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Big Tech's foray into finance carries promise and risk – BIS

The entry of large technology firms into the financial sector can improve access to and efficiency of financial services, but at the same time brings new risks stemming from their use of data from their existing platforms. The public policy response to this latest venture by Big Tech, according to the Bank for International Settlements (BIS), should therefore encompass not only financial stability but also market competition and data protection objectives.

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Opportunities and risks from Big Tech's entry into finance

The provision of financial services by large technology companies can increase the efficiency of and access to such services, but also generate risks relating to financial stability, market competition and use of data, says the Bank for International Settlements.

by Chakravarthi Raghavan

GENEVA: The entry of large technology firms such as Alibaba, Amazon, Facebook, Google and Tencent into financial services, including payments, savings and credit, could make the sector more efficient and increase access to these services, but also introduces new risks, according to the Bank for International Settlements (BIS).

The views of the Basel-based BIS, which is commonly described as the central bank for the world's central banks, are in Chapter III of its 2019 *Annual Economic Report*. Titled "Big tech in finance: opportunities and risks", Chapter III was released on 23 June, in advance of the full report which was published on 30 June.

In this special chapter, the BIS notes that these companies, or "big techs", offer many potential benefits, including enhanced efficiency of financial services provision, facilitating financial inclusion and promoting associated gains in economic activity.

However, big techs' entry into finance introduces additional elements into the risk-benefit equation. Some are old issues of financial stability and consumer protection in new settings, but a new element is big techs' access to data from their existing platforms. This could spark rapid change in the financial system through the emergence of dominant players that could ultimately reduce competition.

The role of big tech in finance thus raises issues that go beyond traditional financial risks. Tackling these requires striking a balance between financial stability, competition and data protection. Regulators need to ensure a level playing field, taking into account big techs' wide customer bases and particular business models.

As big techs' move into financial services accelerates, expanding beyond regulatory perimeters and geographical borders, policymakers will need institutional mechanisms to help them work and learn together. Coordination among authorities – national and international – is crucial to sharpening and expanding their regulatory tools, the BIS stressed.

[The advance release of the chapter came in the wake of the announcement on 18 February by Facebook of its entry into the payments and money transfer industry with its new venture, a cryptocurrency called Libra that could be used to send money around the world. Libra will be controlled, administered and managed by Facebook and 27 partners (some of the world's largest corporations including Visa, Uber and Vodafone) through an independent association based in Geneva, Switzerland, with a membership fee of $10 million.

[The move by Facebook brought some quick responses from key national decision-makers. French finance minister Bruno Le Maire underlined that Libra would not be allowed to supplant government-backed currencies. The Bank of England governor Mark Carney warned that it could become "instantly systemic" and would consequently be subject to heightened regulatory scrutiny.

[*Financial Times* columnist Martin Sandbu says that "implicit in Facebook's plans is not just a capture of the banking industry, but a privatization of monetary policy: a democratically abhorrent prospect in principle, and a power that there is absolutely no reason to think Facebook would discharge responsibly in practice."

[In another comment, Facebook co-founder Chris Hughes (who is no longer with the company) points out that if even modestly successful, Libra would hand over much of the control of monetary policy from central banks to these private companies. Libra would insert a power-

ful new corporate layer of monetary control between central banks and individuals. Inevitably, these companies will put their private interests, profits and influence ahead of public ones.

[If Libra works as planned, says Hughes, "[h]undreds of millions of people around the world will be able to send money across borders as easily as they send a text message". Such an ability "will disrupt and weaken nation states by enabling people to move out of unstable local currencies and into a currency denominated in dollars and euros and managed by corporations". Such a liquid, stable currency would be attractive to many in emerging markets, "threaten[ing] the ability of emerging market governments to control their monetary supply, the local means of exchange and, in some cases, their ability to impose capital controls".]

Entry into finance

Compared with such strongly critical and antagonistic views, the views of the BIS economists appear somewhat ambivalent.

They note that technology firms such as Alibaba, Amazon, Facebook, Google and Tencent have grown rapidly over the last two decades. Their business model rests on enabling direct interactions among a large number of users. An essential by-product of their business is the large stock of user data which are utilized as input to offer a range of services that exploit natural network effects, generating further user activity. Increased user activity then completes the circle, as it generates yet more data.

Building on the advantages of the reinforcing nature of the data-network activities loop, some big techs have ventured into financial services, including payments, money management, insurance and lending. As yet, financial services are only a small part of their business globally. But given their size and customer reach, big techs' entry into finance has the potential to spark rapid change in the industry.

Their low-cost business can easily be scaled up to provide basic financial services, especially in places where a large part of the population remains unbanked. Using big data and analysis of the network structure in their established platforms, they can assess the riskiness of borrowers, reducing the need for collateral to assure repayment. As such, big techs stand to enhance the efficiency of financial services provision, promote financial inclusion and allow associated gains in economic activity.

At the same time, their entry into finance introduces new elements in the risk-benefit balance. Some are old issues of financial stability and consumer protection in new settings. In some settings, such as the payment system, big techs have the potential to loom large very quickly as systemically relevant financial institutions. Given the importance of the financial system as an essential public infrastructure, the activities of big techs are a matter of broader public interest that goes beyond the immediate circle of their users and stakeholders.

There are also important new and unfamiliar challenges that extend beyond the realm of financial regulation as traditionally conceived. Big techs have the potential to become dominant through the advantages afforded by the data-network activities loop, raising competition and data privacy issues.

Public policy needs to build on a more comprehensive approach that draws on financial regulation, competition policy and data privacy regulation. The aim should be to respond to big techs' entry into financial services so as to benefit from the gains while limiting the risks. As the operations of big techs straddle regulatory perimeters and geographical borders, coordination among authorities, national and international, is crucial.

The activities of big techs in finance are a special case of broader fintech innovation. Fintech refers to technology-enabled innovation in financial services, including the resulting new business models, applications, processes and products. While fintech companies are set up to operate primarily in financial services, big tech firms offer financial services as part of a much wider set of activities. Their core businesses are in information technology and consulting (e.g., cloud computing and data analysis), accounting for around 46% of their revenue, while financial services represent about 11%. While big techs serve users globally, their operations are mainly located in Asia and the Pacific and North America. Their move into financial services has been most extensive in China, but they have also been expanding rapidly in other emerging market economies, notably in Southeast Asia, East Africa and Latin America.

Financial services offered

In offering financial services, big techs both compete and cooperate with banks. Thus far, they have focused on providing basic financial services to their large network of customers and have acted as a distribution channel for third-party providers, e.g., by offering wealth management or insurance products.

Financial services are a small part of big tech business. Payments were the first financial service big techs offered, mainly to help overcome the lack of trust between buyers and sellers on e-commerce platforms. Over time, big techs' payment services have become more widely used as an alternative to other electronic payment means such as credit and debit cards.

Big techs' payment platforms currently are of two distinct types: the "overlay" and proprietary systems. In the overlay system, users rely on existing third-party infrastructures, such as credit card or retail payment systems, to process and settle payments. Big techs' payment platforms compete with those provided by banks, but they still largely depend on banks.

Overlay systems are used more commonly in the United States and other advanced economies, while proprietary payment systems are more prevalent in jurisdictions where the penetration of other cashless means of payment, including credit cards, is low. This helps explain the large volume of big tech payment services in China: 16% of GDP, dwarfing that elsewhere. More generally, big techs have made greater inroads where the provision of payments is limited and mobile phone penetration high.

Remittance services, and cross-border retail payments more broadly, are another activity ripe for big techs' entry. These cross-border transactions, however, still rely on a correspondent banking network and require collaboration with banks.

Big techs use their wide customer network and brand name recognition to offer money market funds and insurance products on their platforms, capitalizing on their payment services. Their one-stop shops aim to be more accessible, faster and more user-friendly than those offered by banks and other financial institutions.

On big tech payment platforms, customers often maintain a balance in their accounts. To put these funds to use, big

techs offer money market funds (MMFs) as short-term investments. In China, MMFs offered through big tech platforms have grown substantially since their inception. At end-2018, total MMF balances related to big techs amounted to CNY2.4 trillion ($360 billion), only about 1% of bank customer deposits or 8% of outstanding wealth management products.

Some big techs have started to offer insurance products, using their platforms mainly as a distribution channel for third-party products, including auto, household liability and health insurance. In the process, they collect customer data, which they can combine with other data to help insurers improve their marketing and pricing strategies.

Building on their e-commerce platforms, some big techs have ventured into lending, mainly to small and medium-sized enterprises (SMEs) and consumers. Loans offered are typically credit lines, or small loans with short maturity (up to one year).

The (relative) size of big tech credit varies greatly across countries. While total fintech (including big tech) credit per capita is relatively high in China, Korea, the United Kingdom and the United States, big techs account for most fintech credit in Argentina and Korea. The uneven expansion of total fintech credit appears to reflect differences in economic growth and financial market structure.

Despite its substantial recent growth, total fintech credit still constitutes a very small proportion of overall credit. Even in China, with the highest amount of fintech credit per capita, the total flow of fintech credit amounted to less than 3% of total credit outstanding to the non-bank sector in 2017.

Big techs' relatively small lending footprint so far has reflected their limited ability to fund themselves through retail deposits. Big techs have some options to overcome this constraint.

One is to establish an online bank, though in some countries, regulatory authorities restrict the opening of remote (online) bank accounts. More recently, however, these banks have started to issue "smart deposits" that offer significantly higher interest rates than other time deposits and the possibility of early withdrawal at a reduced rate.

A second option is to partner with a bank. Big techs can provide the customer interface and allow for quick loan approval using advanced data analytics; if approved, the bank is left to raise funds and manage the loan. This option can be attractive to big techs as their platforms are easily scalable at low cost and may also be profitable for banks, as they can gain an extra return, despite providing lower-value-added services.

A third option is to obtain funds through loan syndication or securitization – already a common strategy among fintech firms.

Big techs' DNA

Big techs have typically entered financial services once they have secured an established customer base and brand recognition. Their entry into finance reflects strong complementarities between financial services and their core non-financial activities, and the associated economies of scope and scale.

Data analytics, network externalities and interwoven activities ("DNA") constitute the key features of big techs' business models. These three elements reinforce each other. Financial services both benefit from and fuel the DNA feedback loop. Offering financial services can complement and reinforce big techs' commercial activities.

Big techs' DNA can lower the barriers to provision of financial services by reducing information and transaction costs, and thereby enhance financial inclusion. However, these gains vary by financial service and could come with new risks and market failures.

Besides the cost of raising funds, the cost of lending is closely tied to the ex ante evaluation of credit risk and the ex post enforcement of loan repayments. The information cost (of lending and ensuring loan repayments) can sometimes be so prohibitive that banks refrain from serving borrowers or do so only at very high spreads. Most at risk from exclusion are borrowers who lack basic documentation or are difficult to reach.

Also, many SMEs in developing economies do not meet the minimum requirements for a formal bank loan application as they often do not have audited financial statements. As a result, big techs can have a competitive advantage over banks and serve firms and households that otherwise would remain unbanked. They do so by tapping different but relevant information through their digital platforms.

The cost of enforcing loan repayments is an important component of total financial intermediation cost. To reduce enforcement problems, banks usually require borrowers to pledge tangible assets, such as real estate, as collateral to increase recovery rates in the case of default. Banks also spend time and resources monitoring their clients' projects.

Big techs can address these issues differently. When a borrower is closely integrated in an e-commerce platform, for example, it may be relatively easy for a big tech to deduct the (monthly) payments on a credit line from the borrower's revenues that transit through its payment account. Big techs could also enforce loan repayments by the simple threat of a downgrade or an exclusion from their ecosystem if in default.

Big techs' role in financial services brings efficiency gains and benefits, but also has the potential to generate new risks and costs associated with market power. Dominant platforms can consolidate their position by raising entry barriers, exploit their market power and network externalities to increase user switching costs or exclude potential competitors. Other anti-competitive practices could include "product bundling" and cross-subsidizing activities.

Another, newer type of risk is the anti-competitive use of data. Given their scale and technology, big techs have the ability to collect massive amounts of data at near zero cost. This gives rise to "digital monopolies" or "data-opolies" that can engage in price discrimination and extract rents. They may also use their data to identify the highest rate the borrower would be willing to pay for a loan or the highest premium a client would pay for insurance.

Regulatory response

Traditionally, financial regulation is aimed at ensuring the solvency of individual financial institutions and the soundness of the financial system as a whole, and incorporating consumer protection goals. When big techs' activity falls squarely within the scope of traditional financial regulation, the same principles should apply to them.

However, two additional features make the formulation of the policy response more challenging. First, big techs' activity in finance may warrant a more comprehensive approach that encompasses not only financial regulation but also competition and data privacy objec-

tives. Second, even when the policy goals are well articulated, the specific policy tools should actually be shown to promote those objectives. This link between ends and means should not be taken for granted.

A well-functioning financial system is a critical public infrastructure, and banks occupy a central place in that system through their role in the payment system and in credit intermediation. Banks' soundness is a matter of broader public interest beyond the narrow group of direct stakeholders (their owners and creditors).

For this reason, banks are subject to regulations that govern their activities, and market entry is subject to strict licensing requirements. Likewise, when big techs engage in banking activities, they are rightfully subject to the same regulations that apply to banks. The aim is to close the regulatory gaps between big techs and regulated financial institutions so as to limit the scope for regulatory arbitrage through shadow banking activities.

Accordingly, regulators have extended existing banking regulations to operations of big techs in payments, such as know-your-customer rules designed to prevent money laundering and other financial crimes. In addition to existing rules being extended to big techs, new rules may be warranted in those cases where big techs have wrought structural changes that take them outside the scope of existing financial regulation.

Prudential regulators have turned their attention to specific market segments, notably in the payment system, where big techs may have already become relevant from a systemic perspective. Where rapid structural change has outrun the existing letter of the regulations, a revamp of those regulations will be necessary. The general guide is to follow the risk-based principle and adapt the regulatory toolkit in a proportionate way.

New challenges

When the objectives of policy extend beyond the goals of traditional financial regulation into competition and data privacy, new challenges present themselves. Even when the objectives are clear and uncontroversial, selecting the policy tools to secure the objectives requires taking account of potentially complex interactions.

To navigate the new, uncharted waters, regulators need a compass that can orient the choice of potential policy tools. These tools can be organized along the two dimensions. The first spans the range of choices over how much new entry of big techs into finance is encouraged or permitted. The second dimension spans choices over how data are treated in the regulatory approach, ranging from a decentralized approach, endowing property rights over data to customers, to a restrictive approach placing walls and limits on big techs' use of such data.

Current practices cover a broad territory. The choices involve decisions by three types of official actors: financial regulators, competition authorities and data protection authorities. The choice of policy tools has been quite heterogeneous across jurisdictions.

Traditionally, public policy on entry into the banking industry has been influenced by two divergent schools of thought on the desirability of competition in banking. One view is that the entry of new firms in the banking sector is desirable as it fosters competition and reduces incumbents' market power. On the other side of the debate is the school of thought emphasizing that a concentrated – or less competitive – banking sector is desirable because it is conducive to financial stability.

However, the relationship between entry and effective competition is far from obvious when the DNA feedback loop is taken into account. New entry may not increase market contestability – and competition – when big techs are envisaged as the new entrants. Big techs can establish and entrench their market power through their control of key digital platforms, e.g., e-commerce, search or social networking.

Such control may generate outright conflicts of interest and reduce competition when both big techs and their competitors (e.g., banks) rely on these platforms for their financial services. Also, a big tech could be small in financial services and yet rapidly establish a dominant position by leveraging its vast network of users and associated network effects. In this way, the rule of thumb that encouraging new entry is conducive to greater competition can be turned on its head.

The traditional focus of competition authorities on a single market, firm size, pricing and concentration as indicators of contestability is not well suited to the case of big techs in finance. Competition authorities may need to adapt their paradigms.

Some jurisdictions (e.g., the European Union, Germany, India, the United Kingdom and the United States) have recently been upgrading their rules and methodologies for assessing anti-competitive conduct. In India, for example, the main e-commerce platforms are prohibited from selling products supplied by affiliated companies on their websites to avoid potential conflicts of interest.

By tying market power to the extensive use of customer data, big techs' DNA feedback loop creates a new nexus between competition and data. Wide access to data can in principle be beneficial. Digital data are a non-rival good – i.e., they can be used by many, including competitors, without loss of content. Moreover, since data are obtained at zero marginal cost as a by-product of big techs' services, it would be socially desirable to share them freely.

The issue, therefore, is how to promote data-sharing. Currently, data ownership is rarely clearly assigned. For practical purposes, the default outcome is that big techs have de facto ownership of customer data, and customers cannot (easily) grant competitors access to their relevant information. This uneven playing field between customers and service providers can be remedied somewhat by assigning data property rights to the customers.

However, the mapping between the policy tools and the ultimate outcomes is more complex in the case of big techs. Given the network effects underlying competition, the competitive playing field may be levelled out more effectively by placing well-designed limits on the use of data. Introducing some additional rules regarding privacy could increase effective competition, because the addition of such limitations on the use of data could curb big techs' exploitation of network externalities.

This policy choice along the data usage dimension has taken centrestage in the debate on big techs. The underlying arguments that bear on the available choices are reflected in the policies recently adopted in a number of jurisdictions.

Two particular examples are the various forms of open banking regulations that have been adopted around the world, and the EU's General Data Protection Regulation (GDPR). To the extent that they entail the transfer of data own-

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South faces defining moment on "development-friendly" WTO reforms

The WTO reform agenda is becoming a battleground for competing visions and proposals advanced by member states.

by D. Ravi Kanth

GENEVA: The developing countries are facing a defining moment for pursuing "development-friendly reforms" at the World Trade Organization, with the Doha Development Agenda (DDA) negotiations having almost been killed by the United States and other developed countries with the tacit support of the WTO secretariat, trade envoys told the *South-North Development Monitor (SUNS)*.

Significantly, the European Union, which had hitherto remained as a counterweight to the US at the WTO, appears to have abdicated its role and joined forces with the US on WTO reforms, said a trade envoy who asked not to be quoted.

The EU and other developed countries are almost reconciled to the prospect of the WTO Appellate Body (AB) becoming dysfunctional due to the US blocking the selection process for filling the vacancies at the AB. (If the vacancies remain unfilled, the AB will cease to function after 11 December when it will be reduced to one member.)

Yet the EU and other developed countries have lined up behind the US in calling for sweeping "reforms" at the WTO concerning transparency and notifications, the trade envoy said.

Other key countries like Brazil also appear to have decided that it would be beneficial to support the US instead of antagonizing it, said a South American trade envoy who asked not to be quoted.

Brazil, which had created the G20 developing-country coalition to bring about reforms in global farm trade, is now one of the frontrunners in pushing the informal plurilateral initiatives to draw up rules on electronic commerce and investment facilitation, among other issues.

Given the near-unanimity among the US and its allies on WTO reforms, other developing countries must join forces to safeguard the core multilateral principles embodied in the WTO's foundational Marrakesh Agreement, the trade envoy suggested.

A number of important issues under the proposed reforms – such as transparency and notification requirements, and graduation/differentiation among developing countries in availing of special and differential flexibilities – will test the resolve of developing countries in the face of concerted attempts by the US and other developed countries to bring about rifts and fragmentation among the developing countries, the trade envoy argued.

Proposals on transparency and notification

On 8 July, the WTO's Council for Trade in Goods (CTG) will discuss two proposals on transparency and notification requirements.

The US and its allies on 27 June circulated a revised proposal on "procedures to enhance transparency and strengthen notification requirements under WTO agreements", which envisages naming and shaming provisions and financial penalties for non-compliance.

As a counter to the US-led proposal, seven developing countries – South Africa, India, Cuba, Tunisia, Nigeria, Uganda and Zimbabwe – circulated their own proposal on 27 June centring on "an inclusive approach to transparency and notification requirements in the WTO".

In the revised proposal by the US, the EU, Japan, Canada, Australia, New Zealand, Argentina, Costa Rica and Chinese Taipei, the proponents made some cosmetic changes in the language on counter-notifications and administrative measures.

New language has been inserted "to encourage Members, at any time, to bring to the attention of the relevant [WTO] Committee information they consider has not been notified by another Member in accordance with the Agreements and Understandings listed in paragraph 1 [which relates to WTO Agreements on agriculture, anti-dumping, subsidies and countervailing measures, safeguards and state trading, among others]."

The US has previously tabled counter-notifications against India's notifications on rice, wheat and cotton, among others, based on data provided by its powerful farm lobbies.

The US and its allies propose financial penalties and naming and shaming if a WTO member fails to submit timely notifications. The naming and shaming administrative measures include designating the member as a member with notification delay, and calling upon the representatives of the member at WTO formal meetings only after all other members have taken the floor.

Under the US-led proposal, when these administrative measures are applied to a member, the WTO Director-General will notify the relevant minister of that member.

Further, the proposal also provides for a financial penalty to be imposed on the member concerned, at a certain percentage of its normal assessed contribution to the WTO budget.

Challenging the naming and shaming measures and financial penalties, the proposal by the seven developing countries calls for an "inclusive approach" that would take into account:

(a) the capacity constraints faced by developing countries;

(b) the failure by developed countries to provide information in agriculture (members with final bound Aggregate Measurement of Support commitments);

(c) the need for developed countries to comply with obligations under the WTO's General Agreement on Trade in Services (GATS) to notify new or changes to existing laws, regulations or administrative guidelines which significantly affect trade in services, especially those concerning Mode 4;

(d) notification of incentives provided by developed-country members to enterprises and institutions in least developed countries;

(e) the need to disclose the origin of biological resources and/or associated traditional knowledge in relevant patent applications;

(f) the need for transparency in tariffs by submitting the *ad valorem* equivalents of opaque tariffs on farm products; and

(g) the need for "transparent and inclusive" functioning of the WTO, particularly "how Ministerial Conferences are conducted, and the processes that precede them in Geneva – each WTO member must be provided an equal opportunity in the decision-making process. Thus, meetings must be open to all, not only to some in green room processes."

"Core principles"

In addition, India floated a "concept paper" at a 19 June retreat of developing-country trade envoys hosted by China in which it proposed "strengthening the WTO to promote development and inclusivity" by preserving the "core principles of the Multilateral Trading System."

India has demanded amendments to laws and regulations that mandate unilateral action such as Section 232 tariffs imposed by the US under security provisions.

India has said "the following rules in the Marrakesh Agreement are fundamental and must be respected:

- Article II and Article III on the multilateral functions of the WTO;
- Article IX on the continuation of the practice of decision-making by consensus;
- Article X: when there are amendments (additions or changes) to WTO rules, there must be consensus, followed by ratification by members. New rules enter into force only when ratification numbers required have been attained."

India also said "many members have evinced interest in pursuing outcomes in some areas through joint plurilateral initiatives (JPIs)." In light of this, it called for adhering to "provisions governing plurilateral agreements in the Marrakesh Agreement."

(Article X.9 of the Marrakesh Agreement sets out conditions, procedures and decision-making for adding to the plurilateral agreements included in its Annex 4. It states: "The Ministerial Conference, upon the request of the Members parties to a trade agreement, may decide exclusively by consensus to add that agreement to Annex 4...")

"If they are to be multilateral agreements," said India in its concept paper, "the outcomes of these initiatives, by way of new rules, can only be introduced into the WTO when there is consensus, and Article X of the Marrakesh Agreement on amendments must govern any changes or additions to the WTO Agreement."

In short, the JPIs must "not change the fundamental architecture of WTO", India has demanded.

The 8 July meeting of the CTG and the WTO General Council meeting on 23 July will indicate whether the developing countries are able to thwart the one-sided agenda being pushed by the US and its allies, said trade envoys who asked not to be quoted. *(SUNS8939)* ❐

South countries establish "common platform" on WTO reform

Developing-country trade diplomats gathered at a retreat on 19 June to discuss how to achieve inclusive and development-centred reform at the WTO.

by D. Ravi Kanth

GENEVA: Trade envoys from 38 developing countries, at a retreat here on 19 June, decided to establish a "common platform" for pursuing an "inclusive" and "developmental" agenda in the ongoing discussions on "reforms" at the WTO, several trade envoys told the *South-North Development Monitor (SUNS)*.

"From New Delhi to Geneva, we have established a platform for developing countries to discuss reforms of the WTO from a developmental perspective," said China's Ambassador to the WTO, Zhang Xiangchen, who hosted the day-long retreat at a Geneva hotel.

"There are many groups in this town, but this is a developing country group. Being the biggest group at the WTO, we want to pursue reforms with development dimension," he said, according to a trade envoy who asked not to be quoted.

The developing countries, said Zhang, "want to protect the core values of the WTO such as non-discrimination and special and differential treatment" while safeguarding "our offensive and defensive interests", according to the participant.

Trade envoys from India, South Africa, Indonesia, Malaysia, Jamaica, Pakistan, Honduras, Brazil, Argentina, Uganda, Benin and Turkey, among others, concurred with Zhang on the urgent need for developing countries to provide a "counter-narrative" for bringing about "inclusivity" and the "developmental dimension" in the multilateral trading system and the WTO.

Notwithstanding the differences among some of them on such issues as the plurilateral negotiations on electronic commerce, investment facilitation, and disciplines for micro, small and medium enterprises (MSMEs), Zhang said, the developing countries want the conclusion of the Doha Development Agenda (DDA) negotiations and reforms to address the specific concerns of the developing countries.

As a follow-up to the discussions at an informal meeting of developing-country trade ministers in New Delhi in May, he said, China would like to play its part in establishing a solid developing-country platform.

Discussions at the Geneva retreat centred on the topics of "WTO reform to enhance development dimension", "transparency and procedural reforms", "ongoing negotiations and discussions (on fisheries subsidies, e-commerce and investment facilitation)" and "US-EU-Japan trilateral joint statements and implications to developing countries."

Development dimension

During the session on "WTO reform to enhance development dimension", the two panellists – Indian Ambassador to the WTO J.S. Deepak and Richard Kozul-Wright, Director of the Globalization and Development Strategies Division at the

United Nations Conference on Trade and Development (UNCTAD) – presented their assessments on how to enhance the development dimension in the multilateral trading system and the WTO.

Deepak said 17 trade ministers from developing countries had decided at the New Delhi meeting to work "collectively" for strengthening the WTO while advancing the development dimension in the WTO reforms.

Expressing concern over the "one-sided narrative" in the reform proposals tabled by the United States and other major developed countries, he said there is an urgent need for developing and least-developed countries to "join forces" to safeguard the core values and objectives of the WTO, particularly consensus-based rule-making, non-discrimination, and special and differential treatment (S&DT) for developing countries.

He circulated a concept paper that India had prepared after discussion with several other developing countries, the WTO Centre in New Delhi and the South Centre, an intergovernmental developing-country think-tank.

The six-page concept paper calls for amending "laws and regulations of WTO members" which mandate unilateral action on trade issues.

It says that "rules in the Marrakesh Agreement are fundamental and must be respected."

"Multilateral avenues, based on consensus, remain the most effective means to achieve inclusive development-oriented outcomes," the concept paper emphasized. It added that "provisions governing plurilateral agreements in the Marrakesh Agreement must be adhered to. If they are to be multilateral agreements, the outcomes of these initiatives [the so-called Joint Statement Initiatives on electronic commerce, investment facilitation, disciplines on MSMEs, and disciplines on domestic regulation in services], by way of new rules, can only be introduced into the WTO when there is consensus."

Deepak said "new multilateral agreements need to be based on the Doha work programme and the ministerial mandates of the Bali, Nairobi and Buenos Aires meetings".

He also suggested that negotiating new trade agreements is futile without resolving the systemic crisis in the WTO's dispute settlement mechanism, particularly the Appellate Body.

He praised China for its initiative to develop a counter-narrative to the proposal presented by the US for bringing about differentiation/graduation among developing countries to curtail their recourse to special and differential flexibilities in current and future trade negotiations.

The concept paper, said Deepak, sets out the immediate priorities for reform at the WTO, including resolving the crisis in the Appellate Body and addressing the unilateral actions taken by some members.

Any reform, he said, must:

- keep development at its core through delivering on longstanding development concerns, in particular the outstanding development issues of the DDA, as well as address the asymmetries in WTO agreements such as the Agreement on Agriculture and others;
- strengthen the multilateral character of the WTO, especially preservation of consensus decision-making and respecting Article X of the Marrakesh Agreement (on amendments to the WTO rules);
- continue with the ongoing multilaterally mandated negotiations; and
- reaffirm the principle of S&DT, which is a treaty-embedded, non-negotiable right for all developing countries in the WTO, and promote inclusive growth, widening spaces for states to pursue national development strategies in the broad framework and principles of a rules-based system.

In her comments on Deepak's presentation, South Africa's Ambassador Xolelwa Mlumbi-Peter said the concept paper has clearly laid out the immediate priorities for developing countries to pursue at the WTO.

During his presentation on what ought to be the development dimension in global trade, Richard Kozul-Wright said that developing countries are facing a common set of challenges which stem from the imbalanced and asymmetrical Uruguay Round agreements. The "muted" celebrations this year of the 25th anniversary of the conclusion of the Uruguay Round are an indication that it was not development-friendly for developing countries, even though the developed countries projected it as such.

Kozul-Wright countered the arguments advanced by the European Union and other developed countries for enhancing transparency and notification requirements in the WTO, saying they are "bait-and-switch" for advancing "dangerous" reforms to curtail the "policy space" for developing countries to pursue industrial development.

Kozul-Wright urged the developing countries to vigorously pursue "catching-up" policies to overcome their structural and other problems, policies that he said the developed countries had followed for several centuries.

Plurilateral talks

During the discussion on electronic commerce and the plurilateral negotiations pursued by developed and some developing countries, India's Deepak challenged the need for framing rules on e-commerce.

He said the plurilateral e-commerce negotiations strike at the very roots of the multilateral talks being conducted in the WTO under a 1998 work programme, and are aimed at bringing in the rules from the failed Trans-Pacific Partnership agreement.

China, which has joined the plurilateral e-commerce negotiations, expressed concern over data flows and removal of restrictions on foreign servers for storing data. The Chinese envoy suggested that if the negotiations are not balanced, then Beijing could walk out of the process, according to a trade envoy who asked not to be quoted.

On investment facilitation, South Africa's Mlumbi-Peter said it is not clear why the issue has to be taken up at the WTO, which is a multilateral body for trade rules. She said that if the issue's proponents are seeking best practices in investment facilitation, then the WTO is not the forum.

WTO Director-General Roberto Azevedo, who also spoke at the retreat, said pursuing development through WTO reforms is extremely important. WTO reforms and development are intrinsically linked, and without strong international trade rules there will be chaos, he argued.

While acknowledging that the crisis at the Appellate Body needs to be resolved without delay, he said WTO members must work on other reforms as well.

The retreat brought developing countries together to collectively face the reform-related challenges at the WTO, said several trade envoys who asked not to be quoted. *(SUNS8930)* ❐

Concerns over US push to bring TPP rules into digital trade deal

Proposed new rules on digital trade being discussed in ongoing plurilateral talks could mainly mirror the norms under the stillborn Trans-Pacific Partnership trade pact.

by D. Ravi Kanth

GENEVA: The United States and its allies in the former Trans-Pacific Partnership (TPP) agreement dominated the discussions in plurilateral talks on digital trade on 18-20 June, reinforcing fears that the proposed plurilateral deal would largely contain the TPP commitments, trade envoys told the *South-North Development Monitor (SUNS)*.

[Although any rules on digital trade resulting from the plurilateral talks would need the consensus of the entire WTO membership, and may involve amendments to the WTO's General Agreement on Tariffs and Trade (GATT) and General Agreement on Trade in Services (GATS), the sponsors and participants of the talks, as well as the WTO Director-General who is supporting the talks, have remained coy on how they could achieve this. – *SUNS*]

India and South Africa among others have cautioned against the proposed plurilateral deal on digital trade, saying it would strike at the very root of GATT and GATS commitments, and would effectively bring the TPP rules into the WTO.

The fears expressed by India and South Africa would have been heightened by the tone and tenor of the 18-20 June plurilateral discussions, said a participant who asked not to be quoted.

During the so-called Joint Statement Initiative (JSI) discussions, the US and several other former TPP members – Japan, New Zealand, Canada, Singapore, Mexico and Chile – dominated the proceedings with regard to the issues of data flows, data localization, and the need to keep the Internet free of sovereign restrictions.

China, according to one JSI member, proved to be the odd participant out during the meetings, seeking several safeguards on data flows while indicating red lines on data localization and storing of data in servers outside China.

The European Union also differed with the US on issues concerning data privacy and protection. The EU said these two issues would constitute a human right, which must trump commercial considerations, said a JSI participant from a South American country.

The EU's demand for a revised Telecom Reference Paper during the discussions also provoked sharp questions from JSI participants such as Brazil which were not among the signatories to the original paper in 1996.

Moratorium

On the first day of the JSI discussions on 18 June, members largely discussed the moratorium on imposing customs duties on electronic transmissions and whether it should be made permanent.

Despite the lack of clarity on issues concerning content and classification of e-commerce transmissions, the JSI members largely concurred that the moratorium should become permanent.

China, however, called for a two-year extension of the moratorium until end-2021, as opposed to making it permanent. China maintained that there are still several unresolved issues that ought to be addressed before deciding on a permanent moratorium, a JSI participant said.

China's proposal for a two-year extension of the existing moratorium was supported by several countries at the meeting which are not signatories to the JSI such as Ecuador, Malaysia and Senegal, a JSI participant said.

As regards data flows, the US, New Zealand and other proponents called for the removal of all the existing restrictions on data flows, including on personal information.

"No party shall prohibit or restrict the cross-border transfer of information, including personal information by electronic means, if this activity is for the conduct of the business of a covered person," the US has said in a proposal issued on 26 April.

The US also proposed a necessity test for data flows that would require any member/party "adopting or maintaining a [restrictive] measure" to show that it is "necessary to achieve a legitimate public policy objective."

Brazil spoke about its new law on data flows with legitimate policy safeguards that would come into effect next year.

China said it recognized the importance of data flows for commercial and other trade-related activities, but underscored the need for appropriate safeguards for achieving legitimate public policy considerations, said a JSI participant from a developed country who asked not to be quoted.

On issues concerning privacy and protection, the US questioned the EU about the latter's Global Data Protection Regulation (GDPR) that would provide data protection and privacy for all citizens of the 27 EU member countries.

The protection of personal data and other safeguards are a human right and outweigh commercial considerations, the EU said during the discussions.

In a proposal circulated on 26 April, the EU had said that "the protection of personal data and privacy is a fundamental right" and "members may adopt and maintain the safeguards they deem appropriate to ensure the protection of personal data and privacy, including through the adoption and application of rules for the cross-border transfer of personal data."

Another difficult issue that brought differences into the open was data localization. On this, the US and other members of the former TPP group, and the EU want to eliminate all requirements for storing data locally.

The US proposal insists that "no party shall require a covered person to use or locate computing facilities in that Party's territory as a condition for conducting business in that territory".

The EU has demanded that "cross-border data flows shall not be restricted by: (a) requiring the use of computing facilities or network elements in the Member's territory for processing, (b) requiring the localization by imposing the use of computing facilities or network elements, and (c) prohibiting storage or processing in the territory of other members".

China, however, maintained that it has a number of concerns about location of computing facilities. It said that, given the divergent positions among members, more exploratory discussions are needed on data flows, data storage and digital treatment of products.

The US position on location of finan-

cial computing facilities for covered financial service suppliers also raised sharp differences among the JSI participants.

Canada said that it would require data localization for financial services, maintaining that location of financial computing facilities ought to be within the country.

Several members also called for data localization in regard to areas such as health.

The US and Canada also differed on the issue of liability conditions for electronic platforms. The US has maintained that electronic platforms cannot be subjected to liability regulations, while Canada said its local courts have the final say in deciding the liability.

On cybersecurity cooperation among members, the US proposed a risk-based approach. China suggested sovereign Internet, which was not acceptable to the US.

During the discussions on 20 June, the EU called for the participants to agree to a revised Telecom Reference Paper.

The EU has proposed that "the telecommunications regulatory authority shall be separate from, and not accountable to any supplier of public telecommunications transport networks or services."

When asked whether the exceptions in the 1996 Telecom Reference Paper would continue in the revised Telecom Reference Paper, the EU said the exceptions would not flow into the revised paper.

Several JSI participants, particularly Brazil, told the EU that they are not signatories to the original Telecom Reference Paper, nor are they ready to accept the revised paper.

In short, the discussions for creating new plurilateral digital trade rules almost along the lines of what was prescribed in the TPP agreement, would severely undermine commitments under the GATT and GATS. *(SUNS8932)* ❐

E-commerce rules promoted in name of women's economic empowerment

A recent workshop on women in digital trade heard pitches for international rules on electronic commerce but did not adequately address concerns about the impact of such rules on women in the developing world.

by Kinda Mohamadieh

GENEVA: Women in digital trade was the subject of a workshop convened at the WTO on 1 July.

The workshop was co-convened by the European Union, Trinidad and Tobago and Senegal, the fifth since the release of the Joint Declaration on Trade and Women's Economic Empowerment at the 11th WTO Ministerial Conference in Buenos Aires in December 2017.

Ministers who signed the Declaration agreed to collaborate on making trade and development policies more gender-responsive, including through "information exchanges ... and voluntary reporting during the WTO trade policy review process", "sharing best practices for conducting gender-based analysis of trade policies", "sharing methods and procedures for the collection of gender-disaggregated data", "working together in the WTO to remove barriers for women's economic empowerment and increase their participation in trade", and "ensuring that Aid for Trade supports tools and know-how for analyzing, designing and implementing more gender-responsive trade policies..."

When the Declaration was released at Buenos Aires, there was immediate widespread concern and objections from women's groups worldwide (see below).

At the opening session of the 1 July workshop, Arancha Gonzalez, Executive Director of the International Trade Centre, said that the international trade community could support women's economic empowerment and levelling the playing field for them through negotiating international rules on e-commerce and investment facilitation. She called on the participants to focus on preparation for the 12th WTO Ministerial Conference, which is scheduled to take place in Kazakhstan in June 2020.

Also speaking in the opening session, Roberto Azevedo, the WTO Director-General, cautioned that if the international trade community is not able to agree on new rules for the digital economy, the result will be fragmentation and higher costs and barriers, thus leading to excluding many, including women entrepreneurs, from the opportunities that the digital economy offers.

Pamela Coke-Hamilton, Director of the Division on International Trade and Commodities at the UN Conference on Trade and Development (UNCTAD), also spoke in the opening session representing UNCTAD Secretary-General Mukhisa Kituyi. She noted that the digital world is not gender-neutral, whereby there are gender-specific challenges that women face and that should be addressed.

The Ambassador of the European Union to the WTO, Marc Vanheukelen, said that negotiations on e-commerce rules that started in April should adopt a gender lens.

Participants at the workshop heard messages on how digital trade can help with addressing the gender gap in the economy and the need to move trade towards an inclusive, people-centred and gender-aware policy approach.

Focus was given to women's entrepreneurship and their ability to effectively engage with digital tools. It was suggested that enabling access for women to the digital sphere will contribute to the growth of developing countries' economies, while Aid for Trade programmes could be of help in this regard.

Other issues addressed during the workshop included the ability of the digital economy to create new income-generating opportunities for women, ways to facilitate access to finance and bridging the gender gap more generally.

Participants also discussed the gender-specific challenges that women face in the digital sphere, including gender discrimination in the male-dominated information and communication technology (ICT) sector, the need for more tailored programmes to support women in small and medium-sized enterprises (SMEs), and ways of leveraging information and communication technologies to help women overcome time and resource constraints they usually face.

The workshop included sessions showcasing examples of online businesses, where speakers stressed the importance of finance and networking.

Mark Wu, the Henry L. Stimson Professor of Law at Harvard University, stressed in his inputs that the gap to be bridged is not only about new rules, but

also about establishing an enabling environment in the form of physical infrastructure particularly in developing countries, such as addressing women's access to reliable Internet technologies, including outside of major urban centres. No matter what the rules are, the divide will not be addressed without dealing with the physical component, he stressed.

Another speaker pointed out that any new e-commerce rules should not create new barriers to women's economic empowerment.

Adverse impact of WTO rules

However, notably absent from the Joint Declaration on Trade and Women's Economic Empowerment and its follow-up process has been a focus on the impact of existing trade rules on the situation of women.

In response to the Declaration, a large number of women's groups had in December 2017 released a statement noting that the Declaration "fails to address the adverse impact of WTO rules and instead appears to be designed to mask the failures of the WTO and its role in deepening inequality and exploitation".

"The removal of tariffs and import limits alone [has] been detrimental to women's rights. Tariff reductions reduce government revenue essential for public investments in health, education, energy, water, transport and social protection. Reduced public expenditure impacts most heavily on the economically poor and particularly poorer women," they stressed.

"The proposal for the WTO to deal with 'new issues' [including e-commerce] threatens women's human rights even further," the statement highlighted.

The groups signing the statement noted that "if governments are genuinely interested in advancing women's human rights through just trade arrangements, they would allow for pro-poor public stockholding of food, allow domestic regulations a state deems necessary to advance women's human rights and the public interest, ensure that states can fully utilize intellectual property flexibilities to provide access to medicines, seeds, technologies that advance women's human rights and refrain from entering into bilateral or multilateral agreements that further restrict the capacity to use domestic regulations in the interests of the public in any way they deem necessary".

It is worth noting that studies show that the most effective gender equality policies seem to consist of various forms of positive discrimination in national regulation, such as gender-sensitive domestic services initiatives.

However, such initiatives would sit at odds with the WTO's "anti-discrimination" rules, which is one dimension of the interaction between trade and women's empowerment that is worth considering in this debate.

When it comes to women and digital trade specifically, studies observe that SMEs continue to have difficulties accessing foreign markets despite the Internet, particularly due to the quality of telecommunication infrastructure, computer access and knowledge, among other factors.

There is also a need to closely examine the assumption that e-commerce will provide the opportunity for developing countries' SMEs, including women's entrepreneurial initiatives, to find new markets for niche products. For example, the majority of developing-country economies consist of mundane products for which opening the online route and e-platforms equipped with complementary e-commerce services for payment, logistics and delivery could lead to fierce competition for local suppliers, possibly crowding out these small businesses from the local markets.

Recent research on the e-commerce rules proposed for current negotiations points out that such rules would "reinforce the same model of unbridled globalization that feminists have long been critiquing for its pernicious effects on women in the global south".

This research highlights that such rules, if agreed, would likely lead to erosion of the revenue base essential for underwriting care infrastructure, precluding governments' ability to address algorithmic discrimination against women, deregulation that ignores digital restructuring of agriculture, and loss of the right to create digital public goods for women's economic empowerment.

(The proposed e-commerce rules discussed at the informal joint initiative on e-commerce in which a number of WTO member states are engaged include: permanent ban on customs duties on electronic transmissions; prohibition of mandatory source code/algorithmic disclosure requirements; enhanced market access and national treatment for digital service providers; and adoption of an unrestricted cross-border data flows regime.) *(SUNS8940)* ❒

(continued from page 5)

ership from big techs to customers, both regulations can be seen as measures intended to facilitate greater effective market contestability.

At the same time, some of the new regulations also limit the scope of data-sharing. The rationale for limiting the use of data rests on a number of considerations. Not all types of data are relevant for the provision of financial services. To assess a borrower's creditworthiness, for example, a lender may not necessarily need to know their social habits or travel plans. Moreover, not all types of service providers should be given access to their customers' financial data.

Accordingly, open banking regulations selectively restrict the range of data that can be transmitted (e.g., financial transaction data), as well as the type of institutions among which such data can be shared (e.g., accredited deposit-taking institutions). Similarly, the GDPR requires customers' active consent before a firm can use their personal data.

Both types of restrictions can be seen as barriers to big techs' entry into finance. More drastic approaches involve outright restrictions on the processing of user data, such as the recent rule by Germany's competition authority that prohibits a prominent social network (Facebook) from combining its user data with those it collects from its affiliated websites and applications. Where to draw the line is an issue that involves not just economics, but also society's privacy preferences.

In the face of the rapid and global digitization of the economy, policymakers need institutional mechanisms to stay abreast of developments and to learn from and coordinate with each other. Coordination among authorities is crucial, at both the national and the international level.

First, there is a need for coordination of national public policies. Second, as the digital economy expands across borders, there is a need for international coordination of rules and standards (e.g., for data exchange). To prevent those differences from leading to conflicting actions, policymakers not only need a new compass but also need to find the right balance of public policy tools. *(SUNS8932)*❒

India, South Africa stress on policy space over e-commerce duties moratorium

India and South Africa have urged a rethink of the current halt to customs duties on electronic transmissions, saying it impairs developing countries' tariff revenues and impedes their digital industrialization prospects, but their call has met with opposition led by the developed countries.

by D. Ravi Kanth

GENEVA: India and South Africa on 17 June stood their ground at the WTO on their central demand for preserving "policy and regulatory space" by reconsidering the existing moratorium on levying customs duties on electronic transmissions, which is set to expire at the end of this year.

The Indian and South African delegates were speaking at a dedicated WTO General Council meeting specifically convened to discuss their joint proposal for revisiting the current moratorium.

The moratorium is renewed biennially by WTO Ministerial Conferences and is expected to be on the agenda of the next Ministerial Conference at Nur-Sultan, Kazakhstan, in June 2020.

The Indian and South African joint proposal has been fiercely opposed by the United States and other developed and some developing countries. Despite the opposition, India and South Africa have stressed the importance of a reassessment of the moratorium in light of developing countries' revenue losses and their need for policy space to develop their digital economies.

Revenue loss

Introducing the joint proposal at the General Council meeting, Indian Ambassador to the WTO J.S. Deepak said the magnitude of the "potential tariff revenue loss" due to the moratorium is around $10 billion for developing countries, as against only $300 million for the high-income WTO members.

The developing countries, he said, "have the opportunity to generate 40 times more tariff revenue by imposing customs duties on ET [electronic transmissions] as compared to the developed countries, many of which have almost zero bound duties on physical imports of digitizable products."

The least-developed countries (LDCs) and the Sub-Saharan African countries would suffer annual revenue loss to the tune of $1.5 billion and $2.6 billion respectively because of the existing moratorium, the Indian envoy said, according to trade envoys who took part in the meeting.

Citing a study by the United Nations Conference on Trade and Development (UNCTAD), Deepak said that "95% of world's total tariff revenue loss due to the moratorium will be borne by the developing countries."

"Why should the bulk of sacrifice of revenue fall disproportionately on the poorer Members of the WTO?" he asked.

The Indian envoy challenged the claim advanced by several developed countries that tariff revenue loss due to the moratorium can be balanced by imposing other taxes and internal charges. In reality, he said, "it is very difficult to tax the digital giants operating in our countries without physical presence".

A global digital behemoth like Facebook, said Deepak, "generates huge profits from its India operations where a significant number of its global users are located, but pays abysmally low taxes to the Indian government." He said "similar patterns of behaviour by technology firms are emerging in all parts of the developing world, especially Africa."

Commenting on the scope of the moratorium and what is covered under the definition of electronic transmission, the Indian envoy referred to Indonesia's statement at the WTO Ministerial Conference in Buenos Aires in 2017 that "the moratorium doesn't apply to ... products or contents which are submitted electronically..."

Even Brazil, an active member of the plurilateral Joint Statement group on e-commerce, has suggested that the moratorium should apply only to "electronic transmissions" and not to "content transmitted electronically".

Commenting on the claimed difficulties involved in imposing customs duties on ETs, Deepak drew attention to taxing of "ETs and intangibles, including digital products", by many WTO members.

According to the World Customs Organization, it is technically feasible to impose customs duties on ETs, he said. He urged the WTO secretariat to "disseminate to the membership, the policies and strategies adopted by member countries such as the EU, Australia, New Zealand, Indonesia, India, etc for taxing intangible imports".

Broader impact

Further, the Indian envoy asked his counterparts to consider the "broader impact of the moratorium on trade and industrialization of developing countries", which he said would be negatively impacted on several grounds:

(i) Tariffs play an important role in protecting infant domestic industries from more established overseas competitors until they have attained competitiveness and economies of scale. Therefore, customs-duty-free imports of digital products will hinder the growth of the infant digital industry in developing countries.

(ii) There is evidence of huge concentration in the digital space, such as the existing market power of global digital platforms. Coupled with "network effects", big is getting bigger, making it virtually impossible for new entities, incumbents and small and medium-sized enterprises to enter. Even if they do manage to enter, the monopolistic, anti-competitive practices of existing behemoths do not let them survive.

(iii) There is the erosion of existing GATT bound tariff rates with increasing digitization and the advent of Industry 4.0 propelled by the Internet of Things and new technologies like 3D printing. It is predicted that with the current growth in investments in 3D printing, 50% of manufactured products will be printed by 2060. This makes the e-commerce moratorium nothing short of

"duty-free, quota-free" access for the digital products of the digitally industrialized WTO members to the markets of the rest of the membership.

Against this backdrop, said Deepak, there is "an urgent need for the developing countries and LDCs to develop their digital capacities for facing the growing challenge of digital trade."

Consequently, for designing and developing national digital industrial policies which match the level and pace of their digital development, "it is extremely important for developing countries to preserve policy and regulatory space in the WTO", he emphasized.

With six months left before the expiry of the e-commerce moratorium, he said, "our call is not about ending or extending the moratorium." "It is about the need to deliberate upon the above key issues in detail and with the utmost urgency to enable us to make more informed policy decisions in future."

Beneficial

In sharp opposition to the arguments presented by Deepak, several developed countries led by the US stuck to their stand that the moratorium has been beneficial for all WTO members.

In lengthy statements, the US, Canada, New Zealand, Switzerland, Norway, Mexico and Chile among others maintained that the potential revenue loss due to the moratorium is insignificant. They argued that the issue should not be looked from a narrow perspective, and claimed that the UNCTAD study has overestimated the revenue implications.

Contrary to the WTO secretariat's ambiguous position on what constitute electronic transmissions, the US and other developed countries said the scope of the original 1998 moratorium decision was very clear on what would constitute content. They said that content is very much part of the original decision, suggesting that without content, the decision is meaningless.

The developed countries said that it is not technically feasible to impose customs duties, adding that it would prove to be costly and burdensome. Further, it would create new bureaucracies for imposing customs duties.

On the larger developmental issue arising from the moratorium, the US and other developed countries claimed that the moratorium would help e-commerce by providing stability and generating employment.

Consequently, the developed countries demanded a permanent moratorium instead of the current two-year extensions of the moratorium.

China, which is one of the biggest beneficiaries of the moratorium, said it would prefer a two-year extension until 2021.

Brazil, which is an active player in the plurilateral e-commerce negotiations, said it doesn't want a permanent moratorium, unlike other participants in the talks.

Incorrect

Responding to the criticisms and opposition from the developed countries, South Africa's Ambassador Xolelwa Mlumbi-Peter said that it is incorrect to estimate revenue losses by using effective applied tariffs instead of bound tariffs. "In our experience, it is always advisable to develop any cross-country analysis using bound rates, which prescribe the ceiling up to which a member can legally increase its tariffs," she said. If the analysis uses effective applied rates, the analysis will no longer remain consistent if one or a few members raise their applied tariffs anywhere up to their respective bound rates.

Even by using effective applied duties instead of bound rates, "developing countries stand to lose more than 20 times of tariff revenue as compared to the developed countries", she said.

Mlumbi-Peter defended the UNCTAD study and suggested that the estimate of $10 billion per annum of potential tariff revenue loss suffered by developing countries is "conservative" for a number of reasons.

Firstly, the estimated potential tariff revenue losses does not include additional revenue losses accruing from loss of customs surcharges and additional duties.

Secondly, it was assumed in the UNCTAD study that import of digitizable products grew at a rate of only 8% during the reference period (2011-17), as against the average growth rate of global revenue of around 30% from music streaming, Netflix, video games, e-books, revenue of Microsoft, etc during the same period (2011-17).

Most importantly, increasing digitization and the advent of Industry 4.0 and new technologies like 3D printing is expected to wipe out almost 40% of cross-border physical global trade. If virtually all non-agricultural manufacturing products can be digitized and therefore transmitted electronically, the revenue losses are only going to mount in geometric progression.

"You may recall that the UNCTAD 2019 study estimates the potential tariff revenue losses using a list of only 49 digitizable products," the South African envoy pointed out.

The $10 billion of revenues lost could be used for development and for bridging the digital divide, she said.

"As regards the issue that the UNCTAD 2019 study represents the views of the author, and not those of the United Nations, and that it had not been 'formally edited', as mentioned by a few members today, we understand that this is a standard disclaimer which all similar UNCTAD research papers carry," she said.

On technical feasibility, Mlumbi-Peter noted that "many members have stated confidently that it is very difficult, if not impossible, to apply duties to electronic transmissions."

"As we understand it, the ability to distinguish between a domestic and foreign service provider is exactly the same as to whether you apply domestic taxes or customs duties," she argued, pointing out that the representative from the World Customs Organization had said that imposing customs duties on ETs is technically feasible.

Mlumbi-Peter said the implications of the moratorium on industrial policy and development, labour, productivity, competition and the necessary policy space to develop digital capabilities should all be explored.

She urged the General Council chair to convene dedicated sessions on thematic areas such as "revenue implications of the moratorium on electronic transmissions", "scope and definition of electronic transmissions", "technical feasibility of imposing customs duties on electronic transmissions", and "broader impact of the moratorium on trade and industrialization" and any other issue with respect to the moratorium. *(SUNS8928)* ❐

UN's development goals far from being met

The world is falling short of realizing the Sustainable Development Goals set in 2015, according to a new UN report described as "a wake-up call to governments".

by Thalif Deen

NEW YORK: The United Nations, in a new report to be released in July, has warned "there is no escaping the fact that the global landscape for the implementation of the 17 Sustainable Development Goals (SDGs) has generally deteriorated since 2015, hindering the efforts of governments and other partners".

And the commitment to multilateral cooperation, so central to implementing major global agreements, is now under pressure, says the 35-page report, due to be released ahead of the High-Level Political Forum (HLPF) of the UN Economic and Social Council (ECOSOC) on 9-18 July.

The reasons for the roadblocks include a spreading economic recession, a decline in development aid, the diversion of funds into humanitarian emergencies, widespread military conflicts, the growing economic losses from natural disasters, the downsizing of operations by cash-strapped UN agencies, the rise of right-wing governments and the increasing challenge to multilateralism.

The study says "it is cause for great concern that the extreme poverty rate is projected to be 6% in 2030, missing the global target to eradicate extreme poverty while hunger is on the rise for the third consecutive year."

At the same time, biodiversity is being lost at an alarming rate with around one million species already facing extinction, many within decades, while greenhouse gas emissions continue to increase.

Additionally, the required level of sustainable development financing and other means of implementation are not yet coming onstream and institutions are not strong or effective enough to respond adequately to these massive inter-related and cross-border challenges.

On gender empowerment, it says women represent less than 40% of those employed, occupy only about a quarter of managerial positions in the world, and (in a limited set of countries with available data) face a gender pay gap of 12%. About a fifth of those aged 15 to 49 experienced physical or sexual-partner violence in the last 12 months.

"There is simply no way that we can achieve the 17 SDGs without achieving gender equality and empowering women and girls," the study declares.

Wake-up call

Asked for his reaction, Jens Martens, director of the Global Policy Forum and coordinator of the Civil Society Reflection Group on the 2030 Agenda, told Inter Press Service (IPS): "The new UN report is a wake-up call to governments – and it clearly shows that most governments have failed to turn the proclaimed transformational vision of the 2030 Agenda [which incorporates the SDGs] into real policies."

"We agree with the assessment that the commitment to multilateral cooperation is now under pressure. Even worse, national chauvinism and authoritarianism are on the rise in a growing number of countries," he added.

But despite these gloomy perspectives, there are signs of change, said Martens.

In response to the failure or inaction of governments, worldwide social movements have recently emerged, mainly with young people and women in the lead.

The UN report clearly shows that structural transformation is needed more than ever before. It requires strengthening bottom-up governance and governance coherence.

At global level, he said, the upcoming review of the High-Level Political Forum in July should be used to overcoming the weakness of this body and transform it into a Sustainable Development Council.

Martens said enhancing governance coherence requires giving those institutions which are responsible for the implementation of the 2030 Agenda and the SDGs, the necessary financial resources and effective political and legal instruments. At global level, this requires changing the recent course of relying on non-binding instruments and corporate voluntarism.

The SDG Summit, scheduled to take place at the United Nations on 24-25 September, and, equally important, the 75th anniversary of the United Nations in 2020 will provide important opportunities to translate the calls of the emerging global movements for social and environmental justice into political steps towards a new democratic multilateralism, he added.

Chee Yoke Ling, Director of Programmes at the Third World Network, told IPS that the world is very far from meeting the sustainable development commitments, including the targets set under the Convention on Biological Diversity for the period 2011-20, the Aichi Targets, that are integral to the SDGs.

There are promises of implementation, especially new and additional funding, that are a legal obligation of developed countries in various multilateral treaties, she added.

"The global cooperation forged in the 1992 Rio treaties on biodiversity, climate and combating desertification [was] rooted in the principle of equity and common but differentiated responsibilities between developing and developed countries."

Twenty-seven years later, she said, multilateralism is under attack, with an erosion of all these principles and commitments.

"The Trump Administration is pushing the world into economic protectionism, while the resources of developing countries are now facing a new level of siphoning through digitalization," she added.

From personal data to gene sequence information, a handful of transnational corporations once again seek aggressively to claim private property rights for profit, she warned.

Meanwhile, on a relatively positive note, the report points out that progress is being made and some favourable trends on SDG implementation are evident.

Extreme poverty and child mortality rates continue to fall. Progress is being made against diseases such as hepatitis, where the incidence of new chronic HBV infections has been reduced considerably.

Certain targets regarding gender equality are seeing progress, such as implementing gender-responsive budgeting. Electricity access in the poorest countries has begun to increase.

Globally, labour productivity has increased and unemployment is back to pre-financial-crisis levels. The proportion of the urban population living in slums is falling.

Still, progress has been slow on many SDGs; "the most vulnerable people and countries continue to suffer the most, and … the global response thus far has not been ambitious enough."

Unreported

Roberto Bissio, coordinator of Social Watch, told IPS that the UN report does not mention that, according to its estimates, poverty is actually increasing in Sub-Saharan Africa, where nine out of 10 people in extreme poverty will be living in 2030.

A closer look at the income growth of the bottom 40% of the population and the national average shows that for more than a third of the countries with data, the difference was of less than 0.5%, which rounds up to zero, considering the margin of error of these measures.

Further, in one-third of the countries, the income of the bottom 40% actually decreased, making the poor poorer. In many of them, the national average decreased even more, said Bissio. "Is it fair to count those countries where the income of the poor was reduced less than the national average as meeting the promise of target 10.1 [under the SDGs] to 'progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average'?" he asked.

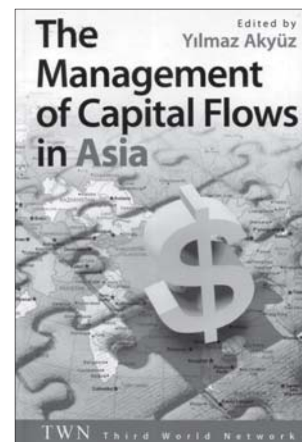
"While the UN Secretariat is to be commended for looking at the issues that really matter (like the scandalous growth of the income of the top 1%), the UN bodies that form the Inter-agency and Expert Group on Sustainable Development Goal Indicators (IAEG-SDGs) should take due note and re-formulate the framework they concocted in a way that is actually useful."

The 2030 Agenda is explicit in mentioning that all countries should take action towards sustainable consumption and production (SDG 12), "with developed countries taking the lead". The progress report cites the per capita average global figure – given by the UN Environment Programme's *Global Resources Outlook 2019* report – of 12 tons of resources extracted per person in 2015 (up from 8 tons in 1990). However, it fails to mention a further finding by the *Outlook*: "High-income countries consume 27 tons of materials (per capita) on average, which is 60 per cent higher than the upper-middle countries and more than 13 times the level of the low-income group (at two tons per capita)."

By providing only global average figures, the progress report hides the responsibility of developed countries in current global un-sustainability instead of encouraging them to take the lead. *(IPS)* ❐

The Management of Capital Flows in Asia

Edited by *Yilmaz Akyüz*



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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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Transforming society, financialization destroys social solidarity

Under the pervasive phenomenon of financialization, key aspects of social security, housing and education have been reduced to financial products to be bought and sold.

by Michael Lim Mah Hui and Jomo Kwame Sundaram

Finance has not stopped at dominating the real economy. The tentacles of finance have reached into significant if not most parts of society.

Gerald Davis characterizes modern society, where finance is dominant, as a "portfolio society", in which aspects of social life have been securitized and transformed into a kind of capital or investment to be managed.

One area that affects many is "social insurance", with state-organized social protection being replaced by market options for individuals.

US social security was introduced as part of Roosevelt's New Deal to provide adequate economic protection to workers after retirement. This programme has been compulsory, universal and managed by the state. This was often supplemented by private pension funds provided and managed by companies for their workers.

Under President Reagan, the "401K" was introduced in 1981 to allow and encourage employees to manage their own retirement funds and plans. Companies were only too happy to replace their pension plans with 401K as many had unfunded pension liabilities.

The responsibility for investment and management of retirement funds now rests with employees, most of whom are poorly equipped to do consistently well with their market investments. Asset management funds have since mushroomed, with some becoming big business.

Marketization

Two other areas where financialization has penetrated social life through securitization are housing and education, with illiquid assets transformed into liquid ones to be bought and sold.

Thus, financialization has sought to marketize all products and services.

Banks are supposed to provide credit for the wheels of industry and trade. But more and more banks have moved away from this to instead provide credit for personal consumption and investment or speculation.

Financing home mortgages is big money. Bank lending to the property sector in developed economies accounts for 60% to 70% of total credit.

Traditionally, banks provide collateralized long-term loans to finance housing. These loans sit on the books of banks until the mortgages are paid off. From the 1980s, with financial liberalization and deregulation, "innovative" new products were introduced, with the most impactful being loan securitization.

Illiquid bank loans were consolidated and packaged as securities to be traded, making illiquid assets liquid. Banks could then sell off these securities to investors, thus reducing illiquid assets on their balance sheets and freeing up capital to book more loans to be repackaged and sold off. This process can be repeated ad infinitum.

Non-market finance has thus been transformed into market-based financing involving "slicing and dicing".

One option to increase profitability is by "slicing" loans by credit quality into tranches to be sold to investors with different risk appetites. In this structure, loans with weaker credit quality are mixed with better ones before "dicing" them to be sold on, betting that defaults will only be limited to tranches with weaker credit ratings and by understating the problem of contagion.

All these became known as collateralized debt obligations (CDOs).

In other words, ethereal financial products with weak or vague links to actual underlying assets have been created.

CDOs have been used as underlying assets, and even repackaged for the next level of CDOs, referred to as CDO2 (or CDO-squared) and, after another round, as CDO3.

The CDO business soon proved lucrative and quickly became popular. The total volume worldwide increased 23-fold in eight years from $23 billion in 2000 to $544 billion in 2007, when they imploded; the rest is history.

Besides CDOs, there are credit default swaps (CDSs). These CDSs are ostensibly innovative new forms of insurance written by financial institutions and sold to buyers who take a different view of the default risk of the CDOs.

For an investment banker, it is all about "taking a view", i.e., betting on a financial product that has been created.

The same story goes for education, once principally provided by the state to all citizens, often free of charge at elementary and secondary levels, and sometimes or partly at tertiary level. But more and more education is now seen as "human capital investment".

With cutbacks in state funding, expansion of private schools, and fee escalation, education has become an expensive investment, with many forced to take student loans. Student loans form the second largest category of loans just behind housing mortgages. This again offers opportunities for profit-making.

Many student loans have been securitized into student loan asset-backed securities (called SLABS) to be traded. In 2019, total US student debt amounted to $1.5 trillion involving 44 million borrowers. The average US college student now has a $34,000 debt hanging over his or her head. *(IPS)* ❐

Dr Michael Lim Mah Hui has been a university professor and banker, in the private sector and with the Asian Development Bank. Jomo Kwame Sundaram, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

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