

“Towards a Development-friendly Trade and Production Architecture”

Contribution to Panel on “Tackling Structural Inequalities on Finance for Development”

By

Rob Davies

UNCTAD IGE-FfD Session.

26/1/2021

- AAAA recognises that finance for development is not a stand alone issue restricted to the matter of mobilising more funds;
- Inextricably linked to other issues of global governance, meaning more effective finance for development also requires substantive reforms of “international financial and trade architectures”;
- This will necessitate reform of the MTS as part of building a new multi-lateralism to promote greater equality and inclusivity as the world confronts common challenges of recovering from the Great Lockdown recession and confronting the threat of catastrophic climate change among other challenges.
- Focus here on the reform of global trade architecture

Trade and Development 101

- Development is ultimately about improving peoples' lives;
- Since 1997, UNDP produced a Human Development Index, modifying GDP/capita rankings by measures of life expectancy, health, education, gender equity;
- Some important variations in countries with progressive social policies, but with few exceptions all countries in "Very High Human Development" category are advanced industrialised countries;
- Other countries with improving Human Development are those diversifying and industrialising;
- Countries that are "rich" or "developed" have passed through a stage of diversification and move to higher value added production – have industrialised;
- "Poor" countries have remained poor because they continue to be trapped as producers and exporters of primary products – are under developed;
- All countries that have become industrialised have pursued industrial policies that supported, nurtured and protected nascent industries;

101 continued

- Often this was combined with taking advantage of any opportunities for export of their value added products;
- As they became more competitive trade policy stance became more “free trade” orientated;
- Often to point of denying others access to same policy tools they themselves deployed – “kicking away the ladder”;
- This general picture modified in detailed positions – western industrialised countries not as competitive in agriculture (less “free trade” orientated here) and also in relation to specific products and technologies;
- Development fostering trade rules must allow policy space to pursue industrial policy, and be calibrated to allow developing countries to build new trade strengths.

Neo-Liberalism spins a different narrative

- Neo-Liberalism a body of ideas, a doctrine, an ideology that guided and informed a series of “structural reforms” in the operation of the world economy and many national economies between the mid-1980s and 2008;
- Emerged in the context of a crisis that resulted in a new configuration of power relations seeking to replace the Keynesian/Social Democratic policy framework established at the end of WWII;
- Reinforced by the collapse of USSR and end of the Cold War;
- A version of laissez faire whose “...prescription is to liberalize national and global markets in the belief that free flows of trade, finance and information will produce the best outcome and growth for human welfare. All this is presented with an air of inevitability and overwhelming conviction” (UNDP, *Human Development Report 1997*, p 82)

...and drives important Structural Changes...

- The rise of trans-national corporations for whom state territories and frontiers no longer basic framework for economic activity but often complicating factors;
- Hyperglobalisation involving an uneven and unequal process of trade liberalisation and removal of capital controls driven initially through multi-lateral bodies like WTO, IMF, WB;
- The emergence of ICT-enabled global networks (or GVCs);
- Financialisation – “...increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies” (Gerald Epstein);
- Increasing Shareholder value as central goal of economic activity.

...as well as new Policy Prescriptions...

- Governments to withdraw from ownership and direction of economic activity – through privatisation and renunciation of Industrial Policy;
- Governments to allow markets to “get prices right” by “light touch” only regulation;
- Governments to pursue autonomous trade liberalisation – supposedly as means to integrate their economies into GVCs;
- Governments to withdraw from direct provision of many goods and services in favour of procuring from private sector;
- Macro economic policy to be shaped by a universally applicable “ready reckoner” – budget deficits below 3%, single digit and declining inflation.

WTO as a major driver of Neo-Liberal Reforms

- Uruguay Round established WTO as apex of a significantly strengthened MTS;
- Uruguay Round (basis of existing rules) unleashed most ambitious cuts in industrial tariffs – issue of subsidies and high tariffs on agricultural products largely “postponed” to built in agenda for future round;
- Introduced new “trade related” rules – TRIMS, TRIPS
- UR provisions restricted Industrial Policy options, while NL ideology favoured abandoning IP. Industrial tariff cuts led to premature de-industrialisation in some developing countries (SA prominently), TRIMS restricted localisation and TRIPS “adaptive innovation” that was critical in e.g. Japanese industrialisation;

ctd

- But we were told gains of a growing global economy would outweigh these restrictions, that developing countries could “enter” GVCs more easily and beneficially if they “opened up”, that a multi-lateral rules based system was better than power based negotiations and that multi-lateral negotiations offered the chance to address issues of interest to developing countries – including reform to agricultural trade (where reduction of distorting impact of subsidies would only be possible in multi-lateral negotiations);
- Developing countries entered MTS based on LFR, Sand DT, consensus based decision making and a “single undertaking”.

Doha Development Round supposed to deliver on this bargain

- DDR launched in very specific conditions - collapse of 1999 Seattle ministerial conference amid charges of unfair and non-inclusive processes, aftermath of 9 11, just after dot.com crisis.
- Developing countries won a number of gains in declaratory statements of Ministerial Declaration:
- “The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration”
- Agriculture: “...comprehensive negotiations aimed at substantial improvements in market access; reductions, with a view to phasing out, all forms of export subsidies; and substantial reductions of trade distorting domestic support”
- Declaration on TRIPs and Public Health

But detailed processes produced unbalanced results...

- However many devils in details;
- “trade distorting domestic support” in agriculture to be reduced not eliminated;
- NAMA to target tariff peaks and escalations and ntbs on products of export interest to developing countries but also high tariffs generally;
- Detailed processes thereafter saw major imbalances – Rev 4 on agriculture would have implemented modest reforms; Rev 3 on NAMA “one size fits all” Swiss formula (even though differentiated) would have required big cuts by formula taking developing countries – and then there was issue of sectorals;
- Failure to sell agreement on “Lamy package” in 2008 leads to impasse - nevertheless DDR remains only mandated negotiating process in WTO.

What did hyperglobalisation deliver?

- The system that emerged as a result of Neo-Liberal Reform and Hyper-Globalisation has experienced multiple crises, most importantly:
- Great Recession 2008;
- Covid 19 health emergency and Great Lockdown Recession 2020;
- This has undermined ability to claim markets self correcting or that light touch regulation the answer;
- Neo-liberal experts not only unable to explain why these happened but also increasingly exposed as not having solutions – leading to policy advice flip flops by key agencies;
- More fundamentally, system increasingly seen to have led to widening inequality and unfair outcomes both within and between countries;

ctd

- Hyperglobalisation led to increase in trade and formation of GVCs – most developing countries not “outside” of these but remain integrated as producers and exporters of raw materials (least lucrative place);
- Financialisation has been associated with a proliferation of globally traded “new financial products (securities, derivatives, futures) and this plus light touch regulation increasingly recognised as spawning extensive speculative rent seeking;
- Winner takes most markets proliferating – offering huge rewards for winners and little for runners up;
- Concentration associated with monopoly conduct;
- All this increasingly seen as leading widening inequality between small number of beneficiaries and working people and middle classes in both developed and developing world;

ctd

- At the one end of the spectrum, “surplus profits” beyond those derivable from “typical” business activities rose from 4% of total global profits in 1995-2000 to 23% in 2009-15. For the Top 100 global companies the share increased from 16 to 40 per cent (UNCTAD);
- At the other end, wage suppression led to a decline in the ratio of income from employment to GDP from the 61,5% recorded in 1980 to 54,5% in 2018 in the developed world, with a similar decline from 52,5% in 1990 to just over 50% in 2018 in the developing world;
- While “middle-classes”, in both the developing and developed world, have found themselves facing increasing economic insecurity.

ctd

- This has fuelled increasing “discontent” in both the developed and developing world and undermined the ability of the “grand narrative” of neo-liberalism - the notion that adherence to neo-liberal policy prescripts offers all a royal road to prosperity – to generate the widespread acquiescence it once did among peoples and governments in either developed or developing countries;
- This has had a number of different political expressions, including a rise of populist nationalism in the developed world and a diminished respect for “establishment” expertise and multilateralism.

Rise of China another factor

- China's rise coincided with period of Neo-Liberal structural reform, but its development path was actually much more akin to that of other industrialising countries – calibrated “opening up” of domestic economy guided by active Industrial Policy;
- However, like others before it China took advantage of opening up of global markets, starting with end of multi-fibre agreement to expand exports of value added products;
- Emerged as major industrial power, and invested in development of technologies of 4th IR becoming now a significant competitor;

Long impasse leads majors to call for “reform”

- Long impasse leads to calls to “reform” the MTS - driven mainly by advanced developed countries;
- Two main waves – the first apparent after 2015 - steady abandonment of rhetorical commitment to Doha coupled with a move to mega-regionals (plurilaterals);
- Strong emphasis in the content of mega-regionals on “behind the border” regulatory issues – with WTO plus provisions on Intellectual Property, e-commerce, investment protection, rules on state enterprises etc.
- These emerged as template for so-called high quality C21 agreements;
- Now also presented to developing countries as basis for bilateral or regional agreements implying yet more constraints on policy space;

Second wave emerges “majors”

- Great recession leads the Developed world to reclaim IP, including providing state support, deploying tariffs and imposing localisation;
- Trump administration goes further adding in 2018 imposition on selected countries of Section 232 tariffs on steel and aluminium justified as matters of “national security”;
- China’s competitive challenge changes narrative from China as poster child of the way globalisation can raise millions out of poverty to China as a “cheat” and threat;
- China’s competitive challenge leads to move from “tariff tantrums to technology turbulence” (UNCTAD TDR 2019) – in an increasingly evident attempt to assert “mastery” over digital technology and block China’s competitive challenge
- “National security” invoked to justify exclusion of Huawei from rollout of 5G networks (where it is very competitive);

Also called for a Partisan “Reform” of MTS

- These factors also underpinned content of second wave of “reform” of MTS pushed for by majors;
- Faizel Ismail has identified seven pathways underlying this second wave:-

7 “pathways”

1st pathway: S&DT – re-categorization of developing countries – **Attempt to Remove Rights-
Hard won!**

2nd pathway: GVCs narrative on Trade – **argument to abandon DDA – bring in SERVICES and
TF as new priorities!**

3rd pathway: abandonment of the consensus approach in favour of variable geometry and plurilaterals – **Collapse not due to LDCs/SVEs – this approach marginalizes these countries**

4th pathway: abandonment of the single undertaking in favour of issue-by-issue negotiations – **Doable! But pursued only on issues of interest to developed countries –
TF/E-Commerce**

5th pathway: targeting China in the WTO – ext. of US-China Trade war – **but attack also on
the pathway for others – removal of policy space for industrialization**

6th pathway: notifications and counter-notifications – **increase burden!**

7th pathway: reforming the dispute settlement system – **AB issues are not new – almost 20
yrs - veto is a lever for other 6 reform ambitions!**

...Such an Agenda would further curtail policy space for development...

- Implementation of such reforms would further curtail ability of developing world to bring about structural transformation, including diversifying and moving to higher value added production;
- Policy space to support and nurture nascent industries would be restricted in near full reciprocity trade deals – by leaving little scope to exclude imports that would compete with nascent industries;
- Ditto new disciplines on State companies and industrial subsidies limits on localisation, tighter rules on intellectual property that would limit technology transfer and adaptive innovation;
- Digital 2 dozen type rules – no taxes on digital transactions, no restrictions on data flows, no localisation, no demands for source codes or data sovereignty would constrain development of digital IP.

...while broader processes could divide world into blocs

- Signs of pressure – that could well outlast Trump administration – on allies and others to restrict strategic digital technology choices to US companies;
- Could fuel a differentiation of investment and trade relations, deployment of benefits, or resort to “national security” justified restrictions dependent on how a particular country is seen to line up on this issue;
- Could result in a broader rivalry that could shape international relations for years to come and weaken multi-lateralism.

Just as the world needs more inclusive approaches to Mega Challenges

- Climate change – IPCC says “on current trajectory” global temperature will rise by 4 degrees C by end of century (compared to target of < 2 degrees) biggest negative impact will be on poorer people in developing world;
- Mitigation requires structural change to lower carbon economy – “common but differentiated responsibilities”;
- Adaptation requires significant infrastructure investment;
- Green technologies and green industrialisation create new opportunities – but who will benefit ?
- Will developing world be able to share ? Or will our efforts (including through localisation) be choked off by unfair trade rules/rulings ?

Mega Challenges ctd

- 4th IR big data management, mining, application;
- 5G, IOT, Additive Manufacturing (3D printing), robotics, nano-technology, quantum computing, AI;
- “Disruptive change” in almost all sectors of all economies;
- Potential to bring about major increase in productivity and provide innovative solutions to many problems (including developmental challenges);
- But also to widen inequalities in “winner takes most” markets – within and between countries (e.g. by “reshoring”)
- Necessity for conscious Digital Industrial Policy – skills development, digital infrastructure, development of national capabilities, setting of developmental conditions, regulation against monopoly conduct and abuse of data, data sovereignty.

...and the Covid 19 Great Lockdown Recession requires increasing cooperation

- Covid crisis deeper and potentially more prolonged;
- V shaped recovery – quick return to “normal” after health emergency passes - least likely scenario;
- Hysteresis or “scarring” will meaning damage will persist even after initial cause dissipates e.g. several small businesses won’t survive, tourism travel and hospitality (often quick win growth sectors in several countries) likely to be depressed for long time;
- Could also be relatively permanent behaviour changes driven by lockdown – more working from home, more virtual conferencing, more use of e commerce;
- All of above will impact on lower skilled service jobs and depress employment;

ctd

- Growing desire for recovery to lead to something different -“We cannot return to the crisis before the crisis”;
- All above, likely to underpin increasing pressure for more substantial recovery programmes targeting structural transformation of economies, including transition to higher value added activity in developing world, addressing conditions of social reproduction that have undermined health measures (overcrowded housing, inadequate water and sanitation), greater income security with BIG type programmes, greater recognition of the real value of public goods and building greater resilience against possible future emergencies – health pandemics and emergencies arising from extreme weather events;

All of this requires a very different kind of Reform of the MTS – Reform for Development and Inclusivity

- An inclusive and developmental approach to Mega challenges and response to Great Lockdown Recession will require strengthened multilateralism;
- Globalism a reality, meaning many challenges require cooperation;
- But defence of multilateralism does not mean defending the status quo - or having to accept unfair “reforms” that will skew imbalances even more;
- What happens by way of “reform” in any one institution will impact on others;
- We need reform but must define our own approach – Reform for Development and Inclusivity;

Global Green New Deal as basis of new progressive broad front

- UNCTAD TDR 2018 Global New Deal; 2019 Financing a Global Green New Deal
- Fragile global growth; trade tensions; growing inequality; falling labour shares; erosion of public spending; weak investment growth; growing stock of atmospheric CO₂;
- Need to move beyond austerity; from “financialization” to making “finance work for all”;
- A Global Green New Deal – investment in industrial policy, in a green transition and international coordination.

Geneva Principles as potential basis for Developmental Reform of MTS

- Global rules should be calibrated towards the overarching goals of social and economic stability, shared prosperity, and environmental sustainability and be protected against capture by the most powerful players;
- States share common but differentiated responsibilities in a multilateral system built to advance global public goods and protect the global commons;
- The right of states to policy space to pursue national development strategies should be enshrined in global rules;

Geneva principles ctd

- Global regulations should be designed both to strengthen a dynamic international division of labour and to prevent destructive unilateral economic actions that prevent other nations from realizing common goals;
- Global public institutions must be accountable to their full membership, open to a diversity of viewpoints, cognizant of new voices, and have balanced dispute resolution systems.