

THIRD WORLD *Economics*

TRENDS & ANALYSIS

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Crunch time for Greek economy

The election of a new, left-leaning government in debt-stricken Greece has set the stage for potentially bruising talks with creditors over the prospect of debt relief and a reversal of the stringent austerity policies now in place. Which way the country is eventually headed will have crucial consequences not only for Europe but also for the global economy.

- Crisis or opportunity for Greece and Europe? – p2

Also in this issue:

Intensive talks to begin on WTO's post-Bali work programme

p4

The Arab world's subsidy nightmare

p12

The corporate takeover of Ukrainian agriculture

p11

How patent rights are created on feet of clay

p14

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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

CURRENT REPORTS

- 2 Crisis or opportunity for Greece and Europe?
- 4 Intensive talks to begin on WTO's post-Bali work programme
- 7 WTO members discuss domestic support, public stockholding in agriculture
- 9 The rise and fall of the world's poorest nations

OPINION

- 11 The corporate takeover of Ukrainian agriculture
- 12 The Arab world's subsidy nightmare
- 13 Banks, inequality and citizens
- 14 How patent rights are created on feet of clay

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Crisis or opportunity for Greece and Europe?

A political earthquake in Greece opens new roads to either a resolution to its economic crisis or a very messy situation for Europe and the world economy.

by Martin Khor

A political earthquake took place in Greece when the new party Syriza won the 25 January national election on an anti-austerity platform.

The new prime minister, Alexis Tsipras, appointed prominent critics of the creditor-imposed austerity policies to the cabinet and indicated the new government intends to renegotiate the bailout loan conditions and also seek debt relief.

The new government looks ready to take on its troika of main creditors (the European Central Bank, the International Monetary Fund and the eurozone countries). Some European leaders have called on the government to stick to the obligations linked to the bailout loans.

The big fights ahead have great significance not only for Greece but for the whole of Europe and indeed the world. It is a climax of the clash of ideas and policies that has taken place since the start of the global financial crisis in 2008 on how countries facing debt and recession should get out of their dire situation.

On one side are the economists and politicians who argue that the focus should be to tackle debt and deficits by reducing government spending and channelling the saved money towards servicing the old and new debts, so that growth can resume.

On the other are those who claim that this austerity strategy is counterproductive as the reduction in spending will worsen the recession and cause social dislocation and higher unemployment without solving the debt problem.

Debt-ridden Greece has obtained agreement for €240 billion in bailout loans in recent years with very strict austerity conditions, with the assumption that its economy would improve. However, the opposite took place. Unemployment has shot to 26%, with youth unemployment at over 50%, the GDP is 26% below the pre-crisis peak level, and national debt has jumped to 175% of

GDP. A large part of the population are suffering from reduced income and lack of access to food, healthcare and heating as public social spending was slashed.

Greece, a proud nation with a glorious history of civilization, culture and science, was becoming a Third World country, and most people were disillusioned by the austerity strategy.

It was this economic and social collapse and loss of hope that led to the loss of the traditional parties at the ballot box and the election of Syriza, which had campaigned for a rejection of austerity and for renegotiating with the creditors.

The new government's policy platform has the support of some prominent economists and commentators.

The US economist Paul Krugman notes that Greece has been running a primary surplus (government revenue minus government spending other than interest on debt) since 2013. According to its agreement with the troika, it is supposed to run and use a primary surplus of 4.5% of GNP to pay its creditors for years to come.

The new government wants to use at least some of the surplus for government spending. This is expected to be a key bone of contention with the troika.

According to Krugman, a relaxation of austerity and extra spending would mean a stronger economy, which means more government revenue, which means the primary surplus would not fall as much. He estimates that an additional billion euros in spending should generate €0.5 billion in revenue, reducing the primary surplus by only €0.5 billion.

If the requirement that Greece runs a primary surplus of 4% of GDP is dropped, this would allow spending to rise by 9% of GDP and this would raise GDP by 12% relative to otherwise, and unemployment would fall by 10 percentage points. If, more realistically, the surplus requirement is not cancelled but only relaxed, this would still have sig-

nificant positive effects on Greek welfare, argues Krugman.

The fight will also be on debt relief, or writedown of a part of Greece's debt, which the new government will ask for.

This will face fierce resistance from the creditors. But it is receiving quite a lot of support from those who realize that Greece can never repay its debt in full and that the sooner debt relief is provided the better, rather than prolonging and worsening the crisis by giving new bailout loans to repay old ones.

The *Financial Times'* Martin Wolf points out that most of the bailout loans did not benefit Greeks; only 11% directly financed government activities. He supports the proposal by Reza Maghadam, former head of the IMF's European department and now vice-chairman of Morgan Stanley, for substantial debt relief by halving Greece's debt and halving the required primary fiscal surplus.

Maghadam acknowledges debt relief will be difficult as creditor European

governments are constrained by their own politics, yet Greece has made huge sacrifices with too little to show, and official debt relief is not a new idea.

It is clear that if there is no negotiated settlement of the issue, there will be a very messy situation ahead.

Alternatives to a relaxation of austerity and debt relief are a continuation of the status quo (which the Greek election result has proclaimed is impossible) or a Greek debt default followed by unilateral debt restructuring, which will be chaotic at least in the short term, and a possible exit from the euro.

The Greek situation again exposes the absence of, and the need for, an international sovereign debt resolution mechanism, to which a country with a severe debt crisis can have recourse for an orderly and fair debt workout with its creditors, and with a panel of judges and experts objectively suggesting the terms.

The next few weeks will be crucial for Greece, which has new hopes and

plans for solutions to its severe crisis but which will face a messy situation whichever route it chooses.

Crucial too for Europe, which has to weigh accommodating Greek concerns with its countries' domestic aversion to providing debt relief, and the future of the euro and of the European Union.

And also crucial for the world, because a new crisis in Europe will have negative repercussions for the global economy, while an orderly solution will contribute to stability.

Moreover, the evolution (and eventual resolution) of the Greek crisis will have many important lessons for other countries, including on how not to get into such a debt situation in the first place, and how to get out of it with less pain or at least without unbearable pain. □

Martin Khor is Executive Director of the South Centre, an intergovernmental think-tank of developing countries, and former Director of the Third World Network. This article was first published in The Star (Malaysia) (2 February 2015).

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Intensive talks to begin on WTO's post-Bali work programme

Discussions to craft a work programme for concluding the Doha Round trade talks have commenced at the WTO.

by Kanaga Raja

GENEVA: An intensive process of consultations is to begin at the World Trade Organization aimed at agreeing on a detailed post-Bali work programme for concluding the Doha Round.

This process was launched by WTO Director-General (D-G) Roberto Azevedo at an open-ended meeting of heads of delegation (HOD) that took place in a "Room W" setting at the WTO on 21 January.

In presenting its views at the meeting, the US (as also Norway, and the EU to some extent) did not think stress on the 2008 Rev.4 draft modalities text in agriculture and Rev.3 draft modalities text in NAMA (non-agricultural market access) would enable them to move forward, and wanted to know whether the big emerging economies would be doing things differently now than before.

India rejected the US effort to differentiate among developing countries and make it a "gateway" issue for a work programme to conclude the Doha Round.

The WTO General Council decision of 27 November 2014 on the post-Bali work has set a deadline of July 2015 for agreeing on the work programme that was mandated in the Bali Declaration.

The General Council decision states that: "Work shall resume immediately and all Members shall engage constructively on the implementation of all the Bali Ministerial Decisions in the relevant WTO bodies, including on the preparation of a clearly defined work programme on the remaining DDA [Doha Development Agenda] issues as mandated in paragraph 1.11 of the Bali Declaration."

The decision adds: "As per paragraph 1.11 of the Bali Declaration, Members agree that the issues of the Bali package where legally binding outcomes could not be achieved, including LDC [least developed country] issues, shall be pursued on priority."

According to information posted on the WTO website, at the 21 January HOD

meeting, the D-G said: "We must maximize the time we have available to us before July – and maintain the momentum that we regained at the end of 2014. We need to have a detailed, substantive discussion that includes agriculture, non-agricultural market access, services and all of the other DDA issues, including development and issues of interest to LDCs. Today we are restarting our conversation on all of these issues. So be ready – and get involved."

The discussions on the substantive issues will be convened by the chairpersons of the various negotiating groups as well as by the D-G, with meetings being held in a variety of formats and configurations.

A number of delegations spoke following the D-G's remarks at the HOD meeting, where they reiterated their views on what priority issues they would like to see incorporated into the work programme.

In their interventions, developing countries, amongst others, stressed on the development dimension being the overarching principle of the post-Bali work, and that the core issue has to be agriculture. They also said that the Rev.4 draft agriculture modalities text and the Rev.3 draft NAMA modalities text should be the basis for the negotiations.

According to trade officials, D-G Azevedo told the HOD meeting that the work programme has to be delivered by July, and that it was important to have the open-ended "Room W" meeting early in order to maintain momentum.

The D-G informed delegations that he has already started his consultations, as have the chairs of the various negotiating groups, who have reported good engagement.

Noting that there are not too many working days left and that there is a need to step up the work, the D-G said that the goal is to prepare a detailed and precise modalities-like work programme with as much specificity as possible. This would mean that members would then

be in a position to finalize negotiations in a more expedited way.

Azevedo said that some members say that they are ready and open to take a more creative and innovative approach to the negotiations while observing the mandate. Others are more keen on sticking as closely as possible to the draft modalities texts and are uncomfortable with the idea of doing things in a different way. And then there are some that have not as yet indicated which way they would like to go, he said.

The D-G called on members to recall the ingredients that will be needed in order to obtain a successful outcome: maintaining a sense of urgency; identifying and prioritizing the issues that are of the most substantive importance; targeting outcomes that are doable for all parties; maintaining a high level of engagement; and engaging on all issues at the same time.

He said these ingredients are essential if progress is to be made. This is especially true of the whole question of doability. And doability means being realistic, and that means what is doable not just for you but for everyone.

The development issue will be at the core of the negotiations and delivering for the LDCs is going to be essential, Azevedo said, adding that the three core areas of agriculture, NAMA and services are at the centre of the negotiations.

Fully committed

Following the D-G's remarks, member state delegations voiced their views at the HOD meeting. According to trade officials, Saudi Arabia, on behalf of the Arab Group, said that it is fully committed to implementing the post-Bali work programme and to the 31 July deadline. The development dimension is the overarching principle of the post-Bali work programme, it said.

Indonesia, on behalf of the G-33 grouping, stressed the importance of public stockholding for food security purposes and called for negotiations on this issue to begin immediately. It also wanted to see progress made on the issues of Special Products (SP) and the Special Safeguard Mechanism (SSM). The development dimension is crucial and the Rev.4 draft agriculture modalities text of 2008 should be the basis for the negotiations.

Guatemala, on behalf of the small and vulnerable economies (SVEs), stressed that the development dimension should be at the centre of the negotia-

D-G reports progress in intensive consultations

On 29 January, at a "Room W" HOD-level meeting convened by him, WTO Director-General Roberto Azevedo reported on the first week of the intensive consultations aimed at agreeing on a detailed post-Bali work programme for concluding the Doha Round.

According to information posted on the WTO website, the D-G said: "We have made more progress in a week than we did in the first six months of 2014. There are some significant positives which we can take from our work so far. Members have started to go into more detail and to engage on the substance."

Azevedo acknowledged that "substantive positions haven't changed a great deal since last time these issues were discussed", but said that it is clear to him that the tone of the discussion has changed.

"Despite the gaps between positions, I sensed a desire to overcome them. I also sense that there has been a big increase in the political will behind our work. That's why these conversations have provided a clarity which we didn't have before. In addition, we have heard people express a willingness to entertain new thinking in certain areas. Now it is time to move from ideas to proposals," he said.

According to one participant who attended the HOD meeting, the D-G told members that the discussions (during his consultations) have been positive and members have been engaged. He also called on members to put forward proposals.

According to the source, with respect to the series of "Green Room" meetings held earlier in the week on agriculture, NAMA and services, there are still divided opinions on using the Rev.4 draft agriculture modalities text and the Rev.3 draft NAMA modalities

text, but members are willing to engage.

According to trade officials, only Uganda (for the LDCs), Argentina, Bolivia, Korea, Burkina Faso, Ecuador and Peru spoke at the HOD meeting.

Uganda, on behalf of the LDCs, said that it did not want to have a repeat of Bali where "we harvested best-endavour decisions. We would like to graduate from that process and have legally binding outcomes on all LDC-specific issues in Nairobi, including on development."

On the three core issues of agriculture, NAMA and services, the LDCs said that agriculture for the majority of its members is key. The interests of LDCs are well known and have been reflected in a number of documents including the Rev.4 modalities, which should form the basis of the negotiations. To that end therefore, all issues of interest to LDCs which have been stabilized should not be reopened, said Uganda.

On NAMA, Uganda said that the negotiations should be premised on the Doha Ministerial Declaration and the principles enshrined therein, such as less than full reciprocity. Policy space for industrial development is key, and the Rev.3 modalities text should form the basis of the negotiations. The sectoral initiatives under the negotiations should not harm the export interests of LDCs and should remain voluntary.

On services, the LDCs said that they were keen on the high-level meeting on the operationalization of the LDCs services waiver that was due to take place on 5-6 February.

Meanwhile, work is expected to continue in the various negotiating groups in the coming weeks. – *Kanaga Raja (SUNS7952)*

tions. It wanted the flexibilities in the Rev.4 draft agriculture modalities text and the Rev.3 draft NAMA modalities text to be preserved for the SVEs. There should also be recognition of the special circumstances of the SVEs.

Brazil, on behalf of the G-20 grouping, said that the core issue is agriculture and that all three pillars of the agriculture negotiations – market access, trade-

distorting domestic support and export competition – need to be addressed. The Rev.4 draft agriculture modalities text is the basis for the negotiations.

On its own behalf, Brazil said that it is prepared to engage in multiple formats but that it wants a transparent and inclusive process. The level of ambition in agriculture will determine where members go in other areas.

Balance

The European Union said there will have to be a balance between the various negotiating areas and within them; an ambitious outcome in agriculture will only be possible with an equivalent effort in NAMA; and in agriculture, it will be difficult to envisage an outcome in market access if export competition and domestic support do not follow.

What can be achieved on each of the issues under negotiation, the EU said, needs to be considered in a realistic way and carefully in view of today's global economic landscape and taking account of the development objectives of the Doha Round, which need to be adhered to.

It is clear that agriculture is a central element of these negotiations and the EU will certainly not shy away from engaging constructively as long as others do the same, it said. Indeed, the EU has undertaken strenuous internal reforms to ensure that it can contribute to a comprehensive deal based on the overall principles of simplicity, realism and doability.

On export competition, the EU said it will be able to consider a far-reaching outcome, but only within a comprehensive DDA package and if there is full parallelism regarding all export competition measures.

Similarly on domestic support, the EU is ready to advance, but again "we all need to ask what exactly do we want, what can we contribute and what will help strengthen the multilateral system. We also need to constantly have in mind our obligation to find a permanent solution on the public stockholding issue, which for all practical purposes will have a close link to this pillar of negotiations."

On agricultural market access, the EU said that beyond tactical positioning, "we all understand that new ideas will be necessary. We tried and failed in 2008 to reach agreement on the basis of a highly complex approach, which combined very demanding commitments with numerous flexibilities and exceptions. Rather than embarking on a path which is sure to lead us to failure again, it would be preferable to explore simpler, more realistic approaches, which could also more easily be reflected in the level of ambition of NAMA."

The focus of the efforts should be on finding an approach to tariff cuts which reflects today's realities and prepares the ground for further liberalization in the future, said the EU. Having listened to

numerous interventions on this subject in the past months, it appears that the only feasible way of proceeding is to search for a solution which provides enough flexibility for members to cater for their sensitivities, it added.

Nevertheless, what is crucial is that those members who demand far-reaching concessions on agriculture market access are ready to put forward equally substantive concessions on NAMA. A proper balance and correlation are key, it added.

A services outcome also needs to be negotiated in the coming months, the EU stressed, adding that the expected results on agriculture and NAMA set the benchmark: the outcome of the request-and-offer process signalled at the 2008 Ministerial Conference will not work. According to the EU, the world has changed, and with multiple services-oriented efforts concluded or underway, including the LDC services waiver process, "we should agree upfront on elements or principles of the outcome we want to collectively achieve."

As to the remaining DDA issues, not much activity has been undertaken so far, which all the more exemplifies the urgent need to restart technical work. An outcome on geographical indications of origin will have to form part of the package if the EU is to ultimately support it, it said.

According to trade officials, Chinese Taipei said that there needs to be parallel progress on agriculture, NAMA and services. There is a need to respect the flexibilities that were extended to the recently acceded members (RAMs) in the Rev.4 draft agriculture modalities text and the Rev.3 draft NAMA modalities text, it said.

Australia, on behalf of the Cairns Group, said that the issue of agriculture is lagging behind and that an ambitious agriculture package is indispensable to the outcome. It must include the three pillars of market access, domestic support and export competition.

Argentina emphasized that in agriculture, the issues of export competition and domestic support were more important than market access. It said that the Rev.4 draft agriculture modalities text was very balanced on market access. On NAMA, Argentina said that it cannot accept the "Swiss formula" for tariff reductions. It said that developing countries should be able to choose the tariff reduction method that best suits them.

Cuba expressed support for the G-20, G-33 and SVE statements. It wanted the Rev.4 draft agriculture modalities text and the Rev.3 draft NAMA modalities text to be the basis for the negotiations. On NAMA, it stressed on the principle of "less than full reciprocity" as outlined for developing countries in the Rev.3 text.

According to trade officials, the United States said that what members were discussing today seemed like it was from a time capsule in 2008. While interesting, it was not clear from what was heard today how they could move forward.

On using the Rev.4 and Rev.3 draft texts as the basis for agreements, the US asked whether the big emerging countries were going to do things differently than in 2008.

(Reflecting the US position apparently, a report in the Washington-based *Politico* magazine said that countries will have to agree on how much to excise from the 2008 texts that failed to garner agreement. For example, the report added, it probably wouldn't be politically feasible for the US to cut agricultural subsidies below what is allowed in the new US Farm Bill. – *SUNS*)

Lesotho, on behalf of the African Group, said that it would like to see the Rev.4 draft agriculture modalities text and the Rev.3 draft NAMA modalities text as the basis for the negotiations. It also wanted to see the development mandate being adhered to.

LDC collective request

Uganda, on behalf of the LDCs, reminded members that it had submitted a collective request consistent with the Bali Ministerial Decision on the operationalization of the LDC services waiver, and that a high-level meeting was to be held on 5-6 February. According to Uganda, three things are critical: the first is for all non-LDC members in a position to do so to attend the meeting at a high level; secondly, to indicate sectors and modes of supply where they intend to provide preferential treatment to LDC services and service suppliers; and the third is for agreement to be reached on a timeline for submission of notifications of preferences indicated. In the LDCs' view, this work should not be allowed to spill over into the 10th WTO Ministerial Conference (MC10, to be held in Nairobi this December).

Uganda said that the true test of the credibility of the WTO will be the extent to which members respond to the collective request of the LDCs. It therefore looked forward to a very successful high-level meeting, where non-LDC members shall indicate sectors and modes of supply where they intend to provide preferential treatment to LDC services and service suppliers, which have commercial value and promote economic benefits to them. In so doing, members may want to pay particular attention to both market access and what the LDCs have termed as the "non-tariff barriers", in particular in Mode 4.

According to Uganda, the high-level meeting "will give us a sense as to whether it is useful to continue positively engaging in this house. For us, 5 and 6 February is when we flip the switch: Will the lights come on or shall we still be in the dark? We are in your hands!"

On the work programme, the LDCs shall be looking forward to harvesting tangible deliverables on their issues for MC10. In the LDCs' view, the work programme alone as a deliverable for Nairobi will be perceived as a failure on the part of the membership.

"We have waited for far too long. We still have a bitter taste arising from the sour grapes of 2011. The numbers are bitter. 1% is all we have got as our contribution to world trade in goods, and less for commercial services; a high and increasing trade deficit; with a limited range of export products. This is not, by any means, an enviable situation."

The LDCs therefore called for the conclusion of the Doha Round without including any new issues, with development at the centre. Agriculture will set the ambition. There should be balance between agriculture, NAMA and services.

The principle of the "single undertaking" in line with paragraph 47 of the Doha Ministerial Declaration should be preserved, Uganda said, adding that the modalities texts should be the basis of the negotiations and all flexibilities enshrined therein should be preserved and/or improved upon.

According to trade officials, China stressed the centrality of the development dimension.

Norway said that it wanted members to get as close as possible to full-scale modalities by 31 July. The development dimension has to be at the cen-

Members have to be realistic about what they can do. Continued reference to the Rev.4 and Rev.3 draft texts will not get anywhere, said Norway.

According to trade officials, India endorsed the G-20 and G-33 statements. It was not acceptable to India to make the differentiation of developing countries a gateway issue in the negotiations. There is a need to focus on the issues and

not on how much emerging countries must pay.

There is also a need to address the inequities and imbalances in the trading system, many of which date to the Uruguay Round, India said, adding that it does not support "cherry-picking" of issues. It believed that the Rev.4 and Rev.3 draft modalities texts are the logical starting points. (SUNS7946) □

WTO members discuss domestic support, public stockholding in agriculture

On 28 January, the WTO negotiating body for agriculture entered into what were described as "concrete" talks on domestic support, and also convened its first dedicated session on the issue of public food stocks.

by Kanaga Raja

GENEVA: The first informal open-ended meeting of the WTO Agriculture Committee in Special Session for this year took up, amongst others, a new paper submitted by several members on domestic support, and also held a more general discussion on the market access pillar of the Doha Round agriculture negotiations.

On the afternoon of the same day, 28 January, the Special Session held its first dedicated session on the issue of public stockholding for food security purposes.

Domestic support paper

The discussion on domestic support was triggered by a paper presented by Canada on behalf of Australia, Canada, Chile, Colombia, Costa Rica, Guatemala, Malaysia, Pakistan, Paraguay, Thailand, Uruguay and Vietnam.

According to trade officials, the paper examines what six members – the United States, the European Union, Japan, China, India and Brazil – would have to do if the cuts on domestic support proposed under the Rev.4 draft agriculture modalities text of December 2008 are applied. It presents an analysis of current domestic support levels against some of the proposed disciplines of Rev.4.

The paper looks at the implications of the formula for reducing domestic support in the Rev.4 text in the context of the overall trade-distorting domestic support (OTDS) – the Amber Box (or

AMS), the Blue Box and *de minimis* – and concludes that of the six members examined, only the US would have to cut its support from its latest notified amounts, trade officials added.

The paper notes that an important new discipline on domestic support proposed in Rev.4 is on OTDS, to impose an absolute limit on the sum of all forms of trade-distorting domestic support. It compares some members' proposed bound OTDS under Rev.4 to the sum of their current total AMS, Blue Box support and *de minimis* support in the most recent year for which data is available.

For the US, the proposed bound OTDS under Rev.4 will be \$14.5 billion, while its current total AMS, Blue Box support and *de minimis* support in the most recent year for which data is available is \$12.1 billion, and its OTDS overhang is thus \$2.4 billion.

For the EU, the proposed bound OTDS under Rev.4 will be 24.2 billion, while its current total AMS, Blue Box support and *de minimis* support in the most recent year for which data is available is €11.0 billion, and its OTDS overhang is €13.2 billion.

For China, the proposed bound OTDS under Rev.4 will be 584.4 billion yuan, while its current total AMS, Blue Box support and *de minimis* support in the most recent year for which data is available is 96.0 billion yuan, and its OTDS overhang is 488.4 billion yuan.

For India, the proposed bound OTDS under Rev.4 will be 1,151 billion rupees, while its current total AMS, Blue

Box support and *de minimis* support in the most recent year for which data is available is 104.0 billion rupees, and its OTDS overhang is 1,047.0 billion rupees.

For Brazil, the proposed bound OTDS under Rev.4 will be \$8.8 billion, while its current total AMS, Blue Box support and *de minimis* support in the most recent year for which data is available is \$3.0 billion, and its OTDS overhang is \$5.8 billion.

And for Japan, the proposed bound OTDS under Rev.4 will be 1,371.0 billion yen, while its current total AMS, Blue Box support and *de minimis* support in the most recent year for which data is available is 984.0 billion yen, and its OTDS overhang is 387.0 billion yen.

According to the paper, with the exception of the US, the so-called "binding overhang" is very large. This means that from a policy perspective these members have enough space to comply with the proposed disciplines on OTDS in Rev.4.

The paper further said that Rev.4 would require all developed countries and many developing countries with Final Bound AMS to undertake cuts to *de minimis*.

It found that with the exception of the US, the proposed reductions in *de minimis* would not have immediate impacts on reported levels of Current Total AMS or members' ability to comply with reduction commitments proposed in Rev.4.

In the case of the US, a *de minimis* reduction from 5% to 2.5% of the value of production would result in a \$4.377 billion increase in Current Total AMS.

Rev.4 also includes proposed reductions to Final Bound Total AMS according to a tiered harmonizing formula.

The paper compared members' proposed Final Bound AMS under Rev.4 to their Current Total AMS in the most recent year for which data is available.

For the EU, Brazil and Japan, the binding overhang is very large, but for the US, the binding overhang is proportionately much smaller.

According to the paper, if the additional \$4.377 billion in AMS that would result from the *de minimis* cut is carried over, the US' Current Total AMS would rise to \$11.240 billion, which exceeds the proposed Rev.4 Final Bound Total AMS by a considerable margin (\$3.599 billion above the new limit).

According to trade officials, Canada, Australia and Paraguay said that they hope the US will be able to make the adjustment, adding that they recognize

that there will be a "price" to pay in return, in the form of some other concessions in the negotiations.

The US said the figures show that the 2008 draft modalities text is unbalanced and that domestic support in developing countries distorts trade as much as it does in developed countries. It further said that it is willing to "wade into" domestic support but only if that reflects current realities.

There is a need to return to the original objective of substantial reforms in all three pillars of the agriculture negotiations, but what is on the table in Rev.4 falls short of that, the US said.

According to trade officials, the US also said that its Farm Bill conforms with what the country is currently obliged to do and is not an impediment to reform.

Argentina said that the additional flexibilities for the US are already included in the 2008 draft modalities text.

According to trade officials, India said that it had notified its support in US dollars and thus the figures that are mentioned in the paper for India should be reflected in the same currency. It is good to see that some members would like to put their weight behind the Rev.4 text, it added.

There is also a differentiation between those that have an AMS limit and some countries only having *de minimis*. If members are trying to create a level playing field, then all bound AMS should be abolished, India said.

There are other imbalances that need to be tackled but these figures are a good starting point, said India.

China noted that the figures are from different members with different levels of development. Some use domestic support for gaining export markets or for commercial purposes whereas developing countries use it to help resource-poor farmers, it said.

Brazil said that some countries have reformed their agriculture over the past 20 years and will not have to adjust under a Doha Round agreement, while others have gone in the "wrong direction".

According to trade officials, the Chair of the Special Session of the Agriculture Committee, Ambassador John Adank of New Zealand, said that he was encouraged by the new paper and subsequent discussion that explored concrete situations rather than focusing on generalities.

"This is really new territory for us to venture into, but it's necessary that we start this exploration," he said. "It does remind us that we have to get very, very concrete about both what our individual situations are in terms of our policy settings, and what that actually means to

what we can contribute to the discussion."

Market access

In the discussion on market access at the Special Session, members remained divided on the two proposals on the table, and on how to deal with market access issues in general.

The two proposals are from the G-33 grouping and deal with Special Products (SP) and the Special Safeguard Mechanism (SSM).

Indonesia, on behalf of the G-33, stressed that developing countries need the proposed protection for food and livelihood security and rural development.

Others expressed concern that the proposals in this form would undermine the agreed objective of substantial improvements in market access, and the transparency and predictability that the main draft formula provides.

Some argued that these provisions should only be applied to a more limited number of products, that allowing tariffs to go above present ceilings would reduce market access opportunities, and that the SSM should only be available for products that have steep tariff cuts.

According to trade officials, those presenting these views included Thailand, Paraguay, Colombia, Canada, Brazil, Australia, Chile, New Zealand, Uruguay, the US and Costa Rica.

Those that supported the G-33 included the Dominican Republic, Ecuador, Cuba, Chinese Taipei and Korea.

With respect to market access in general, trade officials said that some countries said the formula in the 2008 draft text meets the objectives of higher cuts on higher tariffs, transparency and predictability. But they also said that they are willing to consider alternatives.

A number of countries said that they would like to see what the simplified approach (suggested by the EU) would be.

Argentina suggested using offers and requests by individual members instead of a tariff-reduction formula. It said that this could be done in a way that would be transparent and predictable and without any secret deals, which would allay the concerns of some countries.

The Chair concluded that the discussion on domestic support was a useful start but the one on market access was basically generalities that members have made repeatedly, and he called for more concrete proposals.

The Chair said: "My really strong advice to you all as we leave this meet-

ing is please get more concrete with each other, because if we stay in this sea of generalities we're probably not going to get that far."

He said that he will hold consultations and come back to the meetings of the full membership when appropriate.

Public stockholding

The first dedicated session on public stockholding for food security purposes was held on 28 January afternoon.

Under the General Council decision of 27 November 2014, negotiations on a permanent solution on the issue of public stockholding for food security purposes are to be held in the Committee on Agriculture in Special Session, in dedicated sessions and in an accelerated time frame, distinct from the agriculture negotiations under the Doha Development Agenda. Members are to engage constructively to negotiate and make all concerted efforts to agree and adopt a permanent solution by 31 December 2015.

According to trade officials, the only proposal on the table is the G-33's paper from July 2014 (which reverts to the G-33's 2012 version) which would move into the Green Box (and therefore allow without limit) the support given when governments purchase food at non-market prices for public stockholding purposes.

In presenting the document at the meeting, the G-33 reiterated that this is necessary for food security in developing countries.

According to trade officials, a number of countries voiced their concerns. Some said that disciplines would be needed to avoid "unintended consequences" such as the stocks' release affecting export markets and hurting other countries' food security.

Some also said that they could not accept a proposal that would put price support into the Green Box because this would alter the structure of the Agriculture Agreement's provisions on domestic support.

According to trade officials, Pakistan and the US argued that the discussion should also look at food security more broadly and the range of policy options used in practice.

According to trade officials, countries that raised concerns about "unintended consequences", distortion and changing the Green Box, or advocating a broader discussion of food security, included Australia, Pakistan, the US, Brazil, the EU, Japan, Paraguay, Argentina and Canada.

According to trade officials, India

said that the G-33 proposal has been on the table and was never rejected. The other side never engaged on it, it added.

In reference to some countries that had called for looking at the broader issue of food security as well, India said that there was no mandate for these meetings to discuss broader food security issues. The mandate is to find a permanent solution for public stockholding.

The US referred to its own paper from last year that looked at its own experiences in providing food security as well as policies for dealing with food security. According to trade officials, it said that members cannot create a loophole in disciplines especially when it undermines the disciplines. To do this

without looking at other ways of achieving food security or dealing with distortion effects is not credible, it added.

It was disappointed that the G-33 had resubmitted a proposal that had already been rejected.

In response, India denied that the proposal had been rejected, said trade officials.

Those that supported the G-33 proposal included Morocco, Turkey, India and China.

The Chair said that the Bali interim decision had been adopted because members could not agree on the 2012 proposal. He urged members to discuss their concerns with each other. (SUNS7952) □

than 2% of global Gross Domestic Product (GDP).

Fighting poverty in the LDCs is a key component towards reaching the UN's landmark 2015 Millennium Development Goals (MDGs).

The LDCs currently benefit from a range of special support measures from bilateral donors and multilateral organizations, and special treatment under regional and multilateral trade agreements.

The benefits that will be lost or reduced due to LDC graduation include trade preferences, official development assistance (ODA) including development financing and technical cooperation, and other forms of assistance, such as travel support for participation at UN conferences and other meetings of multilateral bodies. As a result, special attention needs to be given to these special measures for graduating LDCs.

Political will

Arjun Karki, president of Rural Reconstruction of Nepal and international coordinator of LDC Watch, a network of LDC non-governmental organizations (NGOs), told IPS the aim of the 2011 Istanbul Programme of Action was to enable at least 24 LDCs (half of the existing 48) to graduate by 2020, so the current proposals for graduation have not reached this level.

The majority of LDCs (34 out of 48) are in Africa and to date only two African nations, Angola and Equatorial Guinea, are expected to graduate by 2020.

In both these cases, graduation is solely based on their income criterion (of Gross National Income per capita having exceeded at least twice the upper threshold of \$1,190) while they fare low in the human assets and economic vulnerability criteria.

He said LDCs can only graduate when both LDC governments and development partners take action and it is vital they both have the political will to achieve this.

Gyan Chandra Acharya, the current Under-Secretary-General and High Representative for LDCs, Landlocked Developing Countries and Small Island Developing States, told delegates at the ministerial meeting in Nepal that "the path towards graduation should not be an end in itself but should be viewed as a launching pad towards meaningful and transformative changes in the economic structures and the life conditions of people in graduated and graduating LDCs."

He said that the sustainable graduation agenda needs to be tied up with

The rise and fall of the world's poorest nations

A nation's graduation from the ranks of the least developed countries must be smoothly managed, say LDC advocates.

by *Thalif Deen*

NEW YORK: The world's 48 least developed countries (LDCs) – a special category of developing nations created by the United Nations General Assembly in 1971 but refused recognition by the World Bank – have long been described as "poorest of the poor" in need of special international assistance for their economic survival.

But only three – Botswana, Cape Verde and the Maldives – have so far "graduated" from being classified as an LDC to a developing nation, based primarily on their improved social and economic performance.

At a UN-sponsored ministerial meeting of Asian and Pacific nations in Nepal last December, four more LDCs, namely Bangladesh, Bhutan, Cambodia and Laos, were singled out as countries on the "threshold of graduation" based on their recent economic and social indicators.

And as economies improve, some predict that at least six more countries – Tuvalu, Vanuatu, Kiribati, Samoa, Angola and Equatorial Guinea (the last two being African nations dependent on oil incomes) – are likely to be forced out of the ranks of LDCs, possibly by 2020 or beyond.

But this outlook may be premature due to several factors, including the impact of the global economic recession, the long-term effects of the decline in oil prices, reduced purchasing power due to falling national currencies and, in the

case of Africa, the spread of Ebola.

Ambassador Anwarul Karim Chowdhury, the first UN Under-Secretary-General and High Representative for LDCs, Landlocked Developing Countries and Small Island Developing States (2002-07), told Inter Press Service (IPS) the 2011 LDCs Conference in Istanbul, Turkey, set an objective of graduating 50% of LDCs out of the group by the year 2020.

"But this mechanical setting of a target for graduation is impractical and has the potential of undesirable tension for development cooperation at national and global levels," he pointed out.

The foremost objective of graduation should be to bring LDCs out of poverty and their structural handicaps, he noted. "But given the current distressing situation in most of the LDCs in both areas, it would be unwise for either the LDCs or their development partners to go towards realizing this target," Chowdhury added.

The people of these countries, particularly civil society, should be involved in the process to ensure that common people of LDCs do not become the greatest victims, he said. "This is a reality in LDCs which we should not lose sight of," he declared.

According to the United Nations, the LDCs represent the poorest and weakest members of the international community, comprising more than 880 million people and accounting for less

that of productive capacity development, structural transformation, resilience building and sustainable improvement in human and social capital.

Some of the practices being considered include enhancing investment in the productive sector, upgrading technologies and increasing protection from external shocks, such as climate-related events, economic crises and natural disasters, according to a statement released by his office.

Smooth transition

Chowdhury told IPS that graduation is basically a positive effort which requires the sincere and wholehearted engagement of both LDCs and their development partners. "However, fixing an arbitrary target and using a technical approach for graduation could undermine realization of a good objective," he stressed.

He also warned the ongoing economic crisis in the industrialized countries influenced the setting of the Istanbul target. "As the first High Representative of the new UN office established in 2002 to champion the cause of the world's most vulnerable countries, I had worked diligently to make a space for the smooth transition in the graduation process," Chowdhury explained.

That arrangement, he said, had made the LDCs less uncomfortable to engage in the process. "I recall fully the agonizing interactions for the graduation of Cape Verde and the Maldives during my tenure," he said.

The consultative mechanism set up during the smooth transition needs to be closely monitored by the High Representative personally to ensure that the concerns of the graduating LDC have the true support of the UN system, he cautioned.

"This was part of my regular first-hand contacts with all of the Cape Verde graduation process," he added.

Chowdhury also said overcoming of the constraints in two of the three determinants for LDC status to be eligible for graduation requires the full understanding by all sides of the real situation of LDCs.

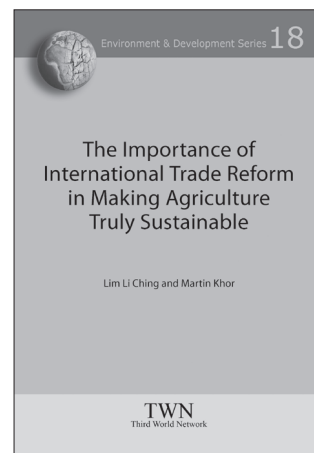
"It is a pity that the biggest development assistance provider, the World Bank, has refused to accept LDCs in its work as a special category of countries as identified by the United Nations," he said. "And my repeated visits to and efforts with the Bank headquarters did not get any response for the inclusion of LDCs." (IPS) □

The Importance of International Trade Reform in Making Agriculture Truly Sustainable

Lim Li Ching and Martin Khor

Reforms of the international trade regime require a significant reduction or removal of harmful subsidies currently provided mainly by developed countries, while at the same time allowing special treatment and safeguard mechanisms for developing countries in order to promote their smallholder farmers' livelihoods. Such reforms, coupled with policies in support of sustainable small-scale agriculture in developing countries, would improve local production for enhancing food security.

There is also a need for regulatory measures aimed at reorganizing the prevailing market structure of the agricultural value chain, which is dominated by a few multinational corporations and marginalizes smallholder farmers and sustainable production systems. Policies that increase the choices of smallholders to sell their products on local or global markets at a decent price would complement efforts to rectify the imbalances. In addition, a shift to more sustainable and ecological agricultural practices would benefit smallholder farmers by increasing productivity while strengthening their



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resilience to shocks, such as climate change, and reducing the adverse impacts of conventional agricultural practices on the environment and health. The trade policy framework should therefore support such a shift.

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The corporate takeover of Ukrainian agriculture

Even as the conflict in its eastern region rages on, Ukraine's economy, including its key agricultural sector, is increasingly coming under the control of Western interests.

by Frederic Mousseau

At the same time as the United States, Canada and the European Union announced a set of new sanctions against Russia in mid-December last year, Ukraine received \$350 million in US military aid, coming on top of a \$1 billion aid package approved by the US Congress in March 2014.

Western governments' further involvement in the Ukraine conflict signals their confidence in the cabinet appointed by the new government earlier in December 2014.

This new government is unique given that three of its most important ministries were granted to foreign-born individuals who received Ukrainian citizenship just hours before their appointment.

The Ministry of Finance went to Natalie Jaresko, a US-born and educated businesswoman who has been working in Ukraine since the mid-1990s, overseeing a private equity fund established by the US government to invest in the country. Jaresko is also the CEO of Horizon Capital, an investment firm that administers various Western investments in Ukraine.

As unusual as it may seem, this appointment is consistent with what looks more like a takeover of the Ukrainian economy by Western interests.

In two reports – "The Corporate Takeover of Ukrainian Agriculture" and "Walking on the West Side: The World Bank and the IMF in the Ukraine Conflict" – the Oakland Institute has documented this takeover, particularly in the agricultural sector.

A major factor in the crisis that led to deadly protests and eventually to President Viktor Yanukovich's removal from office in February 2014 was his rejection of a European Union (EU) association agreement aimed at expanding trade and integrating Ukraine with the EU – an agreement that was tied to a \$17 billion loan from the International Monetary Fund (IMF).

After the president's departure and

the installation of a pro-Western government, the IMF initiated a reform programme that was a condition of its loan with the goal of increasing private investment in the country.

The package of measures includes reforming the public provision of water and energy, and, more important, attempts to address what the World Bank identified as the "structural roots" of the current economic crisis in Ukraine, notably the high cost of doing business in the country.

Prime target

The Ukrainian agricultural sector has been a prime target for foreign private investment and is logically seen by the IMF and the World Bank as a priority sector for reform. Both institutions praise the new government's readiness to follow their advice.

For example, the foreign-driven agricultural reform roadmap provided to Ukraine includes facilitating the acquisition of agricultural land, cutting food and plant regulations and controls, and reducing corporate taxes and customs duties.

The stakes around Ukraine's vast agricultural sector – the world's third-largest exporter of corn and fifth-largest exporter of wheat – could not be higher. Ukraine is known for its ample fields of rich black soil, and the country boasts more than 32 million hectares of fertile, arable land – the equivalent of one-third of the entire arable land in the European Union.

The manoeuvring for control over the country's agricultural system is a pivotal factor in the struggle that has been taking place over the last year in the greatest East-West confrontation since the Cold War.

The presence of foreign corporations in Ukrainian agriculture is growing quickly, with more than 1.6 million hectares signed over to foreign companies for agricultural purposes in recent years.

While Monsanto, Cargill and DuPont have been in Ukraine for quite some time, their investments in the country have grown significantly over the past few years.

Cargill is involved in the sale of pesticides, seeds and fertilizers and has recently expanded its agricultural investments to include grain storage, animal nutrition and a stake in UkrLandFarming, the largest agribusiness in the country.

Similarly, Monsanto has been in Ukraine for years but has doubled the size of its team over the last three years. In March 2014, just weeks after Yanukovich was deposed, the company invested \$140 million in building a new seed plant in Ukraine.

DuPont has also expanded its investments and announced in June 2013 that it too would be investing in a new seed plant in the country.

Western corporations have not just taken control of certain profitable agribusinesses and agricultural activities, they have now initiated a vertical integration of the agricultural sector and extended their grip on infrastructure and shipping.

For instance, Cargill now owns at least four grain elevators and two sunflower seed processing plants used for the production of sunflower oil. In December 2013, the company bought a "25% + 1 share" in a grain terminal at the Black Sea port of Novorossiysk with a capacity of 3.5 million tons of grain per year.

All aspects of Ukraine's agricultural supply chain – from the production of seeds and other agricultural inputs to the actual shipment of commodities out of the country – are thus increasingly controlled by Western firms.

European institutions and the US government have actively promoted this expansion. It started with the push for a change of government at a time when President Yanukovich was seen as pro-Russian interests.

This was further pushed, starting in February 2014, through the promotion of a "pro-business" reform agenda, as described by the US Secretary of Commerce Penny Pritzker when she met with Prime Minister Arseniy Yatsenyuk in October 2014.

The European Union and the United States are working hand in hand in the takeover of Ukrainian agriculture.

Although Ukraine does not allow

the production of genetically modified (GM) crops, the association agreement between Ukraine and the European Union, which ignited the conflict that ousted Yanukovich, includes a clause (Article 404) that commits both parties to cooperate to “extend the use of biotechnologies” within the country.

This clause is surprising given that most European consumers reject GM crops. However, it creates an opening to bring GM products into Europe, an opportunity sought after by large agro-seed companies such as Monsanto.

Opening up Ukraine to the cultivation of GM crops would go against the will of European citizens, and it is unclear how the change would benefit Ukrainians.

It is similarly unclear how Ukrainians will benefit from this wave of foreign investment in their agriculture, and

what impact these investments will have on the seven million local farmers.

Once they eventually look away from the conflict in the eastern “pro-Russian” part of the country, Ukrainians may wonder what remains of their country’s ability to control its food supply and manage the economy to their own benefit.

As for US and European citizens, will they eventually awaken from the headlines and grand rhetoric about Russian aggression and human rights abuses and question their governments’ involvement in the Ukraine conflict? (*IPS Columnist Service*) □

Frederic Mousseau is Policy Director at the Oakland Institute. 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 – Inter Press Service.

ment in renewable energy and diverts public spending away from key social programmes, such as health and education. While subsidies create budget pressure, the IMF has overlooked the political context and social implications associated with its approach. It has proposed mitigating measures to accompany the reform process, including expansion of social safety nets; targeted energy subsidies and/or cash transfers; and universal programmes, which involve the elimination of energy subsidies in favour of a system of universal and untargeted cash transfers intended to benefit a wide spectrum of society.

The measures may sound practical, but face major constraints when considering underdeveloped social protection schemes in Arab countries, corruption and the absence of transparency mechanisms. Moreover, in a region where administrative capacities are inadequate and informal economies are large, targeted subsidies are infeasible. Evidence from Egypt suggests that safety nets are ineffective in cushioning the poor against price fluctuations and that the cash transfers measure implemented in 2012 has been inadequate and underfunded. Iran’s 2010 subsidy reform and the adoption of universal cash programmes was applauded by the IMF, but resulted in a slowdown in economic activity, raised the inflation rate and undermined political support for such a strategy.

Deep-rooted injustices

While subsidy reform in the Arab region may be seen as a step with macroeconomic benefits, the determinants of the weak economic performance of Arab countries are rooted in their political economy as much as the productive structures and go beyond the reach of the IMF’s traditional austerity proposals. By calling for short- to medium-term phasing out of energy subsidies, the IMF is targeting the symptoms rather than the causes of the deep-rooted social and economic injustices that sparked the region’s uprisings.

Reversing the underperformance of Arab countries will not be achieved without profound changes in the productive structures of their economies – by moving towards developmental states and building effective institutions that make economic and social development a pri-

The Arab world’s subsidy nightmare

Energy subsidies, a mainstay of social protection in the Arab region, are being targeted for phaseout by the IMF.

by Hassan Sherry

For decades, policies maintaining tight control of domestic energy prices have shaped the political and economic environment in most Arab countries. According to the International Monetary Fund (IMF), expenditures on energy subsidies by governments of the region have accounted for about half of global energy subsidies, amounting to almost \$240 billion in 2011, nearly 8.5% of the region’s GDP. This is explained by the fact that redistributive commitments of Arab countries, largely through the reallocation of rents, have shaped the social contract since the independence years following World War II.

Many in the Arab world perceive energy subsidies as an important social safety net for the poor in a region where poverty is widespread. According to a 2012 UN Development Programme report, poverty levels range from 11% in Jordan to 30% in Morocco, 40% in Egypt and close to 60% in Yemen. The report argues that subsidies are a form of public benefit which boosts industrial growth. Crucially they also enhance access to energy, an underlying condition for achieving the Millennium Development Goals, in a region where 65 mil-

lion people had no access to electricity in 2002.

For the past three decades, however, the Arab region has embarked on a series of externally driven and designed structural adjustment programmes prescribed by the IMF, in which the unwinding of general subsidies, in particular energy subsidies, has been a core ingredient.

Although these programmes have failed to prevent rising poverty and unemployment in the region, and induced further wage cuts and a shift from the productive manufacturing sector to the service sector, the reform of energy subsidies remains among the core components of IMF policy advice to Arab countries. Civil society has argued that such reforms, which at no point were part of a comprehensive economic and social development plan, required fiscal retrenchment that betrayed the social contract, thereby triggering the recent uprisings and sociopolitical transformations.

The IMF has treated energy subsidies as a policy tool that is expensive, inefficient and regressive over the long run, which reduces incentives for invest-

ority objective.

Arab authorities must rethink their policy choices towards promoting manufacturing and the acquisition of industrial capabilities. This would generate decent employment, stimulate productivity and create linkages with other sectors, thereby easing the need for subsidies in a region highly dependent on them. Still, any choice of reform strategy, which should be a medium- to long-term endeavour, must be accompanied by an inclusive rights-based protection framework. It must also depend on the specific country context, taking into consideration the existing levels of poverty within the reforming country, the status

of social and economic development of the country, and its administrative capacity to implement social protection measures.

Taking these factors into consideration, appropriate reforms to energy subsidies should be developed, in consultation with stakeholders including civil society organizations, which are more gradual and legitimate. As a result, a more efficient and progressive fiscal framework, protecting vulnerable poorer people, can emerge. □

Hassan Sherry is with the Arab NGO Network for Development in Lebanon. This article is reproduced from the Bretton Woods Observer (Winter 2015) published by the Bretton Woods Project.

Banks, inequality and citizens

The world is growing ever more unequal, yet nothing is being done about it, laments *Roberto Savio*.

Every day we receive striking data on major issues which should provoke tumult and action, but life goes on as if those data had nothing to do with people's lives.

A good example concerns climate change. We know well that we are running out of time. It is nothing less than our planet that is at stake ... but a few large energy companies are able to get away with their practices surrounded by the deafening silence of humankind.

Another example comes from the world of finance. Since the beginning of the financial crisis in 2009, banks have paid the staggering amount of \$178 billion in fines – US banks have paid \$115 billion and European banks \$63 billion.

But, as analyst Sital Patel of Market Watch writes, these fines are now seen as a cost of doing business. In fact, no banker has yet been incriminated in a personal capacity.

Now we have other astonishing data from Oxfam – if nothing is done, in two years' time the richest 1% of the world's population will have a greater share of its wealth than the remaining 99%.

The richest are becoming richer at an unprecedented rate, and the poorest poorer. In just one year, the 1% went from possessing 44% of the world's wealth to 48% last year. In 2016, therefore, it is estimated that this 1% will possess more than all the other 99% combined.

The top 89 billionaires have seen

their wealth increase by \$600 billion in the last four years – a rise of 5% and equal to the combined budgets of 11 countries of the world with a population of 2.3 billion people.

In 2010, that figure was owned by 388 billionaires, and this striking and rapid concentration of wealth has, of course, a global impact.

The so-called middle class is shrinking fast and in a number of countries youth unemployment stands at 40%, meaning that the destiny of today's young people is clearly much worse than that of their parents.

It will probably take some time before those figures become part of general awareness but it is a safe bet that, as with climate change, they will not lead to any action.

US President Barack Obama is the only leader who has announced a tax increase on the rich, although he stands little chance of succeeding with his Republican-dominated Congress.

In a world where the value of solidarity has disappeared (Europe's debate on austerity is a good example), apathy and atomization have become the reality. We are going back to the times of Queen Victoria, substituting a rich aristocracy with money coming from trade and finance, not production.

But up to a point: 34% of today's billionaires inherited all or part of their wealth, and interestingly, "inheritance tax is the most avoidable of levies", as

James Moore noted in the *Independent* on 20 January.

The "father of modern times", late US President Ronald Reagan, saw it clearly when he said that the rich produce richness, the poor produce poverty. So let the rich pay less taxes.

Well, in a just-released report, the US Institute on Taxation and Economic Policy notes that in 2015 the poorest one-fifth of Americans will pay on average 10.9% of their income in taxes, the middle one-fifth 9.4%, and the top 1% just 5.4%.

Unfettered finance

Now, 20% of the richest billionaires are linked to the financial sector and it is worth recalling that this sector has grown more than the real economy, and has regulations only at national level.

Finance is no longer at the service of the economy and citizens. It has its own life. Financial transactions are now worth \$40 trillion a day, compared with the world's economic output of \$1 trillion.

At national level, there are now half-hearted attempts to regulate finance. But let us look at what is happening in the United States.

The new, bland regulation is the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as Dodd-Frank, and it does not go as far as restoring the division between deposit banks, which was where citizens put their money and which could not be used for speculation, and investment banks, which speculate ... and how! This separation was abolished during the US presidency of Bill Clinton, and is considered the end of banks at the service of the real economy.

In any case, the lobbyists on Wall Street are intent on having Dodd-Frank chipped away at, little by little.

There is some schizophrenia when we look at the relations between capital and politics. The US Supreme Court has eliminated any limit to contributions from companies to political elections, declaring that the companies have the same rights as individuals. Of course, there are not many individuals who can shell out the same figures as a company, unless you're one of the top 89 billionaires!

Meanwhile, banks are not only responsible for the corruption of the po-

litical system, and for the illegal activities which have earned them billions of dollars, they are also responsible for funding only big investors and leaving everybody else out from easy credit. The efforts of the President of the European Central Bank, Mario Draghi, to have banks give credit to small companies and individuals have largely gone nowhere.

But a new and imaginative initiative comes from the very stern Dutch bankers.

All 90,000 bankers in the Netherlands are now required to take an oath: "I swear that I will endeavour to maintain and promote confidence in the financial sector. So help me God."

This is not so much oriented towards the customer, and it is very self-serving; and it brings God in as the regulator of the Dutch banking system.

Perhaps the Dutch bankers have been paying heed to the words of Goldman Sachs CEO Lloyd Blankfein

who said at the time of the financial crisis in 2009 that bankers were "doing God's work".

Well, God will have to be actively involved. All the three biggest Dutch banks – Rabobank, ABN Amro and ING Groep – have been involved in scandals that have hurt consumers, or were nationalized during the financial crisis, costing taxpayers more than \$140 billion. In one case, Rabobank was fined \$1 billion.

New York's Wall Street and London's City are said to be open to the idea of introducing a similar oath.

It is probably only that kind of Higher Power which could turn the tide in this world of growing inequality and lack of ethics. (*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.

How patent rights are created on feet of clay

The system of granting patent rights – and the very need for patents in the first place – rests on questionable foundations.

by Carlos Correa

Industry's demands and political pressures exerted by developed countries to expand and strengthen patent protection worldwide have been based on the argument that patents promote innovation and thereby contribute to social, political and economic well-being, independently of the level of development of the country where they are granted and enforced.

This view ignores the fact that patents do not have the same impact in countries with different industrial bases, research and development (R&D) capabilities and availability of capital to finance innovation, among others.

Significantly, there is a growing body of academic studies challenging the belief that patents are essential to incentivize innovation, even in advanced countries, or to enhance economic growth. While many scholars call for a substantial reform of the patent system, others go as far as suggesting its abolition.

In a working paper entitled "The case against patents", Michele Boldrin

and David K. Levine have argued that "in spite of the enormous increase in the number of patents and in the strength of their legal protection we have neither seen a dramatic acceleration in the rate of technological progress nor a major increase in the levels of research and development (R&D) expenditure. There is strong evidence, instead, that patents have many negative consequences."

"Both of these observations are consistent with theories of innovation that emphasize competition and first-mover advantage as the main drivers of innovation and directly contradict theories postulating that government-granted monopolies are crucial in order to provide incentives for innovation."

The role of the patent system is thus controversial, particularly in developing countries.

Lack of definitiveness

In the last 25 years, much emphasis has been put on the concept of intellectual property as "truly property". Differ-

ent variants of natural rights-based approaches have been articulated to justify developed countries' relentless efforts to increase the scope and levels of intellectual property protection, notably for patents.

The idea that patents are a piece of property has provided ideological support for an expansion of the protectable subject matter, the extension of the term of protection, the reinforcement of the exclusive rights and the strengthening of enforcement measures.

Patents confer exclusive rights. They limit the use of knowledge – a public good by its very nature – and competition, which promotes consumer well-being and innovation. Nobody can produce or commercialize the protected invention during the lifetime of the patent, unless authorized by the patent holder or under compulsory licences, which are rarely granted. Given the exclusionary effects of patents, they have often been characterized as "monopolies".

Yet, the rights conferred by patents are based on partial and often imperfect factual determinations. The examination process does not allow patent offices to reach definitive judgments on patentability.

There is also uncertainty regarding the validity of patents in the boundaries of what is protected under individual patents. The patent claims are in many cases ambiguous and it is unclear what the actually protected subject matter is. Australian academic Peter Drahos asserts that "patents, unlike blocks of land, do not come with settled boundaries."

Thus, it is fuzziness rather than definitiveness that characterizes patent grants. This is not accidental, but deliberately sought by patent applicants to discourage competitors.

In addition to imprecise disclosures of what is deemed to be the invention, courts interpret patent claims with different theories and methodologies that lead to diverse outcomes with regard to what is deemed protected and eventually infringed.

Another fundamental problem with the patent regime is that it operates on the basis of a limited capacity to examine the patentability of claimed inventions and on a number of legal fictions created by legislators, patent offices or courts. Such legal fictions are often dogmatically applied, without a critical assessment of their justification and implications.

A patent is granted in most countries after a substantive examination is conducted to determine whether it meets the patentability standard established by national laws, which generally require novelty, inventive step (or non-obviousness) and industrial applicability (or utility).

However, some countries (such as Luxembourg and South Africa) confer patents without such a substantive examination or without assessing inventive step (for example, Switzerland and France).

While patent offices in developing countries (except China) receive much fewer patent applications than developed countries, some (such as Argentina, India and Thailand) have introduced legislative or other regulatory changes to tighten the application of the patentability requirements and reduce, through a rigorous examination, the proliferation of patents, particularly in the pharmaceutical field.

The intervention of patent offices through substantive examination in the process of creating patent rights gives them an appearance of validity. However, such intervention offers no guarantee in this respect and the public and uninformed business actors may be grossly misled.

The case of South Africa, where no substantive examination is currently made, is illustrative.

Thousands of patents have been registered in South Africa to cover minor or trivial developments that can block local production or importation of lower-priced generic medicines. However, the government of South Africa recently announced its intention to introduce a system of substantive examination, at least for pharmaceutical patents. This proposal raised stiff opposition from pharmaceutical multinational companies, which were eventually found to finance a covered lobbying operation aimed at derailing the government's initiative.

On the one hand, it is to be expected that the introduction of such a system would discourage patent applications that may not survive a serious substantive analysis; hence, the number of applications will presumably diminish over time, especially if fees are established at a level that discourages speculative patenting.

(continued on page 16)

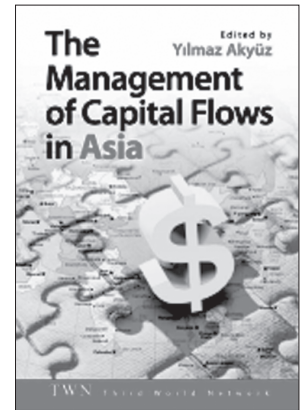
The Management of Capital Flows in Asia

Edited by *Yilmaz Akyüz*

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

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

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



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(continued from page 15)

On the other, the available information on patent offices in other developing countries suggests that the number of examiners required to review pharmaceutical patent applications is manageable for South Africa even if it opted to rely on internal examiners only.

Unfortunately, many patent offices have tended to work under the assumption that their role is to grant as many patents as possible, and to decide in favour of the applicant in case of doubt. Applicants are often treated as "clients".

As noted by Dominique Foray, patent offices have become extremely pro-patent since the early 1980s. The applicant, formerly considered with suspicion, has become a "client" whose needs must be satisfied by quick, cheap procedures. The result is a total deterioration of examination procedures.

The patent office should function as a steward of the public interest, not as a servant of patent applicants, and must protect the public against the issuance of invalid patents that add unnecessary costs and may confer market power. (IPS Columnist Service) □

Carlos Correa is the South Centre's special adviser on trade and intellectual property issues. This article is based on "Patent examination and legal fictions: How rights are created on feet of clay", South Centre Research Paper No. 58 (December 2014, www.southcentre.int).

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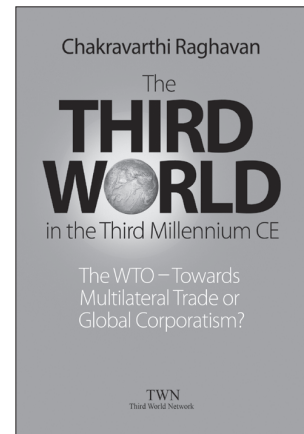
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The Third World in the Third Millennium CE The WTO – Towards Multilateral Trade or Global Corporatism?

By *Chakravarthi Raghavan*

THE second volume of *The Third World in the Third Millennium CE* looks at how the countries of the South have fared amidst the evolution of the multilateral trading system over the years. Even at the General Agreement on Tariffs and Trade (GATT) gave way to the World Trade Organization (WTO) as the institution governing international trade, this book reveals, the Third World nations have continued to see their developmental concerns sidelined in favour of the commercial interests of the industrial countries.

From the landmark Uruguay Round of talks which resulted in the WTO's establishment to the ongoing Doha Round and its tortuous progress, the scenario facing the developing countries on the multilateral trade front has been one of broken promises, onerous obligations and manipulative manoeuvrings. In such a context, the need is for the countries of the Third World to push back by working together to bring about a more equitable trade order. All this is painstakingly documented by *Chakravarthi Raghavan* in the articles collected in this volume, which capture the complex and contentious dynamics of the trading system as seen through the eyes of a leading international affairs commentator.



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