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Beyond rhetoric: A credible post-2015 development agenda requires structural transformations in finance and trade architectures

*Discussions are underway in the United Nations system on an agenda for global development beyond the expiry of the current Millennium Development Goals in 2015. The following is the text of the interventions by the **Third World Network** and the **Arab NGO Network for Development** at a dialogue between the UN Secretary-General's High-Level Panel on the Post-2015 Development Agenda and global civil society held in Geneva on 1 July 2013.*

Bhumika Muchhala of the Third World Network focused on the key aspects of macroeconomic and financial governance that need to be addressed by the post-2015 process in order for a meaningful and relevant development agenda to take shape. Kinda Mohamadieh of the Arab NGO Network for Development focused on development-oriented trade and investment policies and their centrality to designing an enabling environment for a post-2015 development agenda.

THE THIRD WORLD NETWORK'S INTERVENTION ON MACROECONOMIC AND FINANCIAL GOVERNANCE

A credible post-2015 development agenda will not be about securing a global partnership towards setting nominal goals and indicators that go a few steps deeper than the Millennium Development Goals (MDGs). Rather, it will be about the extent to which a global partnership can summon the political will for genuine transformation on both structural and institutional levels.

This means reformulating policies, redesigning strategies and even rethinking development and its purpose. It also means seriously reforming, and in some cases overhauling, the inequitable and dysfunctional arrangements and structures in the international financial, macroeconomic and trade architectures.

Five key areas within macroeconomic and financial governance that are critical to address for a legitimate and meaningful post-2015 development agenda are: (1) financialisation and regulation, (2) pro-cyclical or austerity-based fiscal and monetary policies, (3) sovereign debt, (4) the role of the private sector in development, and (5) democratic governance in international financial institutions.

Central to macroeconomic and financial governance is the developmental role of the state. A post-2015 development agenda needs to affirm, support and protect the state's ability to play a proactive role in building domestic institutions, governing the economy, regulating the market and ensuring that economic growth creates decent work opportunities, food security and economic diversification, for example. The activist role of the state needs to be viewed as essential for the translation of economic growth into securing economic and social rights, equality and well-being.

Financialisation

The expansion of the financial economy at the expense of the real economy and its consequent adverse implications, particularly financial crises, have seriously challenged the ability of both developed and developing countries to maintain stable and consistent development trajectories. For example, the sharp increase in financial trading and investment flows has not demonstrably led to job creation and productive capacity, or to securing provision and access to essential social services, or to maintaining stability in the domestic economy, currency values, and the prices of food and fuel commodities and various other assets.

The deregulation of financial systems and the liberalisation of cross-border capital flows have given rise to an epic expansion of speculative and short-term financial trading. The global currency market alone is reported to trade $4.7 trillion a day, the biggest market in the financial system and, as critics point out, a market that embodies all the hallmarks of a casino.

The economy that international finance has created is problematically disconnected from the real economy of production, direct investments, job creation and wage growth. The need for regulation and governance in the financial economy is clear. Position limits in food futures trading and even the banning of staple foods from financial trading are urgently necessary. Strict financial regulation of over-the-counter derivatives trading is also urgent.

The liberalisation of capital flows has given rise to repeated panic exits of capital, particularly when investors act in a herd-like mentality. This results in various macroeconomic instabilities such as currency devaluation (which adversely impacts external debt and trade), interest rate hikes (which increase domestic borrowing costs), inflation (which increases domestic prices) and the shrinking of domestic credit supply (which means less domestic money to loan and use).

While several developed and developing economies have been implementing capital controls and requirements attached to foreign capital flows, such regulations have not yet been fully accepted by the international financial system and are often the exception pursued by countries which take their own initiative rather than the rule that governs both capital inflows and outflows. There is a need for a vision to craft new and bolder rules to ensure that foreign capital flows also serve development.

Tax evasion and non-compliance, tax havens and transfer pricing practices by corporate actors also need to be addressed through political will and institutional governance. The lack of access to credit and financing for the poor, especially the rural and agricultural poor, could be addressed by reviving public development banks which are mandated to strive for financial inclusion. There are many other financial regulations, institutional developments and structural shifts that are needed to rein in the financial economy and to govern it to serve the real economy.

The history of successful development pathways shows that the financial economy has to serve the real economy through development strategies such as economic diversification, employment creation, productive capacity, long-term public investments in vital social sectors such as health and education, as well as selective trade protection, financial regulation, industrial policy and technological upgrading, among other flexibilities to create a sound domestic economic foundation. Most of these strategies require policy space, the principle of special and differential treatment in multilateral trade, and the Rio principle of common but differentiated responsibilities, among others.

Pro-cyclical macroeconomic policies

There is a paradox in the effort to frame an enhanced global development agenda within the current global consensus on austerity policies. This paradox implores questions of how sectors critical to development, such as health and education, can survive aggressive public spending cuts and subsidy reforms, and how domestic firms and small and medium enterprises can access the financing they need in a context of credit crunches and increasing domestic borrowing costs. How can income inequality be meaningfully addressed in a context of regressive tax measures, such as increasing value-added taxes?

A review of austerity measures in 181 countries in a paper published jointly by the Initiative for Policy Dialogue and the South Centre has revealed that austerity will affect 5.8 billion people or 80% of the global population in 2013. The data also shows that fiscal contraction is most severe in the developing world.

A recent report, "Government Spending Watch", produced by Development Finance International finds that public expenditure on the MDGs in 52 low- and middle-income countries has been cut as of 2013. And countries with programmes with the International Monetary Fund (IMF) have cut deficits faster than they have increased revenue levels, with adverse effects on MDG spending, particularly in agriculture and health sectors.

If the post-2015 development agenda is serious about addressing austerity policies and the fiscal and monetary constraints they impose for scaling up critical public expenditure for social development, there must be due consideration of counter-cyclical and development-oriented fiscal and monetary policy choices. The following are some examples: deficit-financing to prioritise public investments in key social sectors and infrastructure; managing monetary policy for inclusive finance; financial regulation; debt restructuring, rollovers, standstills and cancellation; and domestic resource mobilisation through taxation based on income and assets and by addressing corporate and investor tax evasion.

Sovereign debt crises and restructuring

The cyclical process between recurring sovereign debt problems and austerity exemplifies a key dysfunction of the international financial system. Sovereign debt problems are both the driving factor that leads to austerity policies, as well as the result of austerity policies that force countries to take out loans which create new debt burdens.

The lack of a fair, equitable and effective means by which to address sovereign debt crises and the absence of an international debt restructuring mechanism is arguably one of the most critical absences, or even failures, of the international financial architecture. Debt burdens, particularly in the least developed economies, have dire consequences for fiscal space. Foreign exchange earnings are funnelled into external debt-servicing obligations rather than public investments in the domestic economy and for national development needs.

The United Nations has proposed the creation of a sovereign debt resolution mechanism for a number of years. In the wake of the global financial crisis, the need for a resolution mechanism was echoed by academics and policymakers worldwide. The Stiglitz Commission (2009) and the G77 group of developing countries' proposal to the UN Conference on the World Financial and Economic Crisis and Its Impact on Development in June 2009 stressed the need for an independent and fair debt resolution system. Even the IMF's Executive Board in 2000 endorsed the principle that a debtor country can impose a unilateral debt standstill and simultaneously impose capital controls to avert capital flight.

The spectre of vulture funds

The ongoing court case between Argentina and Wall Street vulture funds demonstrates the deep dangers posed by the absence of an international debt restructuring mechanism. When a minority of creditors can hold out from sovereign debt restructuring initiatives, they can legally paralyse the ability of sovereign states to achieve debt workouts and pursue fair negotiations mediated by an independent third party. Bondholders who had initially cooperated with national debt workout efforts become disincentivised to cooperate in future debt workouts, which will imperil country efforts to negotiate debt workouts in the future. Additionally, the financial cost of such lawsuits can propel countries into new debt crises, undoing economic and social gains reached by debt workouts.

The UN Guiding Principles on Foreign Debt and Human Rights, which were endorsed by the UN's Human Rights Council in June 2012, outline a human-rights-based approach to debt and macroeconomic policies. The UN independent expert on foreign debt and human rights, Cephas Lumina, has stressed that for deeply

indebted countries whose only recourse out of sovereign insolvency is debt workouts, their recourse will be made impossible if vulture funds are allowed to paralyse debt relief. Lumina urged world governments not to allow vulture funds to purchase debts of distressed companies or sovereign states on the secondary market for a sum far less than the face value of the debt obligation.

The role of the private sector in development

The role of the private sector in development is a central question for the post-2015 development agenda. Over the past decade, multilateral development banks have tripled investments and loans to their private sector portfolios (from 7.3 to 21.24 billion euros). Between 2006-10, even as official development assistance (ODA) and other development financing contracted, the International Finance Corporation of the World Bank Group scaled up its private sector financing from 1.5 to 3.4 billion euros.

Catalysing private investment is also a core task of the G20's new Financing for Investment (FfI) framework, which focuses on public-private partnerships (PPPs) in infrastructure. At the March 2013 G20 sherpa meeting, a Russian official stated: "We are considering the possibility of modifying mandates of national and international development banks, with the goal of focusing the institutions for development on promoting investment, primarily in infrastructure, and supporting PPPs in this area."

The role of the private sector in the allocation of development finance money, which is essentially public money from taxpaying citizens, needs to be unpacked and scrutinised. Several salient questions need to be taken into consideration, especially as the UN Global Compact and other actors make strong cases for public-private partnerships and other private-sector-led initiatives to play a central role in the post-2015 development agenda:

Whose private sector? An assessment of all investment projects by the European Investment Bank and the International Finance Corporation in the world's poorest countries during the second half of the 2000s revealed that only 25% of all companies supported were domiciled in developing countries.

Development outcomes? Is the private sector sufficiently incentivised and adequately regulated by the state to provide social services and public goods with positive development outcomes?

Contingent liability and debt? Public guarantees for public-private partnerships, often of huge sums, which the state is required to pay in the event of project failure or risk, have serious implications for sovereign debt risks.

Governance for equity and access? Equity in public-private partnerships is concerned with broad dimensions such as equitable distribution, access and affordability. Providing access alone has proven to be insufficient, as it is equitable and affordable access that is an essential dimension to fight poverty.

Aid for the people or for firms? In the current context of ODA contraction, a key concern is that the use of aid for private sector investments reduces public funds for much-needed social sector investments which are critical for equitable social development.

Tax evasion and state regulation? Not only is there demonstrable historical evidence that multinational corporations are more likely to evade taxes and engage in transfer mispricing, they also often have investor powers, particularly through trade and investment agreements, to legally prohibit governments from enacting development-oriented laws, regulations and safeguards.

The surge in private sector investments, including through public-private partnerships, calls for a deeper rethinking and critical examination of the role and responsibility of the public sector in meeting development needs.

Questions towards alternative arrangements and visions for the involvement of the private sector must be asked. For example, are there certain essential social services (such as healthcare and education) and certain

basic infrastructure projects needed for development (such as the building of roads and schools) that should be carried out only in the public domain to ensure distributional equity in access and affordability?

The deepening of the legal powers of foreign investors and firms over developing countries has taken place through bilateral investment treaties and free trade agreements. This phenomenon of legally enforceable investor power elicits a serious rethinking of where and how the state can secure and pursue its developmental role without relinquishing national rule of law and economic governance to foreign investors and companies that usually do not have a development mandate.

Ways forward

The following are some possible recommendations on how the post-2015 development agenda can regulate and steer the role of the private sector towards equitable, sustainable and development-oriented outcomes:

1) Align private sector financing to developing countries' investment and development priorities.
2) Make development outcomes the overriding criteria for project selection and evaluation.
3) Prioritise domestic micro, small and medium enterprises and companies over foreign companies. This is essential for private investments to actually support the development of competitive and locally owned private industry. To help ensure this, private investments should be required to facilitate local-content requirements, as well as knowledge and technology transfer.
4) Regulate against tax evasion and tax loopholes.
5) Compliance with international human, social and environmental standards.
6) Set higher standards for transparency of financial intermediary investments and review their use of investments.

Global financial governance

Reforming persistent inequities in global financial governance, particularly in the IMF and G20, is of utmost importance if the post-2015 development agenda is to meaningfully address the democratic deficit in global governance as well as the incoherence between the significant shifts in the global economic geography and the decision-making structures that govern financial relations and rules.

The role of the UN in global economic and financial governance is also central to the post-2015 development agenda, as the UN is the institutional home of the agenda.

It is important to recall that the only global conference that focused on the impacts of the crisis on development, the UN Conference on the World Financial and Economic Crisis and Its Impact on Development, held in June 2009, called for three possible mechanisms in its outcome document:

1) Establishment of an ad hoc open-ended working group to follow up on the issues contained in the outcome document;
2) Possible establishment of a Panel of Experts to provide independent technical expertise and analysis on development and finance; and
3) Organise a follow-up conference on the financial crisis and its impact on development two to three years later.

These follow-up processes, which were negotiated by all UN member states and adopted by the General Assembly, had potential for the UN to situate itself in a more meaningful, serious and sustained manner in global economic and financial governance.

However, in the years since the 2009 conference, the various avenues for a meaningful follow-up have been blocked and undermined by disagreements between member states, in particular between the G77 group of developing countries and developed countries. Almost all of these initiatives, occurring in informal negotiations and discussions in Second Committee proceedings in New York, have been blocked or stalled by the US, the European Union, Canada, Australia and Japan.

International financial institutions

The IMF has maintained its longstanding asymmetrical governance structure that favours rich countries and, importantly, allows European nations to be over-represented. This is not only a problem of legitimacy but also has crucial implications on IMF lending, policy positions and its global role in the aftermath of an international financial crisis and economic recession whose effects have been highly uneven and persistent.

The Fund has had several governance reform mandates, most recently as directed by the G20 summits in 2010 and 2011. However, ratification of voting power increases to developing countries has been stalled due to political inertia among the key developed-country shareholders in the IMF's Executive Board.

Similarly, the Basel Committee on Banking Supervision and related institutions of the Financial Stability Board and the Bank for International Settlements are also under-represented by developing countries, even as their rules and mandates in banking and finance increasingly impact financial and development prospects in developing countries concurrent with increasing global financial and economic interdependencies.

Finally, the process of the post-2015 development agenda must be negotiated by all country members of the UN General Assembly with transparency and inclusivity, as well as with adequate lead time to enable member states to make thorough preparations for the negotiations. External stakeholders such as civil society and academia must also be allowed to participate in a substantive fashion, which includes, for example, making available drafts of negotiation text to civil society and other stakeholders.

THE ARAB NGO NETWORK FOR DEVELOPMENT'S INTERVENTION ON TRADE AND INVESTMENT

National policy space to spur national development goals necessitates development-focused trade and investment policies. It is especially important that the objective and indicators for evaluating trade and investment policies should be based on their contribution to development and employment generation, and not necessarily their quantitative trends.

Trade and investment have been the primary transmission mechanism of global spillovers and of global imbalances. Global trade and investment relations as currently designed pose several critical impediments to the ability of states to carry out national development strategies that support socioeconomic equality.

Most countries have witnessed a trend of decreasing share of wages in national incomes over the last 30 years. This trend reflects one of the outcomes of the design of trade and investment policies that were biased towards rapid and premature liberalisation that was incoherent with national productive capacities and towards the prioritisation of export-led sectors, where the burden of arresting declining competitiveness fell on workers in the form of depressed wages. A race to the bottom in labour rights and workplace safeguards further disempowered both informal and formal sector workers.

A post-2015 global development framework needs to address wages and employment not as a residue but as a core to economic sustainability, and thus ought to be the scene for evaluating and crafting the kind of trade and investment that would contribute to employment and productivity. However, crafting trade and investment rules and agreements is still one of the most opaque areas of policymaking and design of international law.

The multilateral trading system

The major failure of the multilateral trading system is not only the impasse in the Doha Round of trade negotiations, but the failure to address and fulfil the core premise and principles of the system. These include the principle of special and differential treatment, and ensuring that developing countries "secure a share in the growth in international trade commensurate with the needs of their economic development" (Agreement Establishing the World Trade Organisation).

A global trading system that generates and scales up both productivity and employment will require addressing the implementation challenges facing developing countries in the agreements under the World Trade Organisation (WTO), including addressing the non-realisation of anticipated benefits from the agreements, addressing the imbalances and asymmetries in others, and the non-operational and non-binding nature of the provisions on special and differential treatment. There is also a need to respect the principle of less than full reciprocity for developing countries, and secure development-oriented rules.

Yet today these core issues are not being seriously addressed in the WTO. To the contrary, two key trends persist. First, new issues are appearing on the WTO agenda which seek a new set of rules to deepen the imbalance in the system. Meanwhile, the issues at the heart of the system which urgently need to be fixed are being marginalised. Second, there is a push towards plurilateral arrangements proliferating under the WTO umbrella, which circumvent the impasse in the Doha Round negotiations and threaten to destabilise the foundations of the multilateral system and negotiation dynamics.

Unfortunately, for the upcoming 9th ministerial meeting of the WTO, to be held in December 2013 in Bali, the major trade-off on the negotiating table is between a proposal on food security on the one hand, which would affect the most vulnerable across the world, and, on the other, negotiations towards a trade facilitation agreement that seeks to converge the customs and customs-related practices of developed-country members of the WTO.

A closer look at the trade facilitation negotiations agenda does not reveal rules that address the needs of developing countries for the purpose of facilitating trade through national and regional infrastructure and building productive and trade capacity. Instead, the negotiating agenda unveils a set of rules that are highly prescriptive, would intrude on national regulatory space, and could divert resources and aid allocations away from developing countries' development objectives and challenges. It also fails to reflect the special-and-differential-treatment dimension that was agreed in the mandate of negotiations for trade facilitation (2004), which conditions implementation on the acquisition of financial, technical and capacity support by developing countries.

The proposal on food security, in comparison, is a small step towards injecting a little more equity into the rules of the WTO Agreement on Agriculture. It is worth noting that the UN special rapporteur on the right to food has repeatedly highlighted the need to assess the compatibility of WTO disciplines and the Doha Round agenda with the food security agenda. The fierce opposition that the food security proposal has been receiving from primarily developed countries reflects the unfortunate lack of political will to address the core issues of priority for developing and least developed countries under the multilateral trading system.

Unpacking the discussion on global value chains

The discussion on global value chains (GVCs) has been occupying a lot of space within the WTO as well as within various other international organisations, including the OECD and the UN. GVCs are portrayed as dominant features of the global economy and international trade. The mainstream institutional narrative is that the vast majority of current-day world trade is in intermediate goods, and that developing countries that want to benefit from GVCs need to reduce barriers to trade and insert themselves into the value chains.

However, this assumption needs to be unpacked and deconstructed, especially in terms of its impact on value-added and development-oriented national policies, including industrial policy.

The main issue of relevance for developing countries is not insertion and inclusion in GVCs, but rather how to strategically engage in GVCs in a manner that facilitates moving up the value chain in terms of the degree of value-added accrued domestically. Developing countries need to assess whether and how GVCs can spur the development and accumulation of national productive capacities and market share as well as the acquisition and development of national technology resources and intelligence. Only then can developing countries move beyond their current (often low-value-added) comparative advantage and up the GVC in terms of value-added.

The most recent (2013) analysis by the UN Conference on Trade and Development (UNCTAD) of data on value-added in GVCs demonstrates that scaling up the volume of exports does not translate into greater levels of value-added. The global distribution of gains in value-added is concentrated in developed countries, which underscores that while developing countries can be linked to GVCs, they may not be gaining value from them.

It is thus necessary for developing countries to address the relationship and interconnectedness of the strategy of connecting to GVCs with national industrialisation policy.

In a world that is overly focused on strategies for integrating into GVCs, what determines the prospects of moving up the production value chain? Is it the industrial, trade and development policies of nation states, or is it multinational corporations that exert disproportionate control of the GVC? And what implications would result for the balance-of-payments position of countries?

GVCs are not a neutral site. Specific interests shape and control the GVC agenda, and power is disproportionately distributed along the GVC. There are thus real and structural barriers facing the small players, such as lack of access to new technologies and difficulties in providing economies of scale.

The context is one of globally consolidated and powerful companies on the one hand, primarily domiciled in developed countries, and locally dispersed and weak suppliers on the other hand, primarily domiciled in developing countries. Thus, the suppliers are forced to compete with each other by lowering prices and workplace standards, and have no choice but to accept unstable and often unfair contracts with lead companies while having to also cope with the vagaries of standard harmonisation and production turnover, as well as seasonal fluctuations, unpredictability and large-scale output demand for the export markets.

Proliferation of FTAs and international investment treaties

It has been widely noted across international institutions, as well as various other contexts such as global civil society and academia, that the European Union (EU) is using official development aid to secure its agenda which was previously rejected under the multilateral process.

In the Arab region, just a few months after the peoples' revolution, the EU proposed to expand existing Arab-EU free trade agreements (FTAs) that currently cover material goods to include services, investments, government procurement and competition policy. This has severe implications on the policy space that people in the Arab region have tried to reclaim through their revolutions and uprisings.

As noted in an UNCTAD public symposium, FTAs such as the Economic Partnership Agreements (EPAs) between African countries and the EU are locking in developing countries for the primary objective of extending Europe's export markets.

Governments speak about development and yet negotiate an agenda that structurally undermines possibilities for sustained and sustainable development. Overall, it is the contribution to development that should be the core factor in evaluating and designing trade and investment policies.

Furthermore, free trade agreements and international investment treaties have been the site for setting rules on investment promotion and protection. Developing countries signed bilateral investment treaties out of the desire to attract foreign direct investment for the acceleration of growth and development.

However, the actual experiences of developing countries have shown no correlation between international investment agreements and greatly increased flows of foreign investment. Indeed, the vision and perspective that currently dominates the design of bilateral investment treaties is that investment could be anything of monetary value, irrespective of its contribution to economic growth and social and human development domestically.

The experiences of developing countries reveal that it is not the quantity of foreign investment that matters for development purposes, but the actual use to which that investment is put, in conjunction with the ability of governments to steer investment policies and legal frameworks towards achieving national development priorities and needs.

In contrast, investment treaties have had severe impacts on the regulatory space and capacities of developing countries. One example of such constraints is the system of investor privileges and investor-state dispute settlement rules that ignore the responsibilities of investors and marginalise the primacy of international human rights law. It is essential that international investment rules be revised in order to remove obstacles to the "right to regulate" in the public interest and to prioritise the realisation of human rights and development over the interests of private profits.

Making foreign investment work for development requires a focus on the nature of foreign direct investment (FDI) and its contribution to gross fixed capital formation, which is an essential part of the foundation of development growth. Such FDI looks for stable markets, which are often made difficult to achieve by the market instability caused by premature liberalisation. Such an approach requires encouraging selective greenfield FDI, joint ownership with locals, and transfer of skills and technology. It also requires associating investment policy with an active and deliberate policy of incentives by the state, including conditions for employment and local procurement, domestic content and links with local firms.

Such state-led interventions are much harder in the context of constraints that are locked in through deregulatory investment rules, especially given the rising trend in challenging regulatory interventions of governments through the exploitation of investor-state dispute settlement rules.

This context points to the urgency of revising investment policies, legal frameworks and treaty commitments based on a developmental outlook. Lessons learned thus far are prompting many governments to rethink their policies and commitments.

Redesigning regional cooperation and integration

Developing countries ought to break away from a model of simplistic liberalisation in their South-South cooperation and redraw the premise and pillars based on which they build their cooperation.

Developing countries cannot be satisfied with the mere replication of the liberalisation, deregulation and privatisation model of the neoliberal economic ideology. They need to move to a model focused on building national productive capacities and collective regional production chains that empower labour across geographic regions. Such a vision of regional economic development is central to building a sustained expansion of markets and growth collectively across regions.

Today, there is an urgent need for developing countries to redefine their relations and rules in finance, trade and investment, and design them in a balanced way that accommodates their different development needs and builds on their different riches. Such a determined exercise by developing countries could stimulate the destabilisation of their dependency on advanced economies, which resulted from crafting economies that are biased towards export sectors and dependent on export markets and inflows of FDI.

This is the way through which developing countries could design their own locomotive functions instead of depending on the advanced economies, focusing on more sustainable and equitable patterns of development.