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TRENDS & ANALYSIS

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WTO “early harvest” package faces obstacles

Uncertainty surrounds the prospects of reaching advance agreement at the WTO’s Ministerial Conference in December on a number of issues outstanding in the Doha Round trade talks. WTO member states are currently divided over, among others, the issues to be included in this “early harvest” accord alongside those of interest to the least developed countries.

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WTO members debate December deliverables package

Differences have emerged among the WTO membership as to which outstanding Doha Round issues should be slated for "early harvest" resolution at the trade body's yearend Ministerial Conference.

by Kanaga Raja

GENEVA: Efforts to put together an "LDC-plus" package of early-harvest Doha issues for the eighth WTO Ministerial Conference in December faced increasing resistance at an informal meeting of the WTO's Trade Negotiations Committee (TNC) on 22 June.

The WTO Director-General and TNC Chair, Pascal Lamy, unveiled the five indicative issues of such a package – trade facilitation, export competition in agriculture, special and differential (S&D) treatment monitoring mechanism, and "a step forward" on fisheries subsidies and on environmental goods and services.

In addition, Europe has been floating a "standstill" on industrial tariffs (to benefit its own market access in developing countries), and the US is tying the issue of eliminating its cotton subsidies, which have been held to be WTO-illegal, to its own other demands in this and other areas.

However, several interventions at the TNC, as at Lamy's Green Room consultations the previous day, made clear that such an approach would fail to produce an accord.

The four LDC-specific issues are: duty-free, quota-free (DFQF) market access for the products of least developed countries (LDCs); simplified rules of origin; a services waiver for LDCs; and "a step forward" on cotton, as Lamy formulated at the previous TNC meeting on 31 May.

While developing countries and their several groupings were fully behind an early-harvest package of benefits to the LDCs, several of the items in the "plus" package, involving market access outcomes being pushed in the Doha Round by the US and EU so as to balance the benefits they would provide in an LDC package, were seen as unbalanced and unlikely to secure any accord.

Lamy's proposals for the five "plus" issues in an LDC-plus package for an early harvest came at the 22 June informal meeting of the TNC.

In their intervention after the Direc-

tor-General's statement, the LDCs stressed that the LDC issues are self-contained and do not need any balancing with other issues. The African, Caribbean and Pacific (ACP) Group appealed to all members that the LDC issues must be the central element of the package, complaining that more and more time is being devoted to discussing the so-called LDC-plus issues than to the LDC issues.

The African Group said that delivering at the eighth Ministerial Conference on a package that has the LDCs at the centre would be a litmus test on whether the Doha Round would be truly a development round.

In their interventions, China, Brazil and India gave full support for all elements of an LDC package. Brazil cautioned that the more elements that are added to the small LDC package, the more unmanageable the whole effort would become.

India said that there was a consensus that whatever the final shape of the early-harvest package, the four LDC issues would form its core. But the discussions got diverted into building an LDC-plus package. India apprehended that the efforts to add on to the package to include what some delegations felt would make it balanced could snowball into an avalanche, making it difficult to manage in the short time.

China said the rule of thumb is that the "plus" package should facilitate, rather than frustrate, the LDC package. The more issues sought to be put in, the less likely it would be for the package to succeed.

According to trade officials, during the interventions that followed the Director-General's remarks, some members also put forward a few other issues besides the five proposed by the Director-General for an LDC-plus package. These other issues included horizontal subsidies, standstill on tariffs (by the EU), Mode 4 (movement of natural persons) in services, non-tariff barriers, etc.

Other members, on the other hand, said that the package is getting bigger

by the day, making it more difficult for the membership to agree on the core LDC package.

Trade officials also said there was a great deal of support for the need for an assessment as to whether or not a mini-package is achievable, with some members calling for a determination to be made by the end of July as to whether or not this can be done.

Continuing differences

The informal TNC meeting was originally scheduled to take place on 9 June, but was postponed to 22 June amidst continuing differences among the membership over a possible deliverables package for the LDCs by the eighth Ministerial Conference (MC8) in Geneva in December.

At the informal meeting of the TNC on 31 May, Lamy had proposed that LDC-specific issues be put on the "fast track" for a Doha outcome at MC8. On the LDC-specific issues, Lamy had proposed that priority be given to DFQF, including rules of origin, an LDC services waiver and "a step forward" on cotton.

He had also proposed an LDC-plus outcome that would go into a "middle lane", while the issues of market access in agriculture, non-agricultural market access (NAMA) and services, as well as trade remedies and TRIPS issues, would be moved into the "slow lane", whereby members will need to look beyond MC8.

However, at the 31 May meeting, while there was wide support among the membership for an early harvest for the LDCs, the US put paid to any such early harvest by making it clear that it could not go along with DFQF or the elimination of cotton subsidies without all major players making contributions, including on their own subsidies. (See TWE #499.)

The informal TNC meeting on 22 June was preceded by a Green Room meeting on the previous day.

According to trade officials, at that Green Room meeting, the Director-General floated the idea of five additional issues (apart from the LDC-specific issues) for consideration by members: trade facilitation, some elements of fisheries subsidies, some parts of environmental goods and services, special and differential treatment monitoring mechanism, and export competition with respect to agriculture.

Everyone said there was a need to make sure that the most important thing is to see where the membership goes af-

ter MC8 regardless of whether there is a deliverables package or not by December, said trade officials.

Some members were pushing for a decision by the end of July as to whether a deliverables package is possible or not, trade officials added.

One participant in the Green Room meeting told the *South-North Development Monitor (SUNS)* that Lamy said that at the moment the debate is still going on regarding a package of deliverables for the LDCs, with no resolution yet on this package.

The trade diplomat said that the list of five issues highlighted by Lamy was an indicative list, not a conclusive one.

The trade diplomat further said that some members were of the view that an LDC-specific package is not deliverable without an LDC-plus package. On the other hand, some developing countries, including the LDCs themselves, the ACP Group and the African Group, felt that the focus should be on the LDC package. They argued that when more issues are added, it becomes more complicated.

According to many developing countries, there is no need to balance the LDC package (with an LDC-plus package), since this package is important in itself, added the trade diplomat.

There has however been no movement in positions since the 31 May TNC meeting. The issue is a complex one, with everyone making linkages to the LDC package, said the trade diplomat.

According to trade officials, the Director-General had been meeting with the G7 and G90 country groupings and attended a variety of meetings around the world in the last few weeks. Following this, he made an assessment by putting forward the indicative list of five issues on which he thought it was possible for members to reach agreement.

Trade officials said that during the discussions at the TNC on 22 June, some members said that if these were the five issues that were to be included, they had a few other issues that they wanted to put forward.

Other members, added trade officials, said that the package is now growing bigger by the day, making it more difficult for the membership to obtain the core LDC package that is needed to alleviate poverty and enhance development in the poorest of the members.

Furthermore, for some countries, as important as it is to get agreement on a mini-package, there is a need for a collective assessment and judgment on the best way forward after MC8. The ques-

tion is: what happens to all the other issues for a Doha deal?

The other area on which there appeared to be a great deal of support, said trade officials, is the need for an assessment as to whether or not a mini-package is achievable. Some members at the informal TNC meeting suggested that there should be a determination by the end of July on whether or not this can be done. And if it cannot be done, then members should focus on what can be done in terms of a development outcome in December, and what the membership plans to do after MC8 in terms of the work programme.

As to the five additional issues being proposed, trade officials said that there are clearly members who are uncomfortable with some of those issues. Also, there are now other issues being introduced as well, such as horizontal subsidies, standstill on tariffs, Mode 4 in services, non-tariff barriers, etc.

Discussing the deliverables

In his remarks at the informal TNC meeting, Lamy said that over the past couple of weeks, he had undertaken further consultations with a number of members individually and in groups to seek further clarity on what is possible and what is not possible by December. "The aim of my consultations was to try to facilitate convergence on refining the parameters of our work towards December."

"From all my contacts, it is clear that the level of political commitment to a successful conclusion of the Doha Round, including to our collective aspirations for this year and beyond, remains strong. Furthermore, Members' commitment to preserving the credibility of the multilateral trading system remains unwavering. They also continue to place development at the heart of the negotiations," said the TNC Chair.

"But, it is also obvious that we need urgently to have clarity about what we can and cannot do by the Ministerial Conference in December so that we get down to work without further delay. Time is certainly not on our side and we need urgently, honestly and realistically to define the boundaries for our work over the next 13 working weeks or so, if we are to avoid further drifting and the credibility damage this entails," he added.

He said that his consultations over the past couple of weeks have shown that, on the whole, members are ready

to work intensively between now and the end of the year with the idea of deliverables in time for MC8.

"It is clear that by December you will not be able to reach consensus on all areas under the Doha agenda and, therefore, we will not be able to get a final view on ambition and balance. This will only be possible at the end of the Round," said Lamy.

It is also clear that a discussion on deliverables for December cannot be a negotiation of a "single undertaking" within the "single undertaking" which is the Doha mandate, he further said.

"What we are aiming at is no more and no less than setting in place a negotiating process to achieve a set of deliverables in accordance with paragraph 47 of the Doha Declaration."

"In order to facilitate an outcome which our least developed Members have been waiting for since Hong Kong in 2005, and which would include Duty-Free Quota-Free and the associated rules of origin, a step forward on cotton and the services waiver, I have explored the possibility of a so-called LDC Plus package," said Lamy.

"In my judgment, and this is merely an indicative list, this plus could include issues such as Trade Facilitation, export competition, S&D Monitoring Mechanism, a step forward on fisheries subsidies and a step forward on environmental goods and services. Again, this is not an exhaustive set of issues and it does not preclude other issues from being worked upon and eventually delivered by the end of the year."

"This is very much something which is in Members' hands. It is certainly my expectation that we will work as hard as we can to advance as many issues as possible by the end of the year – as a signal of credibility of the negotiations still to come on the remainder of the topics," said Lamy.

The TNC Chair thought that it would be fair to describe the attitude of the delegations with whom he has consulted as constructive but cautious.

"Approached in isolation, each of the issues I have mentioned has its own problems, but there is also a sense that when linkages are taken into account – and there are linkages being drawn by some Members in these issues – perhaps there is some room for manoeuvre. In other words, I believe that delegations consider it worthwhile trying to move ahead and further explore these issues and test whether an acceptable balance can be found."

Lamy said that it is also very clear from his consultations that there is a

need to consider the post-MC8 work on the Doha Development Agenda (DDA), and the need to establish a shared view of the process post-MC8 for advancing negotiations on issues that remain outstanding, including the cluster of market access issues in NAMA, agriculture and services.

In terms of immediate process, the TNC Chair suggested that the negotiating groups focus on some of these specific issues that he had tried to identify.

"Chairs and myself will consult on the best way to do that, depending on the issues. TNCs will review the overall situation and ensure transparency. I also intend to complement this with smaller groupings in variable geometry, at Ambassador level, and also with Green Rooms to encourage and facilitate movement. As usual, I strongly recommend that Ambassadors remain fully engaged throughout and in every aspect of this process."

"We will also need to keep our progress under review and be prepared to evaluate it realistically. I am well aware of the dangers of drifting towards the ministerial with a collection of unresolved issues. However, on this, the evaluation will depend very much on you all and the convergence you can reach. The time for discussion is gone – you now need to negotiate. In short, loads of work and challenges ahead and no guarantee of success. But, in my view it is worth trying – and it is our duty to do so," Lamy concluded.

Self-contained issues

According to trade officials, Bangladesh, on behalf of the LDCs, said that nobody wants the Doha Round to fail. December is the time to be true to the commitments that have been made to the LDCs at the recent Fourth UN Conference on the LDCs and elsewhere. Concrete deliverables can unlock the development potential of the Doha Round.

There is a need to formalize the understanding that has been made among members so that these deliverables can be achieved by December. The LDC issues are self-contained and do not need any balancing with other issues, Bangladesh stressed, noting that they are not a substitute for the single undertaking, but by the same token, these issues can be settled on their own. They must not be linked with others. There must also be a very clear and coherent work programme beyond MC8.

Mauritius, on behalf of the ACP Group, said that it took note of the five

plus issues that the Director-General outlined. The group appealed to all members that the LDC issues must be the central element of the package. Unfortunately, more and more time is being devoted to discussing the so-called LDC-plus issues than to the LDC issues. The LDC issues must be the ones that drive the process and they should take centre stage in the process to come.

The DFQF negotiations are very important, as is the cotton issue. The negotiations on these two issues need to continue being carried out. The LDC issues are not wrapped up. DFQF and cotton are not resolved and the parameters of them will require time and effort, so that negotiation must begin soon. The longer the wait to determine the parameters of the so-called LDC-plus issues, the less time available to work on this, said Mauritius.

The package on the table now is not necessarily small and it seems to be expanding day by day. There is a need for an understanding that a small package is indeed small. Elements cannot keep being added; it is not helping the process for MC8. The ACP Group still strongly supports the single undertaking and it is in the single undertaking, not in the December package, that the balance lies.

Mauritius therefore cautioned against trying to bring forward issues on which members have been grappling for the last 10 years. There is a need to set a clear objective for the Ministerial Conference and that objective needs to deliver for the poorest members. To pursue issues beyond the five plus issues is to create trouble and create the conditions for failure in December. A clear timeframe is needed where a serious assessment can be made on how to prepare for MC8 and to decide the contours of the package.

In the single undertaking, there has been agreement on a two-track approach – deliverables before and a work programme after – and this is something which is very important to the ACP countries.

Australia said that it is committed to having an early outcome. The package needs to be credible. It is fine with the LDC-plus-five issues, but there may be other issues that could be discussed as well, including environmental issues pertaining to cooperation between the WTO secretariat and those of multilateral environmental agreements, and assuring a complementarity of trade and environmental policies.

Domestic regulation in services, non-tariff barriers, and the notion of get-

ting agreement by members to make permanent the transparency mechanism for regional trade agreements also hold merit.

Australia however said that some of the linkages that have been put forward have become a source of concern and will make it even more difficult to reach an agreement down the line. An issue that is even more important is that the work programme beyond MC8 needs to be addressed and there is concern about the lack of emphasis on this. Discussion needs to start now. Market access issues that would be included in the future work programme are where the real development gains lie.

It suggested a possible standstill commitment (on tariffs) as an important signal by the membership of its ongoing commitment to the Doha Round and to getting it back on the rails in the near future.

"Small package" sought

Brazil (represented by Ambassador Roberto Azevedo) said that "any set of deliverables we eventually manage to put together by December is no substitute for the completion of the Round, of the single undertaking. The negotiating acquis of the last 10 years must be preserved. Any early small package should aim at facilitating subsequent negotiations."

Brazil said that it is ready to work on all elements of the LDC package, including by setting up a duty-free-quota-free scheme, fully complying with all provisions of the Hong Kong mandate for developing countries that declare themselves in a position to do so.

"However, after interactions with other delegations, it became clear to us that some want to work with a much larger package; a package that is still growing. We have often expressed our view that the more elements we add to the small LDC package, the more unmanageable the whole effort will become."

Brazil said that even the components of the TNC Chair's small list are subject to linkages made to other extremely sensitive, controversial and politically loaded provisions of key WTO agreements.

Noting that the TNC Chair's list includes, and others also demand results in, non-agricultural market access, Brazil said that trying to reintroduce these market access outcomes through the backdoor – in the supposedly "small" December package – via environmental goods or proposals of "tariffs standstill"

will undoubtedly ensure yet another stalemate.

"We believe that further insistence on significant, ambitious, unilateral and non-reciprocal contributions by developing countries can only be interpreted as disguised unwillingness to achieve results by the next ministerial. One may skilfully try to explain how reasonable these demands are, but we, who are perfectly familiar with the particularities of the negotiations, know quite well where these attempts will take us: and that is 'nowhere'," said Brazil.

Brazil's view is that "either we go back to a truly 'small package' or we will fail. Whatever we do, we must also ensure (i) that expectations are not unduly raised; and (ii) that we do not drift into the second semester without clarity on whether or not we are going to be in a position to conclude the 'small package' by MC8. If we feel that this effort will not succeed, let's recognize this as soon as possible and start working on a different path that is still capable of delivering outcomes that help the poorest Members. In our view, the worst-case scenario is an 'all-or-bust' approach, where those Members either get the LDC elements of the package you outlined earlier, or they get nothing at all."

According to trade officials, Kenya, on behalf of the African Group, said that the calls for an LDC package are becoming even more urgent. It is extremely important to produce both an early harvest and a timetable to conclude the Doha Round. Delivering at MC8 on a package that has the LDCs at the centre would be a litmus test on whether the Doha Round would be truly a development round. It would also indicate whether the poorest countries can benefit from the multilateral trading system. Is there sufficient political will to conclude the Doha Round, it asked.

In addition to the five issues mentioned by the Director-General, the African Group sees the issues of net food-importing developing countries as being important, as well as specific issues of special and differential treatment which are also important for consideration.

Productive elements

According to trade officials, the European Union said that there is a consensus emerging that the way forward should be a productive one. The idea of settling for a smaller package is clearly a second-best option, but it is ready to follow it and to work for a smaller package that would be the first instalment of an overall Doha Round agreement.

The focus of this should be on elements that help the poorest countries, namely, DFQF, rules of origin, a step forward on cotton, and a services waiver. The WTO needs to deliver for them. There is no need for any payment or balance on this. This issue can stand on its own. Industrial and developing countries should contribute to this package in line with the Hong Kong Ministerial Declaration.

As far as the LDC-plus is concerned, the issues need to be internally balanced and pro-development, the EU said, adding that trade facilitation seems to be an issue that meets this criterion. The EU is ready to accelerate work in this area, and it is open to discussion in other areas too. It took note of some of the proposals that have been put forward.

On other elements beyond the so-called five plus issues, the EU said that focus must be on those issues that will reinforce the systemic elements of the work. It mentioned the transparency mechanism for regional trade agreements, elements of the Dispute Settlement Understanding, non-tariff barriers, and technical work on domestic regulation in services. On export competition, the EU was of the view that its agreement in 2005 to phase out EU export refunds was a major concession that it has on the table, and this concession was made as part of an ambitious, balanced package that is linked to reductions in domestic support and enhanced market access, as well as issues related to TRIPS.

The EU said that it needs to see some other issues taken up as well, including the level of industrial subsidies that have been extended by some major players, which are trade-distorting in nature. These include below-market financing and distorted input costs. On fisheries subsidies, the EU said that it will be a major challenge to try and deliver on this.

The setback for the Doha Round has been deeply worrying and the EU urged members to think carefully on the way forward and ensure there will be a wide balance in terms of any outcome. A December package is just the first step in gaining an agreement. All DDA issues must be taken up soon, including those that are mandated and implementation issues. There needs to be a clear path forward after MC8. It also thinks that the notion of a standstill commitment is something that is worthy of consideration.

Collective responsibility

The US (represented by Ambassador Michael Punke) said that "the last

TNC, we attempted to be clear and honest in explaining our viewpoint on the current stage in our negotiations. In particular, we made clear that in looking forward to a possible package for December, it is essential that all major players make a major contribution. In this regard, we continue to be concerned that some are quite willing to support a package that asks little or nothing of them – but are quick to find difficulties with any result that would require them to contribute. That is not a formula for a successful outcome.”

The US said: “Since the last TNC, we have been asked to clarify our expectations for areas in which we are seeking a December result. We have done so. And where we have put ideas on the table, we have taken care not to suggest what others might consider to be maximalist positions. We, in turn, have been open to consider proposals from other delegations. The good news is that we have found some who are willing to consider ideas, even in areas that are sensitive to them. The bad news is that there are others who have not shown such willingness thus far.”

The US added: “Even on issues of particular importance to LDCs, such as cotton, we hear an insistence on carve-outs from the July 2004 framework, carve-outs that are not consistent with that framework. The framework says very clearly we will address all trade-distorting cotton policies in all three pillars. And that means all of us. Certainly it must mean all major subsidizers. Certainly it must mean the world’s largest subsidizer. If it does not, how can anyone argue credibly that we have addressed what is asserted to be the underlying problem? We live in a global marketplace, and distortions to that marketplace – wherever they occur – have global impact.”

“Time is short between now and December. We must know where to focus our energies and we need to know that we are all pulling towards the same broad objectives. In that regard, there is a threshold determination that we – collectively – need to make soon. That threshold question is this: can we reach agreement on the core elements of a December package? Our viewpoint, strongly held, is that we need to make this determination quickly. If there is agreement on core elements, we will need the fall to negotiate the details. If there is not agreement, we will need the fall to plan for an MC8 that will not have a December package as a deliverable.”

“As painful and difficult as the weeks ahead may be, let us not shirk

from our collective responsibility to engage directly and honestly. As many have noted, with justification, the credibility of the institution is at stake,” said the US.

Credibility

India (represented by Ambassador Jayant Dasgupta) said that it would like to support the statements made on behalf of the LDCs, the African Group and the ACP Group. As regards the elements of the early-harvest package for December to coincide with MC8, India said that it would like to point out that the basic objective of trying to work out such a package was to preserve the credibility of the WTO and the multilateral trading system as well as to reaffirm that the WTO has a human face and is deeply concerned with helping the poorest countries tackle their problems of poverty, unemployment and growth.

It was with this objective in mind, India said, that there was a consensus that whatever the final shape of the early-harvest package, the four LDC issues would form its core. “The discussion then got diverted to building up an LDC-plus package, in order to make it more ‘balanced’, as some delegations would like to portray it. Unfortunately, in recent weeks, the discussion has focused entirely on the ‘plus’ issues, almost to the complete exclusion of the LDC issues.”

“If in our endeavour to work out a suitable balanced LDC-plus package, we fail once again to deliver anything to the LDCs by December, it would indeed be disastrous and lower the credibility of the WTO immeasurably,” India cautioned. “Our basic dilemma today in working out the elements of the December package stems from the expression ‘balanced’ and what it connotes.”

“We are struggling to find a Highest Common Factor among the various elements suggested so far and some delegations want the door to be kept open to bring in newer elements into the discussions. Our delegation apprehends that this could snowball into an avalanche, making it difficult to manage, specially in light of the limited time available.”

“The need for the hour is, therefore, not to lose sight of the basic objective of the core of the December package, which is to provide an LDC package. Anything else that we may strive for by way of a plus would be by way of a bonus but the LDC package should not be held hostage to the divergent ambitions and aspirations of the non-LDC members to add more and more issues to the already

bulging basket,” said India.

As far as India is concerned, it said that it does not require or demand an LDC-plus package and would be very happy with an LDC-only package. However, if there is a consensus on striving for an LDC-plus package, India would engage constructively, positively and with an open mind to further explore the elements of the package.

As to the five issues mentioned by the TNC Chair, India said it feels that the negotiations on trade facilitation, fisheries subsidies and environmental goods and services are far from reaching a sufficient level of maturity and hence the chances of their being harvested before December are not bright at all.

Also, if issues like environmental goods and services, which has now transformed into a pure market access issue despite the idealistic ambitions of the negotiators at Doha 10 years ago, are included in any package, there would be demands for including other market access issues for reaching a balance, said India. “This would obviously not be a simple problem to solve.”

On the demand for a standstill in tariffs, which has been raised by some delegations, India said there is a complete lack of clarity about the proposal, because there is no proposal on paper. “We do not know whether it is proposed for all countries, including LDCs or developing countries excluding LDCs or only developed and so-called emerging countries. We can look at it only after a detailed proposal is tabled.”

“Thus it follows that the package has to be a small one, primarily in terms of the plus issues, and that it has to be balanced. If it reflects primarily the ambitions of a small section of the membership, it would not be balanced and it would have little hope of attaining the support of the entire membership before the December deadline. Moreover, in a Development Round, it has to have a pronounced development content, at the minimum,” said India.

“The challenge, therefore, before us is to first focus on how to deliver on the LDC package,” said India. “After resolving the LDC issues, the next endeavour could be to find out which are the minimum number of elements that can satisfy the criteria of a balanced and development-oriented LDC-plus package.” India agreed with the Australian delegation, which has suggested end-July for a mid-course review.

India said that the Doha Round is not about the DDA alone and “if we just focus on harvesting a part of the DDA in December and not devote enough time

and attention to the non-DDA issues, we would indeed be doing a great disservice to preserving the credibility of the WTO and the multilateral trading system. We can ill afford to miss the wood for the trees – once again.”

Facilitate, not frustrate

China (represented by Ambassador Yi Xiaozhun) said that it supported the statements by the LDCs, the G20, the G90 and the African Group.

“China is certainly open to discussions of any issue in the single undertaking at any time, as is always the case for the past 10 years. However, the rule of thumb is that the plus should facilitate rather than frustrate the LDC package. The more issues we put in, the less likely it will be for the package to succeed. So the basic question is whether it is appropriate to seek balance or linkage for the LDC package – it’s obvious that any linkage, balancing or compensation prerequisite on the LDCs could end up killing the LDC package and therefore should be avoided.”

China said that it is a developing country with 150 million people living

under 1 dollar per day. To value the Hong Kong mandate, despite itself facing the same formidable development challenges, China already started to provide duty-free, quota-free market access for products originating from the LDCs.

“As a result, China has become the world’s largest export destination of the LDCs since 2008, absorbing roughly 23% of their total export. Between 2000 and 2009, China’s import from the LDCs increased 24% annually. Starting from July 2010, China began to provide DFQF treatment to the LDCs for 4762 tariff lines, which accounted for 60% in terms of product coverage and 98.2% in terms of the LDCs’ export value to China.”

“In order to deliver the December package, we are willing to make our best efforts to further increase DFQF coverage for LDC products from the current level to 95%. We appeal to all major players, especially the developed ones, to do their part in honouring the Hong Kong mandate to deliver the LDC package,” said China.

According to trade officials, Japan said that there is a need to assess the situation quickly. A post-MC8 work programme should be developed that

looks at market access issues particularly in services and manufacturing as outlined as part of the single undertaking.

Japan is happy to discuss other issues in the list of five, but it stressed that fisheries subsidies is an issue that has not matured. It said that it has more than 21,000 vessels that were damaged or lost as a result of the earthquake and tsunami. It is now engaged in a long and painful process of rebuilding. It is facing under-capacity and it is difficult for Japan to undertake commitments that might not be able to help its fishing industry.

It is however happy to discuss other elements of the fisheries question without prejudice to any outcome. Having a review before the end of July to avoid difficulty at the Ministerial Conference makes sense, it added.

Korea said that the priority should be the LDC issues.

South Africa said that the focus must be for the poorest countries, core LDC deliverables of DFQF, rules of origin, a services waiver and cotton. Having the LDC-plus issues added has resulted in a spaghetti bowl which has little chance of being unravelled by MC8, it added. (SUNS7176) □

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BIS urges tighter monetary policy, rise in interest rates

In its latest annual report, the Bank for International Settlements – the central bank of the world's central banks – addresses the risks and challenges confronting the global economy in the wake of the financial crisis. *Chakravarthi Raghavan* considers the BIS' policy outlook and prescriptions.

GENEVA: The Bank for International Settlements (BIS) has called for a worldwide tightening of monetary policy and raising of interest rates, pointing to evidence of dwindling economic slack and rising food, energy and other commodity prices and the consequent rising inflationary pressures.

The BIS has also pointed to the new Basel III global standards for banks and financial institutions, and the ongoing work on identifying and putting in place special guidelines and measures for systemically important financial institutions, as also quick actions by national authorities in enacting laws for these standards and stricter enforcement of the standards by regulatory authorities.

The Basel-based BIS, commonly called the central bank for the world's central banks, made the call for monetary tightening and raising of interest rates in its 81st annual report, which was released on 26 June, and in the speech of its General Manager Jaime Caruana at its annual general meeting also on 26 June.

In promoting a tightening monetary policy and rise in interest rates, the BIS says: "Over the past year, the global economy has continued to improve. In emerging markets, growth has been strong, and advanced economies have been moving towards a self-sustaining recovery."

While in the halls of global high finance the world economy and recovery looks brighter, for the man in the street, this may be hard to reconcile with the announced data of continued high unemployment in the advanced economies – over 9% in the US, a 17-year high of 7.7% of the economically active population in the UK, and over 10% as of October 2010 in Europe, according to Eurostat official data. Unemployment rates are also rising in the crisis-ridden euro periphery (Greece, Portugal and Spain). And with this, countries face social problems and threats of disorder that governments have to cope with.

Central banks need to start raising interest rates to control inflation and may

have to move faster than in the past, the BIS said, adding: "Tighter global monetary policy is needed in order to contain inflation pressures and ward off financial stability risks ... Central banks may have to be prepared to raise policy rates at a faster pace than in previous tightening episodes."

With interest rates having been raised in several of the emerging market economies in Asia and Latin America, unlike in the US, the UK and Japan where the central banks are still engaged in a stimulative economic policy stance, the BIS message seems to be specifically addressed to the advanced industrial economies.

In his speech to the BIS annual general meeting at Basel, Caruana stressed the need to normalize monetary policy, and said the prevailing extraordinary accommodative policy rates will not deliver lasting monetary and financial stability. Real short-term interest rates, he noted, may have actually fallen in the past year from -0.6% to -1.3% globally.

The BIS report has directed particular criticism at the Bank of England's Monetary Policy Committee for maintaining UK interest rates at their current low level of 0.5% since March 2009. "In the United Kingdom," the report says, "CPI inflation had exceeded the Bank of England's 2% target since December 2009, reaching a peak of 4.5% in April 2011 (in part due to a VAT increase). As yet, there has been no move by the Monetary Policy Committee [to raise rates], but one wonders how long its current policy can be sustained."

In his speech, Caruana has referred to the excess capacity in the financial and real estate sectors as pointing to the unfinished adjustments in the crisis-stricken economies. While the financial industry has built capital buffers, the "overall leverage in the economy, public and private, remains too high".

Caruana adds: "The simple mean of household debt-to-GDP for the US, the UK and Spain has declined by only 2 percentage points from 2007 to end 2010,

while for the same period and for the same countries, government debt-to-GDP rose by 30 percentage points."

Policymakers must intensify efforts to promote the repair of financial sector balance sheets and set conditions for the long-term profitability of banks. The macroeconomic road ahead is likely to be as bumpy next year as it has been this year, he warns. Banks must be ready when the real shock inevitably comes, and tough stress tests supported by recapitalization measures are essential.

The BIS head also called for early completion of financial sector reforms, and full and consistent implementation worldwide of Basel III, with higher standards for systemically important financial institutions and credible mechanisms for their orderly resolution.

Capital charge

In parallel meetings and actions in the week of 20 June at Basel [where the Basel Committee on Banking Supervision (BCBS) held meetings], central bankers and regulators agreed to impose an extra capital charge of 1-2.5% of risk-adjusted assets on the largest banks in order to protect them from big losses that could trigger another meltdown.

The US and UK have been pushing for about 30 "global systemically important financial institutions" to carry additional capital.

The compromise deal forged at Basel now involves a slightly smaller surcharge, but capital made up purely of equity. The surcharge will be over and above the 7% set last year for all banks under Basel III.

According to the *Financial Times*, this means about eight of the world's biggest and most interconnected banks have to maintain top-quality "core tier one capital" equal to 9.5% of their risk-weighted assets by 2019, while another 20 more banks will face total ratios of 8-9%.

The BCBS has said that it reserved the right to impose a further surcharge of 1% or a total of 10.5% on the top banks, if they become bigger and more important to the banking system.

The world's big banks have been engaged in heavy lobbying of their own central banks and the BCBS for lower capital ratios and/or wider range of capital (rather than pure equity). While they did not prevail at the BCBS (whose standards are guidelines to be implemented by national authorities), the banks are turning their attention to national regulators and legislators.

In the US, for example, of the 380 rules under the Dodd-Frank financial reform act, supposed to be written and enforced by July, only 30 have been finalized. The rules for the biggest and most contentious areas – including regulation of derivatives and their trading, the identification and naming of the “too big to fail” institutions – are all in flux.

Perhaps even more, according to media reports and reputed financial weblogs like “Naked Capitalism”, the US Commodity Futures Trading Commission Chair, who sought modest additional funds from Congress for carrying out the new mandate (of policing the over \$300 trillion over-the-counter derivatives trading market and the enforcement of regulations), is now finding himself facing budget cuts of 15% on the CFTC’s current budget.

The heavy lobbying by Wall Street firms to ensure lax enforcement of new regulations has presumably paid off.

Imbalances and threats

In its annual report, the BIS notes that while over the past year, the global economy has continued to improve – with strong growth in emerging markets and advanced economies moving towards a self-sustaining recovery – it would be a mistake for policymakers to relax.

The numerous legacies and lessons of the financial crisis require attention. In many advanced economies, high debt levels still burden households as well as financial and non-financial institutions, and the consolidation of fiscal accounts has barely started. International financial imbalances are re-emerging.

Highly accommodative monetary policies are fast becoming a threat to price stability. Financial reforms have yet to be completed and fully implemented. And the data frameworks that should serve as an early warning system for financial stress remain underdeveloped.

The interrelated imbalances made pre-crisis growth in several advanced countries unsustainable. Rapidly increasing debt and asset prices resulted in bloated housing and financial sectors. The boom also masked serious long-term fiscal vulnerabilities that, if left unchecked, could trigger the next crisis.

Warns the BIS: “We should make no mistake here: the market turbulence surrounding the fiscal crises in Greece, Ireland and Portugal would pale beside the

devastation that would follow a loss of investor confidence in the sovereign debt of a major economy.”

Addressing over-indebtedness, private as well as public, is the key to building a solid foundation for high, balanced real growth and a stable financial system. Private savings have to be driven up, and substantial action taken now to reduce deficits in the countries that were at the core of the crisis. The lessons of the crisis also apply to emerging market economies. Those economies where debt is fuelling huge gains in property prices and consumption are running the risk of building up the imbalances that now plague the advanced economies.

Global current account imbalances are still with us, bringing the prospect of disorderly exchange rate adjustments and protectionism. The imbalances extend beyond current accounts to gross financial flows, which today dwarf the net movements commonly associated with the current account. And they pose perhaps even bigger risks by giving rise to potential financial mismatches and facilitating the transmission of shocks across borders. Not only that, but cross-border financing makes rapid credit growth possible even in the absence of domestic financing. As shown by the experience of the past few years, a reversal of strong cross-border capital flows can inflict damage on financial systems and on the real economy.

The imbalances in current accounts and in gross financial flows are related and need to be addressed together. Sound macroeconomic policies will play a key role in this regard, as will structural domestic policies to encourage saving in deficit countries and consumption in surplus countries. Although the adjustment of real exchange rates is also required, it will not, by itself, be enough.

Countries will need to implement policies that strengthen prudential frameworks and the financial infrastructure. Capital controls that can offer only temporary relief should at best be the last resort.

While adjustment by surplus and deficit countries is necessary and mutually beneficial, it is constrained by a fundamental problem: countries may find unilateral adjustment too costly. This means that international coordination is essential to break the policy gridlock.

This call for international coordination is noteworthy in that not too long ago, when it was the emerging econo-

mies that faced adjustment problems, they were asked to tighten their belts and bear it – without any actions by the advanced economies which were in surplus. However, this is perhaps in the nature of power and the control of big international institutions by the advanced economies and their power structures.

On monetary policy, the BIS says that the challenges are intensifying even as central banks extend the already prolonged period of accommodation. The persistence of very low interest rates in major advanced economies delays the necessary balance sheet adjustments of households and financial institutions, magnifying the risk that the distortions that arose ahead of the crisis will return.

“If we are to build a stable future, our attempts to cushion the blow from the last crisis must not sow the seeds of the next one.”

With the end of unconventional policy actions in sight, central banks face the risks associated with the resulting large size and complexity of their own balance sheets. Failure to manage those risks could weaken their hard-won credibility in delivering low inflation, as could a late move to tighten policy through conventional channels.

As the central bank of the world’s central banks, the BIS in its report makes a strong pitch for independence of central banks, meaning independence from the executive and legislative organs of state. However, given the way the major financial firms have a major voice in leading central banks like the US Federal Reserve and its regional Feds and their own roles in contributing to the financial crisis, it would be a difficult exercise.

Data gaps

In a chapter of the report addressing data problems, the BIS says that the recent financial crisis revealed gaps in both the data and the analytical frameworks used to assess systemic risk. These gaps hampered policymakers in their efforts to identify and respond to vulnerabilities. To do their job, authorities need a broader and more accurate view of the financial system from multiple vantage points. That picture would show sectoral balance sheets and their global interlinkages, and it implies a wider sharing of institution-level data within and across jurisdictions.

“While better data and analytical

frameworks will not prevent future crises, experience suggests that the improvements will enable policymakers and market participants alike to identify vulnerabilities previously unseen and pick up the emergence of others much sooner."

The BIS thus joins a long list of institutions facing data problems that the UN statistical systems have not addressed or found solutions to: there is lack of data to assess the value of trade in services in four modes of delivery, 17 years after the Marrakesh treaty, including its GATS (General Agreement on Trade in Services) framework, was concluded, and 25 years after the data problem was identified and the statistical system was asked to come up with answers, but with the manual adopted in 2000 for gathering statistics unable to give relevant data even now.

According to the WTO, there is also a lack of data on value-added in international trade as a result of which there is double or multiple counting of gross trade values in production and trade across countries, creating tensions and protectionist pressures in the multilateral trading system. The issues surrounding intra-industry trade and the value-added in such trade, and its rapid growth and sizeable share in international trade, were identified by economist Paul Rayment in the 1980s and followed up by the UN Economic Commission for Europe (UNECE) and UN Conference on Trade and Development (UNCTAD) in the 1990s. However, the global finance and trading systems have ignored these till now, as have the statisticians and the global statistical systems.

Policy challenges

While a new attitude and optimism is gaining a foothold in advanced economies, the BIS cautions against slackening on the major tasks in repairing the system. "The sooner advanced economies abandon the leverage-led growth that precipitated the Great Recession, the sooner they will shed the destabilizing debt accumulated during the last decade and return to sustainable growth. The time for public and private consolidation is now."

Over the past year, with growing confidence that the recovery had become self-sustaining, market participants, says the BIS, had been gradually resuming their willingness to take on risk, as would

be expected in the early stages of a cyclical upturn. However, there has been the related development of resurgence of financial innovation, with strong growth in new instruments and vehicles such as synthetic exchange-traded funds, commodity-linked notes and commodity-based hedge funds.

While the return of innovation is a positive sign, the arrival of new products with risks untested by market stress "poses an important challenge for authorities tasked with maintaining financial stability."

Over the past year, while there has been confidence in self-sustaining recovery and a sense of optimism, in the peripheral euro area countries, the fiscal problems have already sapped investor confidence to the point where sovereign borrowing costs have soared beyond sustainable levels. For well over a year, European policymakers have been scrambling to put together short-term fixes for the hardest-hit countries while debating how to design a viable and credible long-term solution. "They need to finish the job, once and for all," the BIS says.

While the fiscal woes of a number of euro area countries have resulted in eye-popping jumps in their sovereign bond yields and CDS (credit default swap) spreads, other mature sovereigns with record high fiscal deficits and outsize levels of public debt have not seen any market effects. Countries with lower private debt seem to have more capacity to repay their public debt, and there may be a greater willingness to repay when public debt is held by domestic residents.

"Also, having an independent currency and monetary policy seems to play a role, as this provides policymakers with greater flexibility."

A loss of confidence in the ability and willingness of a sovereign to repay its debt is more likely to be characterized by a sudden change in sentiment than by a gradual evolution, and governments that put off addressing their fiscal problems run a risk of being punished both suddenly and harshly.

Hence, fiscal authorities must take swift and credible action to bring debt levels down to sustainable levels. This requires both short-term measures to reduce deficits in the aftermath of a costly recession, and addressing longer-term challenges arising from structural imbalances. In many countries, this involves facing up to the fact that, with

their populations ageing, promised pension schemes and social benefits are simply too costly to sustain.

Simply returning to the pre-crisis fiscal stance will not be enough. Fiscal positions preceding the financial crisis were made to look unrealistically rosy by the tax revenues arising from unsustainable credit and asset price booms. Cyclical surpluses need to be built up as buffers that can be used for stabilization in the future, and for this, governments need a reserve fund. Merely running a cyclical balance, in which budget surpluses in booms neutralize budget deficits in recessions, is not good enough.

The risk of aggressive austerity measures choking off economic growth in advanced economies, where the recovery appears now to be self-sustaining, is much smaller than it was a year ago. In most emerging market economies, it is almost non-existent.

But more importantly, in a number of cases the long-run fiscal outlook has not improved, at least not enough. The unavoidable conclusion is that the biggest risk is "doing too little too late" rather than "doing too much too soon".

Cautioning against impeding cross-border capital flows or financial integration that facilitates them, the BIS argues that some of their harmful side-effects are best targeted by making structural domestic adjustments, improving international policy coordination and strengthening the financial stability framework. What is needed are policies in deficit countries to encourage saving and policies in surplus countries to encourage consumption. And although not enough by themselves, changes in real exchange rates are also essential; however, major countries resist real exchange rate adjustment.

This policy gridlock must be broken by international coordination that would distribute the burden of adjustment across major surplus and deficit countries. Without such cooperation, the outsize current account imbalances, the large net financial flows they generate and the resulting vulnerabilities will continue to grow.

As for gross capital flows, the principal defence against the risks posed by them is a set of macroeconomic policies that promote monetary stability and fiscal sustainability. Regulatory and macroprudential measures play a secondary role, while, as a last resort under extraordinary conditions, capital controls can

serve as a stopgap measure.

Financial regulation

In terms of regulatory reforms, the BIS report notes that the reforms in Basel III include requirements for both a higher minimum quantity of capital and a better quality of capital to cover more risks, as also additional capital buffers that will be adjusted counter-cyclically to limit the amplitude of credit cycles, and new liquidity standards – holding sufficient liquidity to be able to weather a variety of shocks.

However, the work is not finished and significant challenges remain. Among them is the need to ensure that systemically important financial institutions (SIFIs) become, in effect, less so. This means first figuring out which institutions are systemically important and then determining the steps needed to make them sufficiently resilient.

Regulators are busy working out how much additional loss absorbency global SIFIs should have. Moreover, while the Financial Stability Board (FSB) has issued recommendations for enhanced supervision of SIFIs, the details still need to be settled by national supervisors, standard setters and the FSB. This process is complicated by the existence of various types of SIFIs. For example, among SIFIs, an insurance company would probably have balance sheet risks that need to be treated differently from those faced by a bank.

Another key to building the foundations of a stable financial system is to extend the regulatory perimeter beyond traditional financial institutions to cover shadow banks – entities that perform maturity or liquidity transformation outside the currently regulated banking system.

Shadow banks have the potential to generate substantial systemic risk because they can be highly leveraged and engage in significant amounts of maturity transformation while being closely linked to commercial banks. And, as the name suggests, the shadow banks can do all of this in ways that are less than completely transparent.

Banks – often systemically important ones – typically generate large profits by sponsoring shadow banking activities to which they have significant direct and indirect exposures, including backup lines of credit and various sorts of credit enhancements.

It is exactly that linking of the banking system to the shadow banks, includ-

ing explicit or implicit guarantees to the holders of shadow bank liabilities, that gives rise to some of the most pernicious financial stability risks. By comparison, mutual funds and hedge funds, although huge in terms of the money involved, pose less of a systemic risk because they are generally less leveraged and have fewer and looser ties to banks.

Aside from completing the preparation of the new global standards, it is essential that national authorities trans-

late them into legislation and regulations in a timely and globally consistent manner. Financial stability will be jeopardized by any attempt to delay or weaken the agreements.

Finally, even after their implementation, the new rules, as such, will not be sufficient: rigorous enforcement by supervisors within and across national boundaries will play a key role in making sure that financial institutions comply with them. (SUNS7178) □

What about capital controls on outflows?

Apart from regulating incoming funds, developed and developing countries alike should also consider instituting controls on capital outflows, suggest *Kevin P Gallagher* and *Stephany Griffith-Jones*.

In the wake of the financial crisis, Western economists and policymakers are to be applauded for recognizing that financial globalization has its limits and that capital controls may be necessary for emerging and developing nations to defend their economies from volatile capital flows. Most of the discussion to date has focused on controls on capital inflows, but could there be a role for controls on outflows as well?

Perhaps controls on outflows in the US would have bolstered the effect of quantitative easing. There may be situations where developing countries will need to resort to controls on outflows in order to prevent destabilizing outflows of capital from their countries as well.

Keynes thought so. He said that “control of capital movements, both inward and outward, should be a permanent feature of the post-war system.” Indeed, Keynes and Harry Dexter White each argued that in order for capital controls to work, coordination was needed at “both ends” of a capital flow, meaning at the source of the capital outflow and the receiving end or in terms of capital inflows.

Capital surge

The April *World Economic Outlook* (WEO) of the International Monetary Fund (IMF) shows that capital inflows to emerging markets have now surpassed their pre-crisis peak. According to the IMF, such a surge in inflows of short-term capital is largely due to factors related to the “two-speed” recovery – slow growth in the West and faster growth in the emerging markets.

A key driver in this context is the carry trade. With low interest rates in the United States, investors are borrowing in the US and investing in emerging markets such as Brazil where rates are over 11%. Investors reap profit not only from the “carry” or difference between the two interest rates, and from strengthening emerging market currencies, but also from a leverage factor.

This has proved dangerous, as Brazil and other nations have experienced significant currency appreciation, asset bubbles and now inflation, all partly fuelled by large surges of very short-term and reversible capital. Ironically, under these conditions, when Brazil raises interest rates to tame asset bubbles and inflation, it attracts ever more investment due to the carry trade.

Thus the resort to capital controls. Brazil, South Korea, Indonesia, Taiwan and others have all recently used controls on inflows as an attempt to discourage such short-term inflows, and to grant countries like Brazil more autonomy over monetary policy.

The fragility here needs to be underscored. The slightest change in US interest rates (and such changes are likely at some point) could cause an unwinding of positions that could be utterly destabilizing. Indeed, in an analysis in Chapter 4 of the WEO, the IMF shows that a 5-basis-point increase in US rates could cause capital flight worth 0.5–1.25% of GDP out of the developing world. Capital flows to developing countries are at an all-time high at just over 2.3% of GDP, so the projected shortfall would be significant. As happened during US interest rate hikes and capital

flight in the 1980s and 1990s, exchange rates across the developing world could plummet, thereby decreasing purchasing power and increasing debt service levels in local currencies of emerging markets' foreign exchange exposure.

So during the quantitative easing period, what if the US had put a tax or margin requirement on the notional value of foreign exchange derivatives? It might have discouraged excessive short-term capital flows to emerging and developing countries, which pose major problems for their macroeconomic management now and raise the risk of future crises.

Controls on short-term outflows might also have facilitated the liquidity created by the US Federal Reserve to stay in the US and have a better chance of going toward productive investment in the US, which is precisely the aim of the Fed policy. Such investment could help developing countries via trade, rather than causing speculative capital to flow to emerging markets and cause havoc to their financial systems and their economies. They could also be considered prudential measures as they would limit excessive leverage and risk-taking in foreign currencies.

Developing countries may eventually need controls on outflows as well. A drastic event like failing to raise the debt ceiling and a subsequent default in the US could send interest rates sky-high, triggering the massive destabilizing capital outflows from the developing world predicted by the IMF in the *WEO*.

Having stand-by policies in place whereby industrialized and developing countries alike stand ready to impose counter-cyclical capital controls – controls on inflows when inflows are excessive, controls on outflows during periods of capital flight – may be an important part of a new macro-prudential toolkit to prevent and mitigate financial crises.

Financial instability anywhere can cause financial instability everywhere. Regulating capital flows for financial stability will take a global effort on “both ends” of capital markets, as Keynes and White forewarned long ago. □

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(continued from page 16)

cause growth was not strongly linked to activities and economic sectors where the poor are. Numerous African countries are therefore trapped in a contradiction of resistant poverty despite high economic growth.

The *AEO* reports that high fuel and mineral commodity prices have strongly influenced economic growth in many of the fastest-growing African economies in the period from 1996 to 2008, given that fuels and minerals account for the large share of Africa's exports.

But this growth and its limited impact in reducing poverty creates a vicious cycle, for higher poverty diminishes even further the effects of economic growth in reducing poverty, the report says.

The report, released in June, is a joint effort by the OECD, African Development Bank, the United Nations Development Programme and the United Nations Economic Commission for Africa.

From 2001 to 2009, only three of the 14 African countries where the annual gross domestic product growth rates were higher than the regional average of 5.3% registered substantial poverty reduction rates.

Government role

In an interview with Inter Press Service (IPS), Rielaender said that the lack of correlation between growth and poverty reduction in African countries should force “African governments to concentrate their immediate efforts in creating jobs, invest in basic social services and promote gender equality”.

The *AEO 2011* points out that most of the African oil- or mineral-exporting countries with high growth rates experienced “low growth elasticity of poverty” – that is, economic growth with little impact on reducing poverty.

“On the other hand, oil producers with high growth elasticities of poverty have low growth rates,” the report says.

To tackle this lack of correlation between growth and poverty reduction, the *AEO* also encouraged African governments to “take simultaneous actions on several fronts. Economic growth will improve human development only if it is inclusive and pro-poor.”

“Investing in social sectors will produce sustainable human development, if investment is accompanied by efforts to create more economic opportunities that benefit a large segment of [the] population.”

The *AEO 2011* also recommends regional development policies that pro-

mote different economic sectors and reduce reliance on commodities such as cash crops and minerals.

Rielaender told IPS that “industrial policy in the pharmaceutical sector could be one appropriate policy measure to create employment and simultaneously achieve social objectives in Africa”, by locally producing generic medicines.

International development bodies, such as the UN Conference on Trade and Development (UNCTAD), and humanitarian non-governmental organizations, such as Medecins Sans Frontieres, have recently urged selected African countries to launch a process of industrialization to locally produce generic medicines indispensable in fighting epidemics such as HIV/AIDS, malaria and tuberculosis. By so doing, African countries would benefit from present exemptions from international requirements on intellectual property, such as medicine patents, which expire in 2016.

Rielaender said that such a policy is feasible in selected African countries. “When you talk about industrial policy in developing countries, you are also talking about infant industry protection,” he explained. “But the local industries created this way should be efficient enough to avoid the misallocation and waste of quite scarce resources.”

So far, he believes, Africa has managed the regional impacts of the global economic crisis relatively well. However, he warned that the political turmoil in the Maghreb region and inflation in food and fuel would again slow down the continent's growth to 3.7% this year.

He argued that African recovery after the slowdown caused by the global economic crisis was primarily based on the shift that has taken place in global economic activities away from the OECD countries in Europe and North America and towards emerging economies in Asia and South America.

This shift is reflected in African international trade. In 2009, China surpassed the US and became Africa's main trading partner. In general, the share of trade conducted by Africa with emerging partners has grown from approximately 23% to 39% in the last 10 years. Africa's top five emerging trade partners are now China (38%), India (14%), Korea (7.2%), Brazil (7.1%) and Turkey (6.5%).

Another factor supporting the African economy is overall “good macroeconomic management” during the last decade, Rielaender added. “Inflation has remained relatively low, and high commodity prices have led to increased revenues in the continent.” (IPS) □

Lagarde takes helm of IMF amidst multiple crises

France's Christine Lagarde was on 28 June selected as the new managing director of the International Monetary Fund, maintaining a longstanding – and contentious – European hold on the IMF top job.

by Pam Johnson

WASHINGTON: Two days ahead of a formal vote scheduled for 30 June, former French finance minister Christine Lagarde became the first woman to be appointed managing director of the International Monetary Fund (IMF).

Replacing former IMF chief Dominique Strauss-Kahn, who vacated the post in May following sexual assault charges, Lagarde on 28 June surpassed her lone competitor – Mexico's central bank governor Agustín Carstens – to take control of the Fund's executive board, which oversees operation of the 187-member institution.

Though Lagarde's appointment had been a fiercely contested foregone conclusion for several weeks, the 24-member board meeting on 28 June opened with ostensible uncertainty about the allegiances of key players like the United States, which is responsible for 17% of the Fund's \$320 billion resource pool and had thus far remained silent for fear of backlash in a thorny debate of European dominance versus emerging market economies.

The curtain of largely symbolic suspense was lifted when US Treasury Secretary Timothy Geithner threw his weight behind Lagarde, who had also secured assurances from the governor of the People's Bank of China on 27 June.

Even before the meeting convened, Lagarde had clinched support from states representing a full 40% of the Fund's voting power.

"I am sure that Lagarde will be a very capable leader of the institution," Carstens said in a statement to the IMF on 28 June. "At the same time, I hope that under Lagarde's direction, the IMF will make meaningful progress in strengthening the governance of the institution, so as to assure its legitimacy, cohesiveness, and ultimately, its effectiveness," he added.

Carstens' mild statement of support belies the storm of debate, critique and, at times, open hostility that surrounded the selection process over the last few weeks, during which economists and organizations from across the ideological spectrum united in their objection to continued European leadership.

"The Obama administration could have stepped up and welcomed emerging powers taking a leadership role in the IMF [but] it chose instead to be quiet about the disenfranchisement of emerging markets and developing countries in this process and jump on the European bandwagon at the very last minute," Raymond Offenheiser, president of Oxfam America, said in a statement following Lagarde's appointment.

Caroline Hooper-Box, acting head of Office and Essential Services Media Lead at Oxfam International, added in a 28 June press release, "This farcical appointment process has damaged the IMF's credibility."

"The IMF is badly in need of reform. To protect the institution's credibility, Lagarde will have to act to loosen Europe's stranglehold of the IMF Board, and give others more of a voice."

"She'll also have to decide what to do with the three billion dollars the IMF got from selling its gold reserves last year," Hooper-Box added. "This money must be directed to poor and vulnerable citizens in developing countries – the same people who are excluded from IMF decision making."

Greek crisis

Lagarde's appointment coincided with a 48-hour general strike in Greece that led to riots and clashes with the police on 28 June as protestors raged against the government's proposed "austerity measures".

In order for Greece to secure a \$17 billion loan from the IMF – which it desperately needs to pay off a chunk of last year's \$142 billion bailout debt – the government is under pressure to increase taxes and cut state spending, moves that will hit hardest minimum-wage and low-income families' pocketbooks.

However, the fighting on the streets of Athens encapsulated some critics' claims that a European in the driver's seat of the world's most powerful financial institution is the last thing a shattered global economy needs.

Kenneth Rogoff, an economist at Harvard University, referred in the week

of 20 June to the IMF as the "commander on the frontlines of the crisis" in Greece, adding to the growing public outcry against Lagarde stepping in as saviour of a crisis that he said her own country helped orchestrate.

According to Howard Schneider, an economics correspondent for the *Washington Post*, the Greek rescue has "unravelling" in the past months, leading to a deeper-than-expected recession and possibly necessitating billions more than the \$150 billion already provided under the three-year emergency plan last year.

"Did anyone think to themselves that the head of the IMF should be an Asian during the Asian financial crisis of 1991-1998, or a Latin American during the crisis in the 1980s and 1990s?" Martin Wolf, the chief economics commentator at the *Financial Times*, wrote in the week of 20 June.

"The Eurozone is a very special and, in my view, very dangerous construction," he said, adding that according to the IMF's most recent data, the EU's share of global output at purchasing power parity will shrink from 25% in 2000 to 18% in 2015, an "astonishingly rapid" rate of decline.

Meanwhile, World Bank estimates for China's growth in 2011 have shot up from 8.5% to 9% – leading experts to speculate that Europe can no longer afford its patronizing dismissal of the rest of the world.

Offenheiser added, "If the US and EU continue to hold on to power through structures that reflect an obsolete economic and political world order of years past, the rising powers will inevitably turn away from the organization and toward institutions where they do have a voice." (IPS) □

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Christine Lagarde as IMF chief? This is a gift to the Fund's critics

New head Christine Lagarde does not appear likely to bring in the reforms the IMF so badly needs, writes *Peter Chowla*.

LONDON: After the last three years of financial crises and bailouts, no one can deny that leadership of an international institution like the International Monetary Fund matters. Previous leaders brought some significant changes to the IMF but did not go nearly far enough. The Fund is still giving bad advice to European countries, such as supporting the fantasy that Greece can recover without restructuring its debt, and is continuing to force damaging spending cuts in times of recession. The question now is whether Christine Lagarde's tenure as managing director of the Fund will be any better.

The signs are not good. The first issue facing the IMF is its legitimacy, which has been further damaged by the hypocrisy of a selection process that was neither truly fair and open nor merit-based. As much as the executive board has tried to paper over the facts, the rushed de facto appointment of Lagarde by European powers circumvented the official process and contravened numerous commitments made by global leaders over recent years.

Lagarde's success is likely to become a pyrrhic victory for Europe. While some emerging markets may have thought the IMF was slowly reforming, this selection process will underline how little they can trust international institutions that continue to be controlled by the rich. They will move further towards regional and self-insurance, and balk at international cooperation through the IMF.

The IMF's legitimacy is derived not only from its leader, but also from who holds power. Developing countries are not likely to forget the fierce resistance to IMF voting reform put up by Lagarde twice during her tenure as French finance minister. As recently as last year, Lagarde and her European colleagues blocked a significant rebalancing so that votes would better reflect the changing global economy, let alone allowing a far-reaching reform to bring democracy into the institution.

As a result of two rounds of reform, EU countries will drop just a few per-

centage points, from 32.7% of the vote to 29.4%, despite having just 7.3% of the world's people.

With the IMF's legitimacy in tatters, could it fall back on its credibility? There is precious little of this left after the Fund failed to spot the biggest financial crisis in 80 years. The rest is being squandered by the IMF serving as the junior partner in Europe's destructive bailouts of private creditors and punishment of ordinary eurozone citizens in Greece and Ireland.

The IMF-EU policies towards Greece are just not working, with soaring debt levels, rising joblessness, a contracting economy and deepening social crisis. Yet Lagarde's first instinct after the announcement of her appointment was to continue pushing the country towards a downward spiral of austerity, unemployment and recession. Despite rumours that some IMF staff – having witnessed the implosion in Argentina – recognize the folly of this plan, it seems highly unlikely that Lagarde, a lead architect of the European response to Greece, would change tack now.

Whither financial reform?

Without legitimacy or credibility, the IMF cannot tackle the long-term global economic problems that it was designed to deal with but has abdicated from responsibility for since the 1970s. There were signs that the IMF under Dominique Strauss-Kahn, reeling from

the intellectual blow dealt to its ideology by the financial crisis, was ready to wade back into issues like the sagacity of relying on the US dollar as the world's main trading and reserve currency, or the problems generated by unrestrained financial flows whipping into and out of countries at the blink of an eye.

These may seem esoteric, but such issues left unreformed mean the current international financial architecture will continue to damage the prospects of poor countries and tilt the global economy towards the benefit of financiers, rather than ordinary people. Lagarde's tenure as the chair of the G20 finance ministers demonstrated an unwillingness to make the wholesale reforms needed.

Lagarde's pitch seemed to be mainly managerial. She promises to fulfil the duties required of the managing director. Her main talking point during the campaign was the need for diversity in the staff at the IMF, with a focus on gender. That is as close to a campaign promise as we have had from her, a clear indication that she is not the reformer that the Fund, and the poor and vulnerable people negatively affected by the IMF's policies, badly need.

Lagarde's assumption of control, while a bad omen for Europe's periphery and aid-dependent countries in Africa, will be seen by critics in developing countries as a boon, a chance for those that are able to even further distance themselves from an out-of-touch, outmoded international institution. □

Peter Chowla is manager of the IMF programme at the Bretton Woods Project, a London-based watchdog of the IMF and World Bank. This article was originally published on the website of the Guardian (www.guardian.co.uk) on 29 June.

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ILO adopts "historic" convention on domestic workers

The labour rights of domestic workers – who for long have often been part of an invisible workforce lacking protection – are now enshrined in a treaty newly adopted by the International Labour Organization.

by Kanaga Raja

GENEVA: In what was viewed as a historic moment, the International Labour Organization (ILO) on 16 June adopted for the first time a landmark convention aimed at protecting tens of millions of domestic workers worldwide.

At the 100th session of the ILO's annual International Labour Conference here on 1-17 June, government, worker and employer delegates adopted the Convention Concerning Decent Work for Domestic Workers (2011) and an accompanying Recommendation by an overwhelming margin of votes.

Under the ILO's tripartite structure, each of the organization's 183 member states is represented by two government delegates, and one employer and one worker delegate.

The Convention was adopted by a vote of 396 for and 16 against, with 63 abstentions. Only one government voted against the Convention, this being Swaziland.

The Convention, becoming the ILO's 189th Convention, will come into force after two countries have ratified it.

The Recommendation, which provides detailed guidance on how to apply the Convention, was adopted by a vote of 434 to 8, with 42 abstentions.

The Convention and Recommendation, after it comes into force, will apply to those ratifying it, and be subject to the periodic examination and reports on implementation by the ILO Committee of Experts.

Basic labour rights

According to an ILO press release, the new standards set out that domestic workers worldwide who care for families and households must have the same basic labour rights as those available to other workers, namely, reasonable hours of work, weekly rest of at least 24 consecutive hours, a limit on in-kind payment, clear information on terms and conditions of employment, as well as respect for fundamental principles and rights at work including freedom of as-

sociation and the rights to collective bargaining.

The ILO said that its recent estimates based on national surveys and/or censuses of 117 countries place the number of domestic workers at a minimum of 53 million, but experts say that there could be 100 million in the world, considering that this kind of work is often hidden and unregistered.

In developing countries, according to the ILO, they make up at least 4-12% of wage employment. Around 83% of these workers are women or girls and many are migrant workers.

According to an ILO policy brief on the issue of domestic workers, the two regions with the largest number of domestic workers are Asia and Latin America and the Caribbean.

In Asia, at least 21.5 million women and men work in private households (or 40.8% of all domestic workers worldwide), while 19.6 million domestic workers live in Latin America and the Caribbean (some 37.3% of the global total).

At a media briefing on 16 June after the adoption of the Convention and Recommendation, ILO Director-General Juan Somavia said: "This is a historical moment for domestic workers worldwide. Today, we have taken a significant step by overwhelming majority towards making domestic work, decent work – in fact it's the name of the convention; making what is too often invisible work, visible."

The ILO head mentioned what he said were two very important reasons why it is a significant step.

The first, he said, was the sheer number of workers involved. There are at least 53 million domestic workers across the globe and some calculations bring it up to about 100 million. The great majority of them are women and many of them are migrant workers. And their numbers keep rising, he added, noting that in Mexico, for example, the number of domestic workers increased by 89% between 1991 and 2008.

The second reason, Somavia said, is

that this is a convention that goes into the heart of the informal economy. "Consequently, it's very much ground-breaking in that sense. As we all know, decent work deficits in the informal economy are huge. Domestic workers are no exception. For example, for over 56% of all domestic workers, there isn't a law setting a limit to how long they can work per week. And about 45% of all domestic workers are not entitled to at least one day off per week."

The ILO head said that the Convention offers guidance on limiting the practice of payment in kind, addresses food and accommodation for live-in domestic workers, and calls upon member states to ensure reasonable hours and sufficient hours of rest, and a number of other specific issues.

"But above all, and this is absolutely essential," he said, "this convention states that domestic workers are workers and that they are neither servants nor members of the family."

"This might sound obvious, but it is not," he further said, adding that being a worker means having rights, a voice and access to a decent life, whereas many domestic workers today are closer to being forced labourers than workers.

The ILO head also rendered homage to the struggle of domestic workers' organizations, many of which were at the conference.

A step forward

Myrtle Witbooi, the Chair of the International Domestic Workers Network (IDWN), which is made up of domestic workers' unions and associations worldwide, said in a press release: "Today, we celebrate a great victory for domestic workers. Until now, we have been treated as 'invisible', not respected for the huge contribution we make in society and the economy and denied our rights as workers. It is an injustice that has lasted too long."

According to IDWN, this is truly a historic event and a step forward for an estimated 50 to 100 million men, women and children worldwide working in the homes of their employers.

It said that domestic workers from around the world will continue their organizing with efforts at the national level to ensure that governments put the contents of the Convention into the law of each country.

According to IDWN, the Convention affirms that domestic workers have

the same fundamental rights that all workers have: the rights to freedom of association and collective bargaining; the elimination of all forms of forced labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

In a separate press release, the International Trade Union Confederation (ITUC), while welcoming the historic adoption of the Convention and Recommendation, called on the ILO to ensure that governments around the world are put on notice about protecting the millions of people in the domestic work sphere.

It said that with many millions of migrant workers in domestic labour around the world, without proper monitoring, these workers would continue to suffer violent and oppressive employment conditions, exploitative recruitment agencies, remuneration below legal minimums, non-payment of wages, exclusion from social security schemes, excessive working hours and the worst forms of child domestic labour.

"The adoption of this Convention is a great victory, and we call upon all governments to ratify and implement it and upon the ILO to provide clear guidance to these countries that need to improve their laws to protect domestic workers' rights in their economies," said ITUC General Secretary Sharan Burrow.

The ITUC said that it has reported on widespread oppression and violence against migrant domestic workers in the Gulf. "The international union movement will continue to shed light on the working conditions of migrant domestic workers in the Gulf countries, in particular Saudi Arabia, the UAE, Qatar and Bahrain," said Burrow.

"It is not acceptable that in countries with strong economies and a lot of personal wealth, we have an underclass of domestic slaves, whose passports are taken when they arrive, and who have no one to turn to if their employer treats them with violence or harassment," Burrow added.

She called on the ILO to develop an action plan specifically for the monitoring of the implementation of the Convention in the Gulf.

There are an estimated 2.1 million migrant domestic workers, 83% of whom are women, and it is further estimated that in total, domestic work accounts for no less than 7.5% of female wage employment worldwide, said the ITUC.

According to the ITUC, once ratified, the Convention has the potential to take

millions of workers out of the shadow economy and formalize their employment.

"Finally, domestic workers are recognized as 'workers'. Their longstanding demands for equal treatment with other workers are now embedded in the Convention and Recommendation. It is not a day too early..." said Ron Oswald, General Secretary of the IUF, a global union federation for food, hotel and allied workers.

Peter Waldorff, General Secretary of Public Services International, said: "Millions of workers, mainly women, provide care services daily to vulnerable people in their homes – services which should be provided by the State. These workers are often part of an invisible workforce with little or no legal protections. This Convention should help rectify this appalling situation and we call on Governments to ratify and implement it without delay."

"Significant contribution"

In its preamble, the Domestic Workers Convention 2011 recognizes "the significant contribution of domestic workers to the global economy, which includes increasing paid job opportunities for women and men workers with family responsibilities, greater scope for caring for ageing populations, children and persons with a disability, and substantial income transfers within and between countries".

The Convention says that "domestic work continues to be undervalued and invisible and is mainly carried out by women and girls, many of whom are migrants or members of disadvantaged communities and who are particularly vulnerable to discrimination in respect of conditions of employment and of work, and to other abuses of human rights."

It defines the term "domestic work" to mean "work performed in or for a household or households", and the term "domestic worker" to mean "any person engaged in domestic work within an employment relationship." It also states that a person who performs domestic work "only occasionally or sporadically and not on an occupational basis" is not a domestic worker.

According to the ILO, while the new instruments cover all domestic workers, they provide for special measures to protect those workers who, because of their young age or nationality or live-in status, may be exposed to additional risks relative to their peers, amongst others.

"This is a truly major achievement," said Manuela Tomei, Director of the ILO's Conditions of Work and Employment Programme. She called the new standards "robust, yet flexible."

She said that the new standards make clear that "domestic workers are neither servants nor 'members of the family', but workers. And after today, they can no longer be considered second-class workers." (SUNS7172) □

African poor excluded from benefits of high economic growth

Economic growth in Africa has not brought poverty levels down substantially, finds a new report.

by Julio Godoy

PARIS: The high economic growth enjoyed by many African states during the 2000s has not led to poverty elimination. This is because the growth did not happen in the sectors where poor people work, as in agriculture, or in the rural areas where poor people live, or simply did not involve labour provided by poor people.

This is how economist Jan Rielaender explains the finding of the *African Economic Outlook 2011* report (AEO) that during the past decade, especially in the fastest-growing economies in Africa, good economic performance due to investment in oil and other

extractive industries has had little effect on poverty.

Rielaender works at the Organization for Economic Cooperation and Development (OECD) Development Centre and is co-author of the AEO.

Around 75% of foreign investment in Africa has been in oil-rich countries and in so-called extractive industries with few links with the rest of the domestic economy or with poor people.

Rielaender said that the weak response of "poverty reduction" to economic growth was caused partially be-

(continued on page 12)