THIRD WORLD
Economics
TRENDS & ANALYSIS

Published by the Third World Network KDN: PP 6946/07/2013(032707) ISSN: 0128-4134 Issue No 589 16 – 31 March 2015

Divisions appear ahead of development financing meet

Intergovernmental talks are underway at the UN to draft the outcome document of the third International Conference on Financing for Development, to be held in Addis Ababa this July. Member states have thus far found themselves at odds over various issues to be addressed by a conference expected to chart the basis for securing resources to fund the development process.

Also in this issue:

THIRD WORLD
Economics
Trends & Analysis

131 Jalan Macalister
10400 Penang, Malaysia
Tel: (60-4) 2266728/2266159
Fax: (60-4) 2264505
Email: twnet@po.jaring.my
Website: www.twn.my

Contents

THIRD WORLD ECONOMICS
is published fortnightly by the Third World Network, a grouping of organisations and individuals involved in Third World and development issues.

Publisher: S.M. Mohamed Idris; **Editor:** Chakravarthi Raghavan; **Editorial Assistants:** Lean Ka-Min, T. Rajamoorthy; **Contributing Editors:** Roberto Bissio, Charles Abugre; **Staff:** Linda Ooi (Administration), Susila Vangar (Design), Evelyne Hong & Lim Jee Yuan (Advisors).

- **Annual subscription rates:** Third World countries US$75 (airmail) or US$55 (surface mail); India Rs900 (airmail) or Rs500 (surface mail); Malaysia RM110; Others US$95 (airmail) or US$75 (surface mail).

- **Subscribers in India:** Payments and enquiries can be sent to: The Other India Bookstore, Above Mapusa Clinic, Mapusa 403 507, Goa, India.

- **Subscribers in Malaysia:** Please pay by credit card/crossed cheque/postal order.

- **Orders from Australia, Brunei, Indonesia, Philippines, Singapore, Thailand, UK, USA:** Please pay by credit card/cheque/bank draft/international money order in own currency, US$ or euro. If paying in own currency or euro, please calculate equivalent of US$ rate. If paying in US$, please ensure that the agent bank is located in the USA.

- **Rest of the world:** Please pay by credit card/cheque/bank draft/international money order in US$ or euro. If paying in euro, please calculate equivalent of US$ rate. If paying in US$, please ensure that the agent bank is located in the USA.

Visit our web site at http://www.twn.my.

Printed by Jutaprint, No. 2, Solok Sungei Pinang 3, Sungai Pinang, 11600 Penang, Malaysia.

Gaps open up in run-up to FfD3

Significant differences have emerged among the world's governments over how best to finance the development process, as they engage in UN discussions leading up to a major international meet on this subject in July. The following is an extract from a document – prepared by the non-governmental organizations *Regions Refocus 2015, Third World Network* and *Development Alternatives with Women for a New Era (DAWN)* – which looks at the key areas of contention and presents recommendations from regional workshops convened in collaboration with South-based civil society networks.

In July 2015 in Addis Ababa, Ethiopia, the governments of the United Nations will negotiate an important political agreement on how to finance, support and enable the new sustainable development agenda. The third International Conference on Financing for Development, or FfD3, follows a trajectory that began in the late 1990s in recognition of the need for global attention and action to address and overcome systemic inequalities and the achievement of development.

The conference will be an arena for a timely and foundational agreement on how to finance development through public and private means, and through domestic and international policies and programmes. It will result in an intergovernmental negotiated and agreed outcome, which will lay the groundwork for this landmark year of global agreements, particularly the two major intergovernmental negotiations that follow it: the UN summit to define the post-2015 sustainable development agenda, and the 21st Conference of the Parties to the UN Framework Convention on Climate Change (UNFCCC), a major legally binding agreement on who bears responsibility for climate change and how.

Since the FfD3 process began in late 2014, lines have been drawn primarily – though not always – between the Global South and the Global North. The Group of 77 and China (G77) (comprised of 134 developing countries), the African Group, the least developed countries (LDCs), Brazil, India, and other states and blocs consistently defend the right to development, the guiding principle of common but differentiated responsibilities (CBDR) as contained in the Rio Principles of 1992, and the need for means of implementation (MoI) that reflect these principles.

Taking an opposing view, developed countries including the European Union, the United Kingdom, the United States and Japan assert that all countries have to take responsibility and that CBDR only applies to issues related to the environment and climate change. This fissure is at the very centre of the geopolitical dynamics at the United Nations, not only in the FfD3 discussions but echoing throughout the negotiations towards the Sustainable Development Goals (SDGs).

One of the essential tasks of FfD3 is to meaningfully address the means of implementation of the new sustainable development agenda. MoI consist of both financial resources (e.g., aid, concessional lending) and non-financial measures including technology transfer and capacity building, as well as international systemic issues of finance and trade. From the perspective of developing countries, the G77 emphasizes the importance of action-oriented and time-bound MoI to support the achievement of each of the SDGs, as well as addressing the systemic obstacles that prevented the achievement of previous internationally agreed development goals. The EU and other Global North countries would prefer that FfD3 focus solely on defining financial MoI in the context of the post-2015 sustainable development agenda.

Further, the G77 asserts that the Addis Ababa conference should not only review the progress of the Financing for Development agenda as defined in the first FfD conference in Monterrey in 2002, but also reinvigorate its follow-up. FfD3 must identify obstacles, commit to actions to overcome these obstacles, and create or strengthen mechanisms to ensure predictable and secure resources for development.

Faultlines emerge in FfD3 process

Significant sticking points as revealed in the FfD3 discussions so far are examined below, following the seven thematic headings of the Zero Draft of the Addis Ababa Accord, which was released in mid-March. The structure of this document does not signify acquiescence to the shift away from the original FfD agenda as outlined in Monterrey and Doha. Along with the G77 and a majority of civil society, we call for the FfD3 process to affirm and adhere to the original structure of the Monterrey Consensus and Doha Declaration.

A. Domestic public finance: Primary source of development, or complement to aid?

While the FfD3 discussions have focused more on private finance than on public, developed countries in particular emphasize the importance of domestic resource mobilization as a primary vehicle for development. The EU, along with the US, Australia and Japan, disproportionately place the onus of achieving development on the individual state, thereby deflecting attention from the historical responsibility of European and other Northern countries to contribute to global development. This disproportionate emphasis by European and other Northern states on domestic resource mobilization also evades a discussion of the need for these states to reaffirm – and fulfil – their promises to provide aid.

In the context of the post-2015 development agenda, the Rio principle of CBDR strives towards balancing universality of objectives within the reality of the deeply imbalanced and asymmetric world in which we live. Throughout the SDG negotiations in 2013-14, developing countries repeatedly asserted that while the goals are universal to all countries in terms of their nature and relevance, the degree of national responsibility in the implementation of the goals should be differentiated in accordance with the varying capacities, realities and developmental levels of countries.

As part of a broader frame of "gender-responsive public management," the Doha Declaration (2008) reiterated the need to allocate resources to promote gender equality. Governments from all regions have mentioned the importance of gender equality and women's empowerment during the FfD3 preparatory process. This welcome development is reflected in the current Zero Draft, which "reiterate[s] the need for gender mainstreaming in the formulation and implementation of financial and economic policies and agree[s] to implement transformative actions to ensure women's equal rights, access and opportunities for participation and leadership in the economy" (paragraph 6).

During the FfD3 negotiations, Tonga and Uruguay have stressed the need for the Addis outcome to centre on gender equality and women's rights, in line with a statement delivered by Iceland at the first drafting session on behalf of 20 governments. These governments warn that domestic budgets are "generally not gender-responsive," and recommend budget transparency around "expenditure allocated to tackling gender inequalities and appropriate and inclusive mechanisms for the participation of women and the inclusion of gender concerns in budgeting and spending policies." The statement calls attention to women's disproportionate lack of access to financial services, an important point that must be addressed while simultaneously reorienting the financial sector towards equitable and sustainable development.

While the increased attention to gender equality in FfD3 is welcome, the Addis outcome must avoid further entrenching the instrumentalization of women, particularly apparent in the "smart economics" approach of the World Bank and the International Monetary Fund (IMF). Also crucial is the analysis that women are disproportionately impacted by austerity programmes, the inequitable outcomes of public-private partnership projects, and the various dysfunctions of the international trade and financial architectures, from rigged trade rules to financial speculation.

The statement delivered by Iceland on behalf of 20 governments also addresses the gender dimensions of taxation policy, which are also reflected in the Zero Draft (para 18). Regions Refocus 2015 shares this focus, arguing that tax equity and curbing illicit capital flows should garner additional resources for financing gender equality and sexual and reproductive health and rights, and thereby fulfil states' obligations to commit the maximum available resources to fulfilling women's human rights. The disproportionate burden of taxation on people and communities living in poverty must be reversed, as part of a broader shift in fiscal policy at the national level to address inequalities.

Focusing on the international and structural dimensions of domestic resource mobilization, the G77 has emphasized the primary importance of international public finance for development. The G77 has also linked domestic resource mobilization to the need for international cooperation to stem illicit financial flows (IFFs), calling for the unconditional return of stolen assets to countries of origin and taking on board many of the proposals of the recent African Union High-Level Panel on IFFs. Widespread practices of tax evasion, trade and services mispricing as well as transfer pricing abuses by transnational corporations account for the bulk of illicit outflows from developing countries. According to the aforementioned High-Level Panel, the African continent recently lost $50-60 billion a year in illicit financial outflows. This is more or less equal to the total foreign direct investment (FDI) and more than the total official development assistance (ODA) that the continent receives annually.

In the context of the discussions on domestic public finance, one of the key achievements of FfD3 would be to retain and reaffirm a decision to upgrade the UN Committee of Experts on International Cooperation in Tax Matters into an intergovernmental committee, as currently outlined in the Zero Draft (para 28). Along these lines, many developing countries use the FfD3 process to call attention to the undemocratic nature of the international system around tax standards.

Decrying the dominance of the rich-country Organization for Economic Cooperation and Development (OECD) over international taxation and the IFFs discourse (through the new Base Erosion and Profit Shifting, or BEPS, initiative), the G77 requests a UN process where each country has an equal seat at the table. This call is in line with the G77's repeated emphasis on the uniquely democratic and legitimate role of the United Nations in carrying out multilateral coordination of systemic policy issues that are crucial for all countries, but especially developing countries.

Additionally, states including Benin (on behalf of the LDCs) and Guatemala call for a halt to the "race to the bottom" in tax rates for multinational corporations. Benin explained: "Private sector agents, particularly those representing transnational corporations, should be discouraged and prevented from seeking deep or long-lasting tax concessions when investing in LDCs." The African Group added a call for country-by-country reporting for transnational corporations, to be made public and accessible to developing countries' tax administrations and local civil society. The Zero Draft includes this language, agreeing to "work together to strengthen transparency and adopt pending policy innovations, including: public country-by-country reporting by multinational enterprises; public beneficial ownership registries; and multilateral, automatic exchange of tax information, with assistance to developing countries, especially the poorest, as needed to upgrade their capacity to participate" (para 25).

Regional civil society proposals

- *Raise the tax proportion, through shifting of indirect and consumption-based taxes to progressive taxation of income and capital, based on an analysis of the implications of taxation on equity and the disproportionate burden borne by people living in poverty. (Arab States)*
- *Implement progressive tax systems that shift the burden from people living in poverty, women and other marginalized groups to those with higher incomes, especially corporations, the financial sector and extractive industries. (Africa Feminist Statement, Latin America Feminist Statement)*
- *Address corporate tax evasion through a resurgence of state responsibility towards regulation and taxation rather than policies that spur competitiveness in global markets regardless of social cost. (Arab States)*
- *Reverse the "race to the bottom" and combat tax evasion and avoidance and their impacts on the ability of states to guarantee human rights. (Latin America Feminist Statement)*
- *Strengthen state legislation and institutions to challenge multinational corporations that use trade mispricing, misinvoicing, tax havens and other tax-evading tactics. (Africa Feminist Statement, Arab States)*
- *Tackle illicit capital flows to garner additional resources for financing gender equality and sexual and reproductive rights, thereby fulfilling their obligations to commit the maximum available resources to fulfilling women's human rights. (Latin America Feminist Statement)*

B. Domestic and international private business and finance: Warning signs

The FfD3 arena – as well as that of post-2015 – has witnessed an intense promotion of the role of private finance in achieving development, led primarily by the EU, along with the US, the UK, Australia and Switzerland. According to the EU, "there is a case for international action and strong partnerships to leverage additional private finance – DFIs, blended finance platforms, deploying equity, loans and guarantees can mobilize private sector finance and incentivize long-term investment in critical infrastructure sectors in developing countries." The EU especially highlighted the potential of blended finance – which combines grants with loans and equity from public and private sources – to catalyze public and private investments in partner countries.

The use of scarce ODA resources, essentially public funds, for private sector contracts and investments has long been a contentious issue. Public aid flows are distinct from private sources because their purpose is to finance the pursuit of the public goods (such as health services) funded by money collected by the state, for example through taxation (see Section A above). Further, the track record of private sector financing by multilateral and national financial institutions reveals that funds are most often given to companies domiciled in donor countries rather than in developing countries. This finding raises questions as to whether international financial institutions are actually directing their financial support to the most credit-constrained companies in the world's poorest countries, or whether their investment patterns are simply following market trends.

Cautioning against a wholesale embrace of public-private partnerships (PPPs) and the serious issues inherent within them of contingent liabilities, fiscal risks and debt burdens, the G77 emphasizes that private corporations are primarily profit-focused and therefore should not be relied upon to achieve development. Instead, developing countries are using the FfD3 process to voice their affirmation of the primary role of public finance in ensuring sustainable development.

An intergovernmental accountability mechanism for UN partnerships with the private sector is urgently needed. This mechanism must be rooted in the international human rights framework and existing obligations in all three dimensions of sustainable development (economic, social and environmental). The central objective of the framework would be to ensure accountability and *ex ante* assessment of partnerships. Clear criteria should be applied to determine whether a specific private sector actor is fit for a partnership in pursuit of the post-2015 goals. UN member states would be at the helm of formulating the framework, including the criteria, the oversight and monitoring process based on due diligence reporting, and independent third-party evaluations.

One key objective would be to eliminate potential private donors whose activities are antithetical or contradictory to the UN Charter, the Universal Declaration of Human Rights and the SDG agenda. Such a framework could be situated within the High Level Political Forum (HLPF), which would restructure the HLPF into a meaningful locus for accountability and governance of the post-2015 development agenda.

Regions Refocus 2015 also directly challenges the embrace of the corporate sector by the UN secretariat along with member states and even some large civil society organizations. Regulation and safeguards must replace laxity and low taxes, so that the prevailing paradigm benefits developing countries rather than the corporations that invest in them. All negotiations in the UN, including Rio+20, SDGs, and FfD3 and the post-2015 development agenda this year, have witnessed developed countries placing exceptional focus on an enabling environment for business. Developing countries, on the other hand, have repeatedly called for an international enabling environment for development. These differing perspectives frame the larger debate about whose development the post-2015 agenda is about.

Regional civil society proposals

- *Require public disclosure of trade and investment agreements, PPP contracts, corporate payments to governments (including* *taxes), government subsidies, and environmental and human rights impacts. (Southern Africa, Arab States)*

- *Ensure fair and appropriate sharing of risks between the public and private sector and disclose such risk-sharing arrangements to elected officials and the public. (Southern Africa)*
- *PPP agreements should include a clause that requires foreign investors to promote beneficiation in the communities where they operate, along with local-content policies that empower citizens (West Africa)*
- *Regional initiatives must move beyond voluntary, uncoordinated mechanisms of corporate social responsibility and transparency, towards binding corporate accountability. (Pacific, Southern Africa, West Africa)*

C. International public finance: Additional commitments or subsidizing the private sector?

In addressing the financing needs of the sustainable development agenda as well as the continuity of commitments made in Monterrey and affirmed in Doha, developing countries continually refer to additionality as the fundamental criterion for aid. A legal commitment under the three "Rio conventions," the principle of additionality requires that developed countries pledge new and additional funding towards climate and sustainable development, while fulfilling their original commitments to provide ODA as a separate funding entity. The Monterrey Consensus reaffirmed developed countries' commitment to 0.7% of gross national product (GNP) as ODA to developing countries and 0.15-0.20% of GNP to least developed countries.

In accordance with the concept of climate justice and climate debt, developed countries must commit new and additional funding to developing countries that experience adverse effects of climate change without having benefited from the industrialization that caused it. According to the G77, Bangladesh and Colombia, "Assistance for climate change adaptation programmes should be additional and absolutely outside the computation of ODA."

Taking a different approach, the UK, the EU and other power centres of the Global North emphasize increasing the fungibility of the same pool of traditional aid and "leveraging" ODA. "The most effective use of public money, including ODA, is to facilitate and maximize other, larger flows of finance for development," expressed Australia, the UK and Denmark. This emphasis, also expressed in the Zero Draft (paras 55, 58), must be challenged in subsequent negotiations towards the Addis agreement, lest the original global partnership for development dissolve into a proliferation of public-private partnerships and "multistakeholder" governance.

Through FfD3, Brazil and other developing countries are challenging this push by OECD countries to use ODA to "mitigate" risks of private investment, insisting that this actually entails transferring the bulk of the risk of private investment to the public sector. Civil society has also been raising red flags on the documented trend of the socialization of risks and privatization of profits inherent in much of private sector financing and PPPs, particularly in the infrastructure sector. The G77 upholds the importance of ODA commitments, stressing that "public funding should always take precedence over private financing" and that "these two concepts cannot be put on equal footing."

D. International trade for sustainable development: Can the UN level the playing field?

In the FfD3 discussions, Australia, Canada and the US frame trade and investment as the most significant contributor to development, extolling the benefits to developing countries of free and open trade in particular. Many Latin American and African governments, on the other hand, raise concerns that trade does not automatically lead to development and that conditions should be established to ensure that trade rules produce positive social, economic and environmental impacts rather than exacerbating inequalities and unfair competition.

The G77 calls for expanding the market access of developing countries, including through the provision of duty-free, quota-free access. The Caribbean Community (CARICOM) and the Pacific small island developing states repeat the call of many developing countries for an open, non-discriminatory, equitable multilateral trading system, of special importance to island economies and other states that rely on trade. Similarly, the African Group is calling for the removal of non-tariff measures with discriminatory restrictive impact.

While the EU and other Northern states also indicate the importance of expanding market access to developing countries, they highlight as well the responsibilities of emerging economies and the importance of South-South and triangular cooperation. The G77, the African Group and other developing-country blocs in turn assert that South-South and triangular cooperation are complementary to, but cannot substitute, the principle of international development cooperation along North-South lines (see Section F below).

The African Group calls on FfD3 to address issues of trade barriers and trade-distorting subsidies, especially for developing countries. The intellectual property rights (IPR) regime has also surfaced as an area of concern for developing countries, which call for the amendment of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) through a UN process and the full use of TRIPS flexibilities. The TRIPS Agreement directly impacts the ability of developing countries to meet urgent public health needs, and thus the social pillar of sustainable development. Various measures across multilateral, plurilateral and bilateral trade treaties dangerously tighten and increase intellectual property standards, which push smaller and cheaper producers in developing countries out of production while also raising costs of essential medicines and health care, agricultural inputs and therefore food prices. The Zero Draft commits to "work to assure policy environments conducive for technology development and dissemination as well as balanced IPR regimes, including the application of TRIPS flexibilities fully consistent with sustainable development strategies and the necessary consideration of knowledge and technologies in the public domain and under compulsory and public licences" (para 114).

Additionally, the EU, the African Group and CARICOM voice their support for "Aid for Trade" provisions of the WTO, though CARICOM specified that trade should be viewed primarily as an instrument for sustainable development. The embrace of "Aid for Trade" has been openly challenged by several Latin American governments. El Salvador, for example, cautioned against the promotion of trade liberalization as an end in itself, highlighting historical inequalities in the trade system and the need for overarching structural change to amend this trajectory.

The G77 points out that the WTO and bilateral and plurilateral trade and investment agreements are adversely affecting people's rights, including the right to development, through various means: tariff cuts in key sectors like agriculture, infant industries and essential services; unfair agricultural subsidy rules; requiring financial investments in natural resources, sensitive goods and services; and a longstanding refusal to grant full special and differential treatment to developing countries and LDCs. Agricultural subsidies disbursed by developed countries have negatively affected food producers across the developing world, and have threatened productivity and agricultural growth especially for small farmers.

The harmful impacts of trade agreements and investment treaties on the regulatory ability of states – including the ability to prevent and manage crises, regulate capital flows, protect the right to livelihoods and decent jobs, enforce fair taxation, deliver essential public services and ensure sustainable economic and social development – have been well-documented. The Zero Draft provides for a commitment to "carry out negotiation and implementation of trade and investment agreements in a transparent manner to ensure that trade and investment treaties do not constrain domestic policies to reduce inequality, protect the environment or ensure adequate tax revenues" (para 81). In light of this urgency, governments must undertake mandatory human rights impact assessments of multilateral, plurilateral and bilateral trade and investment agreements, especially North-South agreements, focusing in particular on the right to development and the specific rights to food, health and livelihoods, taking into account marginalized groups.

The severity of development challenges imposed by bilateral investment treaties and free trade agreements is acutely highlighted by the investor-state dispute settlement clause in such agreements. This clause allows transnational corporate investors to sue host-country governments in closed-door international arbitration tribunals for extraordinary financial sums. This phenomenon is freezing public interest policy regulation worldwide. Most developing-country governments lose these cases due to lack of financial resources to fight. More than 50% of these cases are in the area of natural resources, threatening access to clear water, air and land, and preventing environmental sustainability and conservation. They also disproportionately punish women and children, indigenous and local communities, and the elderly. The Zero Draft includes a welcome commitment to "strengthen safeguards in investment treaties, especially by proper review of investor-state-dispute-settlement (ISDS) clauses, to ensure the right to regulate is retained in areas critical for sustainable development" (para 81). It must be noted that the UN Conference on Trade and Development (UNCTAD) is already organizing consultations with member states to review investment agreements with a view to bringing them in line with sustainable development objectives. The FfD3 conference should give this UNCTAD mandate a boost, particularly since the next session of UNCTAD, UNCTAD XIV, is coming up in 2016.

An enabling international environment for development is one that allows every country to pursue development objectives according to its own priorities with policies of its own choice. To have this policy space, it is necessary to reform multilateral and bilateral arrangements to allow developing countries to use as many economic policies as developed countries used during their own economic growth, social development and industrialization.

According to Regions Refocus 2015, trade should provide developing countries with the tools and policy space to enhance their economic capacity through generating greater value-added, diversification, employment, gender equality, public services and sustainable development. An equitable trading system must address the structural impediments embedded in existing trade agreements that limit developing countries' policy space to equally compete with developed countries. Rather than espousing open market policies without safeguards or specificity, governments must advance strategic regional integration in trade agreements.

Regional civil society proposals

- *Trade agreements must not supersede national constitutions and legislation, and must not allow infringement by corporate actors on human rights or on national policy space. Multilateral mechanisms must subject investors and transnational corporations to legally binding norms and standards. (Pacific Joint Statement)*
- *Trade regulations must be reformed to amend global rule-setting that favours major trading countries to the detriment of economic policy and development in the Caribbean and elsewhere. (Caribbean)*
- *Prohibit trade and investment agreements and PPP contracts that handicap the capacity of the state to regulate foreign investors in the best interest of the government and its people. (Southern Africa)*

E. Debt and debt sustainability: Multilateral restructuring or vulture culture?

On external debt, developed countries, especially the US, argue that the UN as an institution is an "inappropriate" venue for discussing structural issues, preferring instead to keep the debt discussion squarely within the remit of the IMF and the OECD, institutions marked by undemocratic governance where developing countries have little voice and the US has veto power (in the IMF).

Japan and Singapore oppose the legal framework for sovereign debt restructuring that is being discussed by the UN General Assembly. The G77, CARICOM and the African Group, on the other hand, highlight the urgency of establishing an international debt resolution mechanism: a multilateral legal framework to guarantee just and equitable treatment for creditors and debtors.

The FfD3 outcome document should ensure that developing countries achieve debt sustainability through debt financing, debt relief and debt restructuring. Goal 17 on means of implementation in the SDG outcome document addresses debt sustainability in exactly this way, and adds the need to address highly indebted poor countries (HIPC) as well. The link between developing countries' ability to implement the SDGs and debt servicing should be made explicit in FfD3, in that debt sustainability analyses should incorporate the impact of debt servicing on the realization of the SDGs as well as the public financing necessary to fulfil the SDGs in developing countries. This would constitute a core aspect of MoI for the post-2015 agenda, and is consistent with the Monterrey Consensus (para 49).

The UN General Assembly has adopted by majority vote a resolution to discuss debt restructuring through an ad hoc debt committee, which must be explicitly recognized by the FfD3 outcome document as a legitimate forum already underway. The current language in the Zero Draft, which "take[s] note of the ongoing work at the IMF, UNCTAD, and the UN in this area", is very problematic and must be rectified. It must specifically mention the work of the UN General Assembly on the multilateral framework for debt restructuring. Further, there must not be a new call for an expert committee or process within the UN on sovereign debt, without first recognizing the General Assembly process that already exists and that is already discussing and formulating proposals for debt restructuring with the inclusion of debt experts, lawyers and academics across all sectors, including civil society.

An international legal mechanism for orderly debt restructuring is urgently needed in the wake of devastating sovereign debt crises that are triggered by boom-and-bust financial crises. The aim of debt restructuring is to accord a "fresh start" to the burdened country, so that financial meltdown and protracted balance-of-payments problems can be prevented in that country. The aim is also to replace ad hoc, disorderly and often chaotic negotiations between insolvent debtors and their creditors in order to safeguard the interests of both sides and to remove the legal vacuum that allows the so-called vulture funds to seek unjustified benefits at the expense of both debtors and other creditors.

During the first session of the ad hoc committee on debt restructuring in February 2015, the G77 stressed that a multilateral legal framework for sovereign debt restructuring is the missing link to facilitate increased efficiency, stability and predictability of the international financial system, which is critical for achieving sustained, inclusive and equitable economic growth and sustainable development, in accordance with national circumstances and priorities. A key objective of a multilateral debt restructuring mechanism should be to prevent liquidity crises from turning into solvency crises. In an insolvency situation, a key objective should be to ensure that outcomes restore the basis for future growth and access to credit markets.

If the Addis Ababa outcome is to be part of the means of implementation for the Sustainable Development Goals, then it should incorporate the means by which growth and renewed access to external finance can be afforded to countries in a situation of sovereign insolvency. There should also be an explicit reference to the UN General Assembly resolution on sovereign debt workout in order to stress this important initiative. It is also very important to ensure that debt sustainability analysis takes into account what needs to be done by governments and their capacity to meet the SDGs. This is particularly crucial given that many developing countries are now going through or will be entering into a debt crisis and turning to the IMF for crisis loans.

F. Systemic issues

The Monterrey Consensus explicitly agreed on the need "to strengthen the United Nations leadership role in promoting development" as a means to "enhance coherence, governance, and consistency of the international monetary, financial and trading systems" (para 52). The FfD3 process has yet to reaffirm this agreement, however, with countries including the US and Japan questioning the "appropriateness" of the UN as a venue to reform global economic governance. This push to confine the design of global macroeconomic rules to spaces such as the Bretton Woods institutions is being strongly contested by the G77 and individual countries of the Global South.

Financial markets and institutions must be regulated to ensure global financial stability and to contribute to financial stability, inclusivity and optimal functioning at national levels. This includes allocating finance to local development needs, in particular essential social services, along with regulating capital flows to prevent or minimize destabilizing and volatile cross-border flows of short-term capital, including by encouraging reserve-issuing developed countries (e.g., the US, the EU and Japan) to impose controls over their destabilizing capital outflows to developing countries.

Systemically important financial institutions (e.g., large international banks and credit rating agencies) must be brought under regulation and supervision of an independent multilateral agency. Speculation in the commodities markets must be controlled and regulated, including through ensuring favourable terms for commodity-dependent developing countries in contracts with transnational corporations to enable them to add more value to commodities and obtain more revenues from commodity-related activities.

The G77 repeatedly advocates for the reform of international financial institutions to increase the voice and representation of developing countries. Additionally, the international monetary system must be reformed, including by addressing the shortcomings in the exchange rate and international reserves systems through increased and strengthened international monetary cooperation, establishing mechanisms to bring greater stability to exchange rates of reserve currencies (e.g., the dollar, euro and yen), and preventing competitive devaluations and currency wars such as those seen during the recent financial crisis.

The allocation of Special Drawing Rights (SDRs) should occur on a regular basis and be increased in quantum according to development need rather than IMF quota. Having SDRs as the main international reserve asset would not only be less expensive and more effective compared to the dollar, but could also provide a buffer to stabilize foreign exchange reserves and secure macroeconomic stability in times of financial crisis.

Regions Refocus 2015 asserts that the post-2015 sustainable development agenda must integrate transformative changes to global governance systems and to national policy choices, to achieve development and to overcome the challenges of inequality, exclusion and vulnerability. This necessitates a shift towards a model centred on enhancing national productive capacities that require an enabling trade and investment architecture, a revision of redistribution policies and the adoption of social policies that put people's economic and social rights at the forefront.

Regional civil society proposals

- *Reform the international financial architecture to bring the Bretton Woods institutions back under the oversight of the UN* *and thereby address financial volatility, debt and austerity policies in the aftermath of the recession. (Arab States)*

- *Harmonize multilateral economic and trade arrangements, and democratize global governance to expand space for African states' decision-making. (Southern Africa)*
- *Strengthen the language of development economics and economic governance, against the continued emphasis on foreign direct investment and a deliberate blindness regarding global structural inequalities that prevent adequate mobilization of domestic resources in Global South countries. (Caribbean)*

G. Technology, innovation and capacity building

An additional section in the Zero Draft focuses on technology, innovation and capacity building, and monitoring, data and follow-up. Many countries, especially developed ones, welcome the inclusion of these two sets of issues, which were not addressed as separate elements in the Monterrey Consensus, emphasizing the potential of data to enable collective action and spur innovation. Despite reservations about shifting away from the original FfD agenda as outlined in Monterrey and Doha, several developing countries welcome this renewed emphasis on the transparency and accountability of data and reporting from corporate actors, in particular multinational corporations with subsidiaries in developing countries.

Technology transfer is a major means of implementation and has been a pillar of global partnership and cooperation. This is also recognized in the Rio+20 outcome document and its predecessors, the Johannesburg Programme of Action and Agenda 21. In the SDG negotiations, the G77 emphasized that public financing and transfer of appropriate technology by developed countries to developing countries are key components of means of implementation. Affordable access to and transfer of the appropriate technology is required for almost all the SDGs.

With regard to intellectual property rights, developing countries need exemptions or amendments to IPR rules in order to be able to develop endogenous technologies, innovations and services related to sustainability. Without such cooperation on technology and IPRs, "sustainability" may risk becoming a proxy for developing countries' increased dependency on technology imports and purchases (see Section D above).

Technology provisions in FfD3 must not disproportionately refer to developing countries' ability to procure medicines from developed countries. Rather, the Addis outcome must support research and development (R&D) and innovation incentives in developing countries. Stakeholder initiatives for technology must not turn the UN into a multistakeholder forum; rather, technology platforms should be developed in consultation with member countries.

Towards the Addis Ababa Accord

Over the final stages of the FfD3 process, governments of North and South must work together to arrive at an agreement that responds to a reality where action, including responses to the financial crisis, have so far been too little and too piecemeal. The outcome document adopted in Addis Ababa needs to ensure concrete deliverables in financial resources, technology and capacity building. International systemic and development financing reforms are fundamental to facilitating the urgent work of structurally transforming a world entrenched in economic inequalities, social injustices and environmental degradation into one that can start healing towards equity, justice and life. ❐

The above is extracted from "A Geopolitical Analysis of Financing for Development (FfD3)", produced by Regions Refocus 2015, Third World Network and Development Alternatives with Women for a New Era (DAWN). The full paper is available at http://bit.ly/FfD3GeopoliticalAnalysis

Development and taxes a vital piece of post-2015 puzzle

The need for intergovernmental cooperation to tackle corporate tax dodging is set to figure prominently in the FfD talks.

by Lyndal Rowlands

NEW YORK: Public funds are vitally important to achieving the Sustainable Development Goals (SDGs), making corporate tax avoidance trends a pressing issue for Financing for Development discussions.

A draft agenda circulated in the week of 16 March for the FfD Conference to be held in Addis Ababa in July places domestic public finances as a key action agenda item. The agenda acknowledges the need for greater tax cooperation considering "there are limits to how much governments can individually increase revenues in our interconnected world".

Over 130 countries, represented by the Group of 77 (G77), called for greater international tax cooperation to be included on the agenda, in recognition of the increasingly central role of tax systems in development.

These calls come in light of the Luxembourg Leaks and Swiss Leaks, which have revealed in recent months how some of the world's biggest multinational corporations avoid paying billions of dollars of taxes through deals with tax havens in wealthy countries.

Two reports out in mid-March, from Oxfam and the Tax Justice Network, both look at the impacts of corporate tax avoidance on global inequality.

Catherine Olier, Oxfam's European Union policy advisor, told Inter Press Service (IPS), "Corporate tax avoidance is actually a very important issue for developing countries because according to the International Monetary Fund, the poor countries are more reliant on corporate tax than rich countries."

Olier said that considerable funds are needed to make the SDGs possible. "If we look at what's currently on the table in terms of official development assistance ('international aid') or even leveraging money from the private sector, this is never going to be enough to finance the SDGs," she said.

"Tax is definitely going to be the most sustainable and the most important source of financing," Olier said.

Oxfam's report called on European institutions, especially the European Commission, to "analyze the negative impacts one member state's tax system can have on other European and developing countries, and provide public recommendations for change."

Wealthy elites vs. everybody else

Nicholas Shaxson from the Tax Justice Network told IPS that tax havens are predominantly wealthier countries, but that they negatively impact both rich and poor countries.

"This is no longer an issue about developing countries versus rich countries. I think you have to get beyond geography and start thinking about this as a battle between wealthy elites and everybody else," he said. "That's where the battle line is, that's where the dividing line is."

He added that corporate taxes were particularly important to developing countries, in part because it was more difficult to leverage tax revenue from a poorer constituency.

"In pure justice terms, in terms of a large wealthy multinational extracting natural resources or making profits in a developing country and not paying tax, I think that nearly everyone in the world would agree in their gut that there's something wrong with that situation," Shaxson said.

Shaxson is the author of the Tax Justice Network's report "Ten Reasons to Defend the Corporation Tax", published in the week of 16 March. The report argues that trillions of dollars of public spending is at risk, and that if current trends continue, corporate headline taxes will reach zero in the next two to three decades.

Meanwhile, Oxfam reported in January that the "combined wealth of the richest 1 percent will overtake that of the other 99 percent of people next year unless the current trend of rising inequality is checked."

Oxfam is calling for a ministerial roundtable to be held at the FfD Conference to help facilitate the establishment of a UN intergovernmental body on tax cooperation.

Olier told IPS that while developing countries have expressed support for greater tax cooperation, there has so far been less support from Organization for Economic Cooperation and Development (OECD) member countries, including European countries and the United States. *(IPS)* ❐

Chairs report on their consultations on post-Bali work

The chairpersons of the WTO agriculture, NAMA and services negotiations updated member delegations on the state of play in the talks at an 18 March informal meeting.

by Kanaga Raja

GENEVA: An informal meeting at the level of heads of delegation (HOD) on 18 March heard progress reports from the chairs of the agriculture, non-agricultural market access (NAMA) and services negotiations on their consultations so far with the membership.

The meeting was convened by WTO Director-General (D-G) Roberto Azevedo to review the progress made so far in the negotiations on the post-Bali work programme for concluding the Doha Round.

Balance across pillars

In his report, the Chair of the Special Session of the Agriculture Committee, Ambassador John Adank of New Zealand, said that he has been holding many consultations principally on domestic support and on agricultural market access. Clearly, there has to be balance across these two pillars and the export competition pillar, he said.

It is also clear that the interests of all members need to be taken into account, and that decisions will be taken by the full membership, he added.

On the issue of trade-distorting domestic support, the Chair said that there are significant divergences over the usefulness of the Rev.4 draft agriculture modalities text. According to him, there are many delegations that like the architecture of this even if various elements of it need to be looked at more closely.

On the notion of overall trade-distorting domestic support, many members like this as a concept, the Chair said, adding that it gives an idea of what the level of trade-distorting domestic support is and also prevents "box-shifting".

With respect to the discussions on market access, Adank said there have been alternative approaches proposed on tariff reduction.

According to trade officials, the Chair mentioned the request-and-offer approach (proposed by Argentina) as well as a proposal for average tariff cuts or a combination of these. He said that the concerns over the request-offer approach are that it is too time-consuming and difficult to manage and that it could be disadvantageous to small economies that are unable to keep an eye on everything.

On export competition, in reference to eliminating all forms of export subsidies by 2013, the Chair said that everyone seems to go along with its terms, but the question now is the timetable.

He also stressed that the cotton issue remains very important and is something which is obviously part of the wider negotiations.

On the issue of public stockholding for food security purposes, Adank said there is a wide gap between the G33 grouping and other members who do not accept the G33 proposal that is on the table. According to him, the latter have concerns about the G33 proposal, particularly about putting in place a mechanism that could be trade-distorting.

In his report at the informal HOD meeting, the Chair of the Negotiating Group on Market Access for Non-Agricultural Products (NAMA), Ambassador Remigi Winzap of Switzerland, said that a couple of things have emerged in the consultations.

The first is a negotiation that affects formula-applying members. The Chair also said that the Swiss formula for tariff reductions is extremely difficult for some members and that there is a certain willingness among members to begin to explore alternative approaches. In this context, he mentioned the proposal by Argentina on a request-offer approach, saying that members had quite a good discussion but they are still a distance apart on this.

According to the Chair, some members stressed the need for less than full reciprocity and special and differential treatment.

The Chair highlighted that more flexible approaches in the negotiations are important, as is having a more level playing field.

According to trade officials, Winzap said that members also want the issues of tariff peaks and tariff escalation to be addressed.

There has not been much progress on the issue of non-tariff barriers, which will be hard to address until there is a deal on cutting tariffs, the Chair added.

According to trade officials, the Chair said that he will continue with his consultations, as well as working with the D-G. There has to be a balanced approach that would deliver results, he added.

(The WTO secretariat has also put out some figures on the average tariff reduction approach in NAMA, highlighting what it says is its simplicity, comparability and flexibility. It said that this approach can be complemented by request-offer and that there is a possibility to align the schedules of regional blocs. It also said that there would be less need for special provisions under this approach.)

The Chair of the Special Session of the Council for Trade in Services, Ambassador Gabriel Duque of Colombia, said that a session was held on 24 February and what the Chair wanted was a discussion of what members' aspirations were in these negotiations.

According to trade officials, an information session was also held on where members are with respect to the negotiations and how they have evolved.

Steady progress

According to trade officials, D-G Azevedo said that members are a bit behind on services, which is an area where they need to catch up. The whole notion of sequencing (of issues) is important, but if members wait too long, then they will never get back to services and this will boomerang back and drag down agriculture, he added.

The D-G also said it is clear that the three pillars in the agriculture negotiations are important and that trade-distorting domestic support is very challenging. Market access is not easy either, and there is a need to establish what is possible.

Azevedo said he is going to leave it to the chairs to begin to set the stage for the more political discussions. He wants this process (by the chairs) to carry on a little bit longer. It is also important that the development issues including the LDC issues and cotton be taken up as well, he said.

According to the WTO website, the D-G told the meeting that members are continuing to make steady progress in terms of understanding the issues and each other's aspirations and limitations. This is critical if they are going to advance these negotiations.

He said it was particularly encouraging that new ideas are being put forward in some areas in the form of various papers and proposals. "Of course this doesn't diminish what we already have on the table in terms of texts, but it does provide some new and creative approaches that we can further explore."

He however said that while members are making progress, this does not yet mean they are converging. There remain many challenges to overcome before solutions can be found.

Speaking at the informal meeting, the European Union voiced agreement with the D-G's comments.

According to trade officials, the EU said that it is beginning to see progress on market access in agriculture and NAMA. The proposals that were put forward were very useful. There is a need to find a way to make adjustments, it added.

There is also the need to find a way for an agreement on public stockholding for food security purposes, but it needs to see more proposals than what has come from the G33. In this context, the EU said that it is not acceptable to put certain types of trade-distorting support into the Green Box.

Progress should also be made on issues of importance to the least developed countries, said the EU.

The D-G said there is a need to make sure that the simulations are done involving numbers. Members need to see the kinds of average tariffs and what their impact would be, both offensively and defensively.

According to trade officials, Japan voiced support for the D-G's comments on this issue. *(SUNS7986)* ❐

WTO members discuss Cairns Group paper on domestic support

A paper depicting trends in domestic farm support provided by the major agricultural trading nations brought forth differing views from member states at a meeting of the WTO's agriculture body.

by Kanaga Raja

GENEVA: A formal meeting of the regular Committee on Agriculture of the World Trade Organization on 4 March discussed, amongst others, a revised paper by the Cairns Group of agricultural exporters that compiled the latest data on domestic support by the top 10 global traders of agricultural products.

Among the paper's findings are that in the last year reported, the average level of total support relative to value of production (VOP) was 19.3% in developed countries and 12.4% in developing countries.

It also found that in most (but not all) developed countries, reductions in Aggregate Measurement of Support (AMS) have been accompanied by significant increases in Green Box support, which now accounts for an average of 14.2% of VOP in these countries in the last year reported (see below).

According to trade officials, the Cairns Group paper elicited some diverging views, with different members drawing different conclusions from the data. Some members were of the view that the figures cited overlook the difference between the large amounts paid per farm in commercial agriculture and the considerably smaller amounts paid per head to poor farmers.

Domestic support trends

The Cairns Group paper on trends in domestic support presents domestic support data from 2001 to 2013 for the top 10 global traders of agriculture products – the United States, the European Union, China, Brazil, Canada, Japan, India, the Russian Federation, Indonesia and Australia.

(The Cairns Group comprises Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand, Uruguay and Vietnam. A footnote in the paper notes that Argentina does not support the paper while Indonesia and the Philippines are still completing their domestic clearance processes in capitals.)

According to the Cairns Group, the data set presented in an annex to its paper focuses on the top 10 global traders of agriculture products in 2012, the most recent year for which data is available. The ranking is based on total trade turnover (i.e., the sum of imports and exports) measured in dollars.

The annex shows levels of Green Box support (Annex 2 of the Agreement on Agriculture – AoA), "special and differential treatment" support (Article 6.2 of the AoA), Blue Box support (Article 6.5 of the AoA) and Amber Box support (including product-specific and non-product-specific support) from 2001 (the year the Doha Round of WTO negotiations was launched) to 2012 for each of these members.

Based on this methodology, the paper found that the United States' level of current total aggregate measurement of support (CTAMS) declined dramatically from 2001 to 2011, from $14.5 billion (7.2% of VOP) to $4.7 billion (1.2% of VOP), and then rebounded to $6.9 billion (1.7% of VOP) in 2012.

This was accompanied by a commensurate increase in Green Box support from $50.7 billion (25.3% of VOP) in 2001 to $127.4 billion (32.1% of VOP) in 2012.

The US did not use any Blue Box support during the sample period. Total support (sum of all other types including AMS that are *de minimis*) increased from $72.2 billion to $139.6 billion. Relative to VOP, total support remained relatively stable, hovering between 34.1% and 39.7% (except for 2007).

The European Union's level of CTAMS also declined dramatically over the sample period (2001 to 2010) from $35.3 billion (13.5% of VOP) to $6.5 billion (2.0% of VOP).

This was accompanied by a commensurate increase in Green Box support from $18.5 billion (7.1% of VOP) to $88.7 billion (20.8% of VOP).

Blue Box support decreased from $21.3 billion (8.2% of VOP) to $4.1 billion (1% of VOP), while total support increased from $75.9 billion (29.1% of VOP) to $103.1 billion (24.2% of VOP).

According to the paper, China has a nil AMS commitment and does not have recourse to Article 6.2 of the AoA (in relation to investment subsidies and agricultural input subsidies in developing countries).

Green Box support more than doubled during the sample period from $30.6 billion to $86 billion. However, relative to VOP, levels of Green Box support remained fairly constant between 8.7% and 11.7%.

Total support increased from $30.9 billion in 2001 to $99.8 billion in 2008. Relative to VOP, total support remained relatively stable, hovering between 9.7% and 13.6%.

Brazil's reported level of CTAMS increased from zero in 2001 to $520 million in 2008 and then dropped back to zero by 2013. From 2001 to 2013, the ratio of CTAMS to VOP remained below 1%.

Green Box support increased from $1.5 billion to $6.2 billion, fluctuating between roughly 1.7% and 4.8% of VOP.

Similarly, "special and differential treatment" support (Article 6.2) increased from $332 million to $1.1 billion, fluctuating between 0.7% and 1.6% of VOP.

Total support increased from $2.8 billion in 2001 to $9.7 billion in 2012. Relative to VOP, total support remained relatively stable, fluctuating between 4.5% and 9.8%.

The paper said that Canada's reported levels of CTAMS decreased from $1.9 billion (8.3% of VOP) in 2001 to $513 million in 2011 (1.0% of VOP), although it fluctuated up and down in the intervening years.

Green Box support more than doubled in absolute terms from $1.1 billion to $2.7 billion, but fluctuated between 5.0% and 12% of VOP.

Total support increased from $3.1 billion in 2001 to $5.7 billion in 2011. Relative to VOP, total support fluctuated between 11.5% and 22.1%.

Japan's reported level of CTAMS decreased from $6.1 billion (7.5% of VOP) in 2001 to $3.3 billion (4.9% of VOP) in 2007, and then increased steadily to $6.4 billion in 2012 (7% of VOP).

Green Box support followed a similar pattern, decreasing from $23.4 billion (28.7% of VOP) in 2001 to $15.1 billion (22.2% of VOP) in 2007, and then gradually rebounding to $19.9 billion in 2012 (21.5% of VOP).

After reaching a low of $213 million in 2009, Blue Box support increased sharply to $3.1 billion in 2010 (3.7% of VOP) and then fell to around $1.6 billion in each of 2011 and 2012 (1.8% of VOP).

Total support decreased from $30.7 billion in 2001 to $19.6 billion in 2007 and then steadily increased to $30.3 billion in 2012. However, relative to VOP, total support decreased from 37.6% in 2001 to around 32.8% in 2012.

According to the paper, India has a nil AMS commitment. Its levels of product-specific trade-distorting domestic support increased steadily from 2001 to 2010, with the former shifting from negative to positive in 2007.

"Special and differential treatment" support (Article 6.2) increased sharply from $8.3 billion (8.1% of VOP) to $31.6 billion (13.7% of VOP).

Green Box support increased nearly fivefold in absolute terms from $4 billion to $19.5 billion and increased from 4.2% to 8.4% of VOP.

Total support increased quite dramatically from $12.3 billion in 2001 to $53.2 billion in 2010. Relative to VOP, total support increased from 13.0% to 23.1%.

The Russian Federation's CTAMS increased from $2.9 billion in 2001 to $5.5 billion in 2009, but relative to VOP decreased from 8.8% to 6.9% of VOP.

Green Box support displayed a similar trend, increasing from $1.1 billion to $2.2 billion and generally staying between 2.4% and 3.6% of VOP.

Similarly, total support increased from $4.2 billion in 2001 to $7.8 billion in 2009, but decreased from 12.7% to 9.8% of VOP.

The paper noted that Indonesia has a nil AMS commitment, and that it is currently working to fill in certain gaps in its domestic support notifications relating to AMS, including providing information on its public stockholding programmes.

Green Box support increased from $241 million (1.1% of VOP) in 2001 to $3.6 billion (2.9% of VOP) in 2011.

Levels of "special and differential treatment" support (Article 6.2) increased from zero to $1.9 billion, ranging from zero to 2.7% of VOP, and appear to be on an upward trend.

Total support increased from $241 million in 2001 to $5.4 billion in 2010, from 1.1% to 4.4% of VOP.

According to the paper, Australia's level of CTAMS decreased from $158 million (0.7% of VOP) in 2001 to zero in 2010.

Over the same period, Green Box support increased from $722 million to $1.8 billion, ranging from 3.2% to 7.1% of VOP.

Total support increased from $887 million in 2P001 to $1.8 billion in 2010. Relative to VOP, total support fluctuated between 3.9% and 7.8%.

Increased support

Summarizing these trends in domestic support, the paper said that in absolute terms, the total support levels of all members in the sample increased from 2001 to 2012, growing more rapidly in developing countries but starting from a much lower base.

A similar trend can be seen when looking at total support as a percentage of VOP. Total support levels relative to VOP remained relatively stable in developed countries while they increased in developing countries.

However, said the paper, it should be underlined that in the last year reported, the average level of total support relative to VOP was 19.3% in developed countries and 12.4% in developing countries.

The CTAMS has declined in most (but not all) developed countries, in some cases very significantly. This has created a considerable amount of overhang between the Final Bound Total AMS (FBTAMS) and CTAMS for some members.

Among developing countries, only Brazil has a FBTAMS and CTAMS has remained low. Reported AMS levels have increased steadily in India and China, but remain below *de minimis*.

Among the three members in the sample eligible to report certain input and investment subsidies under Article 6.2 (Brazil, India and Indonesia), this type of support seems to be emerging as an increasingly favoured policy tool. Article 6.2 support has grown very rapidly, at least tripling in all cases, and also accounting for a growing proportion of

VOP, said the paper.

Only the EU and Japan reported Blue Box support. In the EU's case, support levels declined significantly and now account for less than 1% of VOP. In Japan's case, support levels declined gradually from 2001 to 2009 and then began to increase dramatically, far exceeding earlier levels in 2010, 2011 and 2012.

The paper said that in most (but again not all) developed countries, reductions in AMS have been accompanied by significant increases in Green Box support. Among these countries, Green Box support now accounts for an average of 14.2% of VOP in the last year reported.

Although it started from lower levels, Green Box support also increased among developing countries and accounts for an average of 7% of VOP in the last year reported.

Members' reactions

According to trade officials, Argentina, Indonesia, the Philippines, Bolivia, India, China and Brazil said that the paper was unbalanced, as it played down the differences in the scale of support, which remains much higher in developed countries.

India and China said that the support in developed countries is for large-scale commercial farming while in their countries it is for millions of poor farmers.

According to trade officials, India recalculated the compiled numbers to show that support figures per person produce a different picture. These range from hundreds of dollars per person per year in the developing countries, to thousands or tens of thousands each in the developed countries, it said.

The US presented some graphs showing the different trends over the years in the 10 countries, with increases in distorting subsidies in the developing countries.

However, Brazil said that the US should have presented the graphs to the same scale in order to show the difference between the amounts of support given by richer and poorer countries.

Paraguay, Mexico and Uruguay said

(continued on page 16)

The Acapulco paradox

There are two very different ways of viewing economic reality, writes *Roberto Savio*.

The world is clearly splitting into two parallel worlds, with each going its own way, in what we could call the Acapulco paradox.

Take the official version of the image of Acapulco – a splendid Mexican resort, with horse riding on the beaches, a place blessed by nature and enriched by beautiful villas, gourmet restaurants, a place of bliss and relaxation.

Now take the version of the people living there – a place torn by criminal gangs with several deaths every day, where locals live in fear and total insecurity.

In the same way, there are now two ways to look at global reality.

One is the macroeconomic approach based on global data, according to which, for example, Greece has been doing better along with Italy, Portugal and Spain. In those countries, macroeconomic data are improving. Spain is even being touted as the example of how a country which swallowed the bitter pill of austerity now has growth at the same level as Germany.

Then, speak with young people, among whom unemployment is close to 40%, or with pensioners, or with those working in the hospital and education sectors, and you get a totally different picture. According to Caritas, the number of people living in misery has doubled in the last seven years.

The alternative model is the United States, which invested in growth and not in austerity like Europe. Its growth is running at 2.4% against an anaemic 0.1% for Europe. Again, the positive macro data do not coincide with the people's data.

Let us take the latest example of economic recovery: the decision of the Walmart retail chain, one of the largest employers in the United States, to increase the hourly wage from $8.90 to $10. This looks like very positive news, but the fact is that 60% of Walmart staff do not work sufficient hours to make a living – some work just two days a week, and with $640 a month you are still in poverty.

Maybe it is just a coincidence, but the suicide rate rose from 11 per 100,000 people in 2005 to 13 seven years later. In the time it takes to read this article, six Americans will have tried to kill themselves and in another 10 minutes one will have succeeded. More than 40,000 Americans took their own lives in 2012, more than died in car crashes, says the American Association of Suicidology.

The growth of finance

If you start looking into the macro data, things become clearer. Profits from the financial sector are now over 20% of the total, double the level from the Second World War to the 1970s, and since 1970 productivity has grown by less than half. What this means is that the real economy has grown by half that of finance.

It is now clear that it is growth of the finance industry which is really holding back the rest of the economy, and far fewer people are employed in the financial sector than in production and services.

These data come from nothing less than the Bank for International Settlements, the Gotha of the banking world, which also reports that brilliant people are trying to move into the financial sector, to the detriment of other sectors of the economy.

Looking into the figures opens up fascinating analyses. One set of numbers from Hong Kong, published in the *New York Times* in the first week of March, deals with the personal wealth of lawmakers from China and the United States.

The *NYT* reported that according to the Shanghai-based Hurun Report, of the 1,271 richest people in China, a record 203 – nearly 16% – are in the parliament or its advisory body. Their combined net worth is $463.8 billion, which is more than the annual economic output of Austria.

By comparison, American lawmakers are poorer. Eighteen of the Chinese lawmakers have a net worth greater than the 535 members of the US Congress, the nine members of the US Supreme Court and US President Barack Obama's cabinet.

We should pity the US lawmakers, the 22 richest of whom have only an average of $124 million (70% of the senators are millionaires anyhow) and make up only 4% of the US Congress, while 4% of the richest Chinese lawmakers are the 203 billionaires.

Statistics in Europe also open the way to illuminating reflections. Take Spain, for example, where billionaires are in decline. In the *Forbes* list of the richest men in the world, Spain now has 21, five fewer than last year. Their combined wealth is $116.3 billion, and they increased their wealth in a year by only $500 million, against the $3.2 billion of the richest man in the world, Bill Gates.

Yet, $500 million is the equivalent of 35,714 average yearly salaries, close to the population of the sunny town of Teruel in eastern Spain (around 36,000), and $116.3 billion is the equivalent of 8.3 million yearly salaries, equal to the combined population of Andalusia, the largest Spanish region, and the Balearic Islands.

The problem is that those two worlds are supposed to meet and relate through political institutions: parliament, which represents everybody, and government, which is supposed to regulate society for the good of every citizen.

Well, a good case study comes again from Spain, where it is possible to become a Spanish resident without going to Spain.

It is sufficient to buy €2 million worth of the country's public debt, or €1 million worth of shares, or buy a house that costs at least €500,000 plus taxes, to become a Spanish resident. Since September 2013, 530 foreigners have obtained that right.

It is probable that the experience of obtaining a Spanish residence permit differs greatly for the tens of thousands who crossed the Mediterranean at risk of their lives (it is estimated that over 20,000 have died up to now).

And many European countries have taken a similar path, including the United Kingdom, Cyprus and Portugal.

In the United Kingdom, there is now a debate on a law from 1914 which excludes "non-domiciled" residents ("non-doms") from paying taxes on their foreign income or assets. It is enough to have a domicile abroad, usually by declaring permanent home in a tax haven.

The number of "non-doms" surged by 22% between 2000 and 2008 (year of the last available data) to reach 130,000 people. This is part of an effort to reduce taxation on the wealthy, by creating loopholes and new regulations, to attract as many rich people as possible.

President Francois Hollande in France has learnt at his expense what it means to speak of taxing the rich and had to make a quick turnaround. Obama is doing the same, and the only 'leader' who is now speaking about taxing the rich is Pope Francis.

However, one of the best examples of the Acapulco paradox comes from the City financial district in London.

After all the popular discontent over the disproportionate salaries of bankers, with public declarations from the UK government, the Church of England and the Bank of England, the announcement of an improvement in the UK economy by the European authorities has been taken at face value.

Barclays, for example, is increasing salaries by 40%, and a 25% increase is expected all over the City this year. A young financial analyst just out of university could expect to take home the equivalent of $100,000 per year.

While this will be good for statistics on average incomes, the yearly incomes of the poorest 10% of British citizens will keep them only at survival level. It is likely that their view of economic recovery will be different from those in the City. *(IPS Columnist Service)* ❐

Roberto Savio is founder and president emeritus of the Inter Press Service (IPS) news agency and publisher of Other News. The views expressed in this article are those of the author and do not necessarily represent the views of, and should not be attributed to, IPS.

Study: Financial tax would pay off big

A levy on financial trades would net even more revenue for European governments than earlier projected, recent research from Germany estimates.

by Sarah Anderson

Elected leaders in Washington are heading into another season of wrangling over the same old federal budget revenue shortfalls. But a number of European countries are looking forward to a revenue injection from a fresh and deserving source: high-flyers in the financial markets.

Eleven EU governments are now working out the final details of a plan for a regional financial transactions tax, with a January 2016 deadline for implementation.

Applying a small tax to each trade of stocks and derivatives would discourage short-term, purely speculative trading while generating significant revenue. And according to a just-released study, those revenues are likely to run even higher than originally projected.

The German Social Democratic Party commissioned the study from the prestigious German Institute for Economic Research, more commonly known by its acronym DIW. The results are eye-popping.

Germany alone can expect anywhere from €18 billion to nearly €45 billion per year from a serious regional financial transactions tax, depending on how the tax affects trading levels, according to DIW. That translates into a potential benefit of about $48 billion in an economy one-fifth the size of the United States.

The Joint Committee on Taxation of the US Congress has produced a revenue score for only one of several financial transactions tax bills pending before Congress, coming up with a far lower number: $350 billion over 10 years.

The major difference lies in the tax design. DIW estimates are based on the European Commission's proposed rates of 0.1% on stock and bond trades and 0.01% on derivatives. The Joint Committee on Taxation estimate is based on a tax of 0.03% on trades of those same instruments.

DIW also assumed that the 11 governments would adopt the European Commission's double-barrelled anti-avoidance mechanism. Traders would have to pay the tax if they or the other party to a transaction reside in one of the 11 participating EU member states and also if the instrument they're trading was issued in one of those countries, even if it is traded elsewhere.

DIW analyzed three of the other larger participating countries and came up with revenue estimates of €14-36 billion for France, €3-6 billion for Italy, and €700 million-1.5 billion for Austria.

For these four European countries combined, the total potential revenue estimate comes to considerably more than a previous European Commission projection of up to €31 billion for all 11 participating governments.

Industry pressure

These impressive revenue numbers could shrivel, of course, if the European governments cave in to pressure from the financial industry. After several years of trying to kill the initiative altogether, European financial institutions have had to accept the inevitability of a financial transactions tax. Their focus now: pushing for exemptions that would render a new financial transactions tax virtually meaningless.

In particular, the big banks would like to exclude from the tax all trades in derivatives, the potentially highly lucrative financial instruments that played a major role in the 2008 financial crisis.

The DIW study offers powerful ammunition for those on the other side pushing for a broad-based tax. If derivatives are exempted, DIW notes, "most of the potential revenue from [the tax] is lost." Germany and France would lose about 90% of the expected revenues. It's not just that derivatives make up a large share of financial market activity. Traders would respond to the exemption by shifting into derivatives to circumvent the tax.

The new DIW study also comes at a key moment in the US debate. The House Democratic Leadership recently announced support for a financial transactions tax, and these House leaders are right now in the process of developing the details of their proposal.

It's a shame that the United States still stands so far behind Europe in embracing a financial transactions tax, a policy that would do so much to make our economy more equitable and stable. On the positive side, the Europeans have generated valuable analysis that helps make the case for significantly taxing Wall Street speculation. ❐

Sarah Anderson directs the Global Economy Project at the Washington-based Institute for Policy Studies. This article is reproduced from Inequality.org under a Creative Commons licence.

(continued from page 13)

that the amount of trade distortion created is a concern, irrespective of where that distortion comes from.

Australia said India's per capita figures were interesting, but it remains concerned about the impact of support in India, which it said overtook Australia as the seventh largest trader.

According to trade officials, the EU said that the data reflect the reforms it has undertaken to move support out of the distorting Amber Box to the minimally distorting Green Box.

Argentina, however, pointed out that the scale of Green Box subsidies in developed countries is so large now that it must be causing distortion.

The EU and New Zealand said that some notifications are not up to date and that keeping up-to-date data is necessary for transparency.

In response to comments that the paper is either simplistic or unbalanced, Canada, which had presented the paper, and New Zealand said it is designed to allow countries to draw their own conclusions from the data. *(SUNS7977)* ❐