, this should be our main reflection (a reflection not being made by US President Barack Obama). We should not forget that in the era of Charles Dickens, Karl Marx was writing about the exploitation of children in British mines.

In 1848, Europe was shaken by a wave of uprisings triggered by the extreme exploitation of workers by the capitalists born out of the industrial revolution. After the unrest was put down, trade unions were created, and a progressive political movement was born.

Marx gave a scientific framework to an ongoing wave. And, when the (unsuccessful) Russian revolution of 1905 was followed by the successful Soviet revolution of 1917, a threat to capitalism was established.

During the period between the two world wars, efforts were made everywhere to prevent other countries from taking the path of Russia. Trade unions became legal and part of the establishment, the Left entered parliament, and there were a number of initiatives to accommodate the demands of the people. No right-wing party in power ever tried to scale down social conquests; at most it slowed them down.

The Second World War dramatically changed the global scenario, sowing the seeds of the Cold War. After the International Monetary Fund and World Bank were set up in 1944 as guardians of a global monetary system, the United Nations was established in 1945 in the name of world governance.

The values for world governance had a very strong social content, also contained in national constitutions: social justice, equality, participation, workers' rights, human rights, advancement of women, education for all – and the list continues.

But, let us pause for a second: would it be possible today to adopt the Universal Declaration of Human Rights, or the present charter of the United Nations? And have the US committed to paying 25% of the costs?

Triumph of capitalism

With the collapse of the Berlin Wall, a new world was created. Capitalism, not the West, was the winner. And globalization understood as total freedom for capital and investments (not for goods and people) would bring wealth through the trickle-down theory.

Here I have bowed to the principle of modern journalism to say in a few words what should be argued in a much lengthier and better-documented analysis. But so much has been published on fiscal paradises and tax evasion that, hopefully, no statistics are needed here; suffice it to recall that fiscal paradises host $32 trillion.

The American Bankers Association has recognized that it spent $800 million last year lobbying against the Dodd-Frank financial reform law (Dodd-Frank Wall Street Reform & Consumer Protection Act) passed over three years ago.

The law, passed at the height of the banking crisis, triggered a broad consensus on the need to regulate, but that is now gone. The financial system has adopted the Asian proverb: When there is a strong storm, lie down and wait until it goes away. So now, after three years, of the 398 rules under the Dodd-Frank law, 240 (60%) have not yet been implemented.

President Obama has called for a speedy conclusion. But, until now, Obama has only met once with the regulators and that was in mid-2011.

So the real question is: in a vastly unjust society, does democracy work? Or does it become just a formal mechanism to accommodate those inside the system and ignore the excluded?

Do those 300 sitting in the plane of extreme wealth have the same view of the world as the three billion poor left on the ground? And if not, does the latter's view of the world count as much as that of the 300 people on the plane?

Because we know well that in Victorian times people were not equal in that kind of democracy ... and we all know how much blood and suffering it took to bring the world to the period of expansion aiming at social harmony that we had until 1989.

But have you heard these kinds of questions among the Obamas, the Merkels, the Camerons, the Rajoys or anyone else, on this return to the past?

Without forgetting the case of Silvio Berlusconi, the Italian billionaire who created and funded his own party, served as prime minister for the best part of 20 years, was found guilty of fraud against the state and now holds the government of Italy in the balance. He is part of today's democracy – but is this real democracy? *(IPS)* ❐

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Despite recession, global migration on the rise

The number of migrants worldwide is at an all-time high, UN data reveals.

by Roger Hamilton-Martin

NEW YORK: New international migration figures released by the United Nations on 11 September show that more people than ever are living abroad. Around 232 million of the global population of seven billion are considered international migrants, simply defined as persons living outside their country of birth.

The statistics collected by the UN Department of Economic and Social Affairs (DESA) show that despite having been dampened by the international economic crisis, international migration has weathered the storm and is still on the rise – if at a slower rate than in 2008 when figures were last released.

In a statement, Wu Hongbo, UN under-secretary-general for economic and social affairs, stressed the positive impact of migration on development, saying "migration broadens the opportunities available to individuals and is a crucial means of broadening access to resources and reducing poverty."

The UN team has been preparing estimates for the last four years, with a majority of the data being drawn from national censuses. When data is missing for a country, estimates are made by extrapolating a trend based on previous censuses. This can be difficult – for example in Lebanon, the last census was taken in 1930. In Afghanistan, the government is currently trying to collect data, but it has been decades since the last census.

The United States is still the world's most popular destination, with around 45.8 million migrants, having gained around one million migrants per year since 1990. The second largest gain since 1990 has been Saudi Arabia which has received seven million. Europe and Asia are the continents with the largest migrant populations, hosting around two-thirds of all international migrants worldwide.

In 2013, 72 million international migrants were residing in Europe, compared to 71 million in Asia. The statistics show that migration is highly concentrated in 10 countries, including the US, Russia, Germany and Saudi Arabia.

According to Bela Hovy, chief of the Migration Section at UN DESA, a strong trend has been the rise in movement from countries in the Southern Asian region to countries in Western Asia.

"What's new is enormous construction activity in West Asia, causing movement from developing countries like Bangladesh, Sri Lanka, Nepal, to move to those areas," he told Inter Press Service (IPS). "Saudi Arabia is the biggest recipient, along with Qatar and the United Arab Emirates."

Currently, there are 2.9 million people from India living in the UAE.

This has implications for development in that remittances are becoming a big factor for people in those South Asian countries. "It's good for migrant families and their countries. The kids staying behind are able to go to school and get healthcare," said Hovy.

However, there have been issues with rights violations of workers in the West Asian destination countries, notably for domestic workers, often women. Human Rights Watch has expressed concern that workers are especially vulnerable in the Middle East.

"The failure to properly regulate paid domestic work facilitates egregious abuse and exploitation, and means domestic workers who encounter such abuse have few or no means for seeking redress," the group notes.

A landmark change has been the recent drafting of the International Labour Organization's Domestic Workers Convention, which came into effect in the first week of September.

South-North migration

Hovy explained the changing face of international migration in terms of population migration from developing to developed countries.

"In 1990, most international migration was global South to global South, but since 2000 this has changed," he said. "Now, South-North has become as common as South-South. Most international migrants originate in developing countries, but they are settling almost equally in countries of the global South as the global North."

Nowadays, six out of 10 international migrants reside in the global North. The population of working-age people among international migrants proved to be significantly higher than in the global population, reflecting the large movement of workers to West Asian countries. Some 74% of all international migrants are aged 20-64, compared to only 58% of the global population.

In Europe, Germany, France and the United Kingdom host the largest migrant communities. However, as a percentage of their total populations, relative to other European countries, their figures were among the lowest.

Worldwide, refugees accounted for a small part of the migrant population, according to the report. UN DESA works closely in conjunction with the UN Refugee Agency to incorporate accurate figures for refugees in its migration data. Asia hosts the largest number of refugees at 10.4 million, with this number affected in recent years by conflicts and unrest in the Middle East. *(IPS)* ❒