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Turbulence in Emerging Economies: From Easy Money to Hard Landing?

There is a concern that emerging economies may be the ones facing the next financial and economic crisis.

How vulnerable are the developing countries, and what can they do to avoid or minimise this crisis?

This is a summary of the South Centre's Research Paper on the deepening problems in emerging economies.

Outside a currency exchange shop in Turkey: How to avoid or minimise the next crisis?

Turbulence in Emerging Economies: From Easy Money to Hard Landing?

Urgent steps are needed to deal with an economic crisis in the emerging economies that South Centre had warned of earlier.

By Yılmaz Akyüz, Chief Economist, South Centre

Before the world economy has been able to fully recover from the crisis that began more than five years ago, there is a widespread fear that we may be poised for yet another crisis, this time in emerging economies (EEs). Once again, most specialists on international economic matters have been caught unawares. In fact, the signs of external financial fragility in several emerging economies have been visible since the beginning of the financial crisis in the US and Europe. The South Centre has constantly warned that the boom in capital flows that had started in the first half of the 2000s and continued even after the Lehman collapse is generating serious imbalances in the developing world along with the danger of a sudden stop and reversal.

Policy choices in advanced economies, notably in the US as the issuer of the main reserve currency, in response to the crisis are key to understanding what is going on. Reluctance to remove the debt overhang caused by the financial crisis through timely, orderly and comprehensive restructuring, and an abrupt turn to fiscal austerity after an initial expansion, has meant an excessive reliance on monetary means to fight the Great Recession, with central banks entering uncharted policy waters, including zero-bound policy interest rates and the acquisition of long-term public and private bonds (quantitative easing).

This ultra-easy monetary policy has not been very effective in reducing the debt overhang or stimulating spending. It has, however, generated financial fragility, at home and abroad, notably in emerging economies.

The US itself is vulnerable because the Fed may not be able to exit from the ultra-easy monetary policy and normalize the size and structure of its balance sheet without market disruption and it cannot continue without creating bubbles. Tapering does not yet signal a return to monetary tightening and normalization of the Fed's balance sheet. It reduces not the level of long-term assets on the Fed's balance sheet but monthly additions. Besides, the policy rates are pledged to remain at historical lows for some time to come, even after unemployment rate falls below 6.5 per cent, if inflation remains low. Thus, ultra-easy money is still with us. But the markets have already started pricing-in the normalization of monetary policy and this is the main reason for the rise in long-term rates and the turbulence in emerging economies.

In several emerging economies, policies pursued in recent years have no doubt made a significant contribution to the build-up of external vulnerability. Many commodity-dependent economies have failed to manage the twin booms in commodity prices and capital flows that started in the early years of the millennium and continued until recently, after a brief interruption in 2008-09.

These countries, and several others, have stood passively by as their industries have been undermined by the foreign exchange bonanza, choosing, instead, to ride a consumption boom driven by short-term financial inflows and foreign borrowing by their private sectors and allowing their currencies to appreciate and external deficits to mount. Hastily erected walls against destabilizing inflows have been too little and too late – and neither wide enough nor high enough to prevent build-up of imbalances and fragility.

The IMF, the organization responsible for safeguarding international monetary and financial stability, has also failed to promote judicious policies not only in major advanced economies, but also in the South. It has been unable to correctly identify the forces driving expansion in emerging economics and joined, until its recent U-turns, the hype about the "Rise of the South", arguing that major emerging economies are largely decoupled from the economic vagaries of the North and have become new engines of growth, thereby underestimating their vulnerability to shifts in policies

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People walk past a foreign exchange shop in Istanbul on January 2014. Ultra-easy monetary policy in advanced economies, notably in the US as the issuer of the main reserve currency, has generated financial fragility abroad, notably in emerging economies.

and conditions in the North, notably the US. Even when it became clear that capital inflows posed a serious threat to macroeconomic and financial stability in these economies, its advice was to avoid capital controls to the extent possible and introduce them only as a last resort and on a temporary basis.

Policy response to a deepening of the financial turbulence in the South and tightened balance of payments should be similar in many respects to that recommended by the South Centre in the early days of the Great Recession. The principal objective should be to safeguard income and employment. Developing countries should not be denied the right to use legitimate trade measures to rationalize imports through selective restrictions in order to allocate scarce foreign exchange to areas most needed, particularly for the import of intermediate and investment goods and food.

Emerging economies should also avoid using their reserves to finance large and persistent capital outflows. Experience suggests that when global financial conditions are tightening, countries with large external debt and deficits find it extremely difficult to restore "confidence" and regain macroeconomic control simply by allowing their currencies to freely float and/or hiking interest rates.

Nor should they rely on borrowing from official sources to maintain an open capital account and to remain current on their obligations to foreign creditors and investors.

They should, instead, seek to involve private lenders and investors in the resolution of balance of payments and debt crises and this may call for, *inter alia*, exchange restrictions and temporary debt standstills. These measures should be supported by the IMF, where necessary, through lending into arrears.

The IMF currently lacks the resources to effectively address any sharp contraction in international liquidity resulting from a shift to monetary tightening in the US. A very large SDR allocation, to be made available to countries according to needs rather than quotas, would help.

But a greater responsibility falls on central banks in advanced economies, notably the US Fed, which can and should – as the originators of destabilizing impulses that now threaten the South – act as a quasi-international lender of last resort to emerging economies facing severe liquidity problems through swaps or outright purchase of their sovereign bonds. The Fed could buy internationally issued bonds of these economies to shore up their prices and local bonds to provide liquidity; and there is no reason why other major central banks should not join this undertaking.


Cesar Ferrari / Reuters

Employees work at the assembly line of Positivo Computers, Brazil's largest computer producer. The principal objective of policy response to financial turbulence in the South should be to safeguard income and employment.

The extent to which these tools – exchange restrictions and temporary debt standstills, IMF lending into arrears, a sizeable SDR allocation and provision of market support and liquidity by major central banks – should be used would no doubt depend on the specific circumstances of individual EEs. However, these unconventional mechanisms need to be included in the policy arsenal and deployed as and when necessary in order to break away from the muddle-through approach that characterised past interventions in currency and balance of payments crises in the South and to avoid unnecessary pains.

The world economy is facing bleak prospects largely because the systemic shortcomings in the global economic and financial architecture that gave rise to the most serious post-war crisis remain unabated.

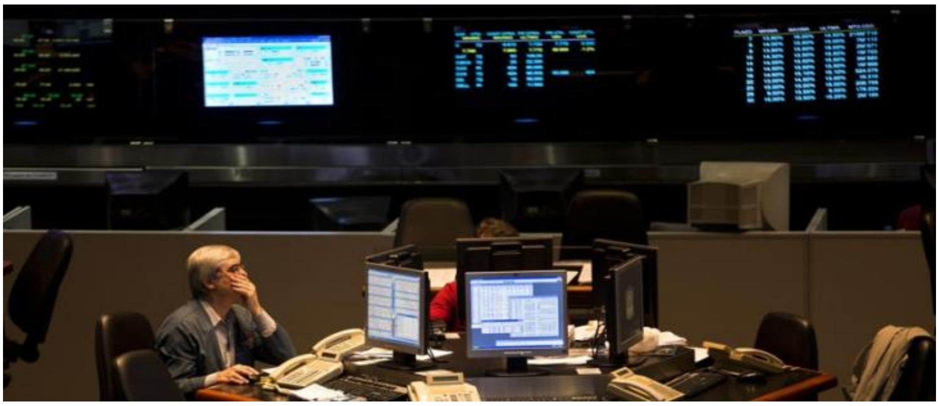
The Outcome Document of the 2009 UN Conference on the "World Financial Crisis and Economic Crisis and Its Impact on Development" had clearly recognized that "long standing systemic fragilities and imbalances" were among the principal causes of the crisis and proposed "to reform and strengthen international financial system and architecture" so as to reduce the likelihood of the occurrence of such crises.

It pointed to many areas where systemic reforms are needed including regulation of "major financial centres, international capital flows, and financial markets", the international reserves system including the role of the SDR, the international approach to the debt problems of developing countries, and the mandates, policies and governance of international financial institutions. So far the international community has failed to address any of these issues in a significant way. They need to be put back on the agenda if recurrent financial crises with severe international repercussions are to be averted.

This is a summary of the author's paper on "Crisis Management in the United States and Europe: Impact on Developing Countries and Longer-term Consequences" published by the South Centre as Research Paper No. 50 (http://www.southcentre.int/research-papers-50-february-2014/) .

Developing countries facing new economic problems

New economic problems are confronting several developing countries which faced sharp currency depreciation and capital outflows at the start of 2014. These are caused by the boom-bust cycles in capital flows originating in profit-seeking investor behaviour in developed countries.



AP Photo/Victor R. Caivano

A broker works at the Buenos Aires Stock Exchange in Buenos Aires, Argentina. The currency and stock markets of several developing countries including Argentina's experienced sharp falls at the beginning of 2014.

By Martin Khor

The year 2014 began badly for several developing countries as their currency and stock markets experienced sharp falls.

Countries whose currencies were affected include Argentina, Turkey, Russia, Brazil and Chile.

An American market analyst termed it an "emerging market flu" and several global media reports tend to focus on weaknesses in individual developing countries.

However the broad sell off was a general response to the "tapering" of purchase of bonds by the US Federal Reserve, which marks the slowdown of its easy-money policy that has been pumping many hundreds of billions of dollars into the banking system.

On 29 January, the Fed reduced its monthly asset purchase by another $10 billion to $65 billion, following the $10 billion reduction in December. It gave a new boost to the weakening of emerging market currencies.

A lot of the Fed's money pumping had earlier been taken up by American investors and placed in emerging economies as they searched for higher yield.

With the tapering expected to raise yields in the US, money is flowing out from bonds and stocks in the emerging economies, putting pressure on their currencies. The capital flows have reversed direction.

The "emerging markets sell-off" thus cannot be explained by ad hoc events. It is a predictable and even inevitable part of a boom-bust cycle in capital flows to and from the developing countries, which originates from the monetary policies of developed countries and the behaviour of their investment funds.

This cycle, which has been very destabilising to the developing economies, has been facilitated by the deregulation of financial markets and the liberalisation of capital flows which in the past had been carefully regulated.

This prompted massive and increasing bouts of speculative international flows by Western investment funds, motivated by the search for higher yields. Emerging economies, having higher economic growth and interest rates, attracted the investors.

Yilmaz Akyuz, chief economist at the South Centre, analysed the most recent boom-bust cycles in his paper "Waving or Drowning".

A boom of private capital flows to developing countries began in the early years of the 2000s but came to an end with the flight to safety triggered by the Lehman collapse in September 2008.

However, the flows recovered quickly. By 2010-12, net flows to Asia and Latin America exceeded the peaks reached before the crisis.

This recovery was largely caused by the easy-money policies and near zero interest rates in the US and Europe.

In the US, the Fed pumped US$85 billion a month into the banking system by buying bonds. It was hoped the banks would lend this to businesses to generate recovery, but in fact investors placed much of the funds in the Western stock markets and in bonds and shares in developing countries.

The surge in capital inflows led to a strong recovery in currency, equity and bond markets of major developing countries. Some of these countries welcomed the new capital inflows and the boom in asset prices.

But others were upset that the inflows caused their currencies to appreciate (thus making their exports less competitive) and that the ultra-easy monetary policies of developed countries were part of a "currency war" to make the latter more competitive.

In 2013, the capital inflows into developing countries weakened due to the European crisis and the prospect of the US Fed "tapering" or reducing its monthly bond purchases.

This weakening took place at a bad time -- just as many of the emerging economies saw their current account deficits widen. Thus, their need for foreign capital increased just as inflows became weaker and unstable.

In May-June 2013 there was a preview of the sell-off when the Fed announced it could soon start "tapering". This led to sudden sharp currency falls including in India and Indonesia.

However, the Fed postponed the taper, thus giving a breathing space. But in December, it finally announced the tapering -- a reduction of its monthly bond purchase from $85 billion to $75 billion, with more to come.

There was then no sudden sell off in emerging economies, as the markets had already anticipated it and the Fed also announced that interest rates would be kept at current low levels until the end of 2015.

By 2014, however, the investment mood had already turned against the emerging economies. Many of them were now termed “fragile”, especially those with current account deficits and dependent on capital inflows.

Many of the so-called fragile countries are in fact members of the BRICS that had been viewed just a few years before as the most powerful emerging economies driving global growth.

In this atmosphere of deepening concerns, it just required a “trigger” to cause a simultaneous sell-off in currencies and markets of developing countries.

Several factors were to emerge which together constituted a trigger in January. These were a “flash” report indicating contraction of manufacturing in China; the sudden fall in the Argentinian peso; and expectations of further tapering by the US Fed.

For two days (23 and 24 January) the currencies and stock markets of several developing countries were in turmoil, which spilled over to the US and European stock markets.

The turmoil continued into the following week, seeming to confirm investor disenchantment with emerging economies, and a reversal of capital flows.

The depreciation in currency and the capital outflows could put strains on the affected countries' foreign reserves and weaken their balance of payments.

The accompanying fall in currency would have positive effects on export competitiveness, but negative impacts in accelerating inflation (as import prices go up) and debt servicing (as more local currency is needed to repay the same amount of debt denominated in foreign currencies).

In the following months, the situation improved for most of the affected developing countries. This may be due to the US and Europe having their own economic problems and thus the pressure on developing countries was reduced relatively. However, the market turmoil involving emerging economies may return sometime later this year.

Martin Khor is Executive Director of the South Centre. Contact: director@southcentre.int .

Policy Dilemmas and the Case for Capital Controls over Outflows

In the past year, the currencies of major countries like Indonesia, India, Brazil, South Africa and Turkey have fallen by 15 to 20 per cent against the US dollar, as at the end of January. There has been an improvement in recent months. But there are also fears that the market and currency turmoil may reappear sometime this year.

Policy makers face a dilemma or trade off. To stave off further currency decline and capital outflows, they decide to raise interest rates (hoping to retain the country's attractiveness to investors and local savers).

The increase in rates serves another useful objective, to reduce inflationary pressures. However, the rise in interest rates has the negative effect of also putting a brake on economic growth, especially if the rate increase is significant.

This is because it is more costly for businesses to borrow to invest and for consumers to borrow to spend.

The deterioration in the real economy (or expectation of this) can offset the investors' incentive to retain their assets in the country. If so, the capital outflow and the fall in currency will continue.

Capital flight may come not only from foreigners but also residents. How to maintain the confidence and funds of locals are equally important.

A country facing currency fall and capital flight that drain the foreign reserves to dangerously low levels can consider capital controls.

When too much hot money is flowing into the country, controls over capital inflows are quite commonly used.

However, in the present situation when countries instead face excessive outflows, it is control or restrictions over capital outflows which may be needed. These are more rarely used.

Malaysia provides a good example of selective capital controls over outflows that worked successfully during the 1997-99 crisis.

An IMF working paper published in January cites the Malaysian case as an exception of capital controls on outflows that worked.

“Following a tightening of restrictions in September 1998, capital flight came to a halt, allowing reserves to rise back to pre-crisis levels, the exchange rate to stabilise, and interest rates to fall,” according to the paper, Effectiveness of Capital Outflow Restrictions.

The Malaysian policies should be studied by countries that today face a similar crisis. These are countries with significant current account deficits, thus making them dependent on large inflows of foreign capital to finance these deficits.

When global conditions are favourable, the inflows continue, and make the country more dependent.

When conditions change (as is now happening), the country is vulnerable to a reduction or stoppage of inflows or worse still to large capital flight.

Interest rate hikes may not be enough and in any case could induce a recession. In such a situation, especially when reserves are running low, a resort to capital controls may be needed.

The restrictions must however be administered properly and selectively, with the right accompanying policies, and the country must be prepared for bad media coverage and a negative market response for some time.

The policies may then work, to stem capital flight, stabilise the currency exchange rate, save the country from the emptying of reserves that necessitates an international bail out, and allow the country to set interest rates at a level that facilitates economic recovery and growth.

This, in any case, was the Malaysian policy and experience which is worthwhile for other countries, especially those facing financial turmoil or crisis, to reflect upon.

Latin American and Caribbean Leaders Create a Zone of Peace and Unite Against Poverty and Inequality

The Second Summit of the Community of Latin American and Caribbean States (CELAC) successfully concluded on 29 January 2014 in Havana, Cuba. It was a landmark Summit for leaders of a region that includes Latin America and the Caribbean.

In their Declaration the leaders declared the CELAC region as a Zone of Peace. In their statements, they promoted CELAC integration as a key strategy for the future of the region. They also stressed the need to ensure the sovereignty of CELAC countries over their territories and natural resources; ensuring that their economies move away from raw materials exportation and achieve balanced distribution of incomes within countries and throughout the region.

The summit was preceded by a Senior Officials' Meeting on January 25 and 26 and a foreign ministers' meeting on January 27, as a result of which 30 documents were prepared for adoption by the leaders. These include the proclamation of Latin America and the Caribbean as a zone of peace (see below), the creation of the China-CELAC forum, supports for the peace process in Colombia, the rejection of the unilateral economic embargo by the United States against Cuba and of the inclusion of Cuba in the so-called list of countries that sponsor terrorism, among others.

Below are 3 documents: (1) Closing remarks by the President of Cuba at the closing of the CELAC Summit; (2) Proclamation of the region as a Zone of Peace; (3) Interview with the South Centre Executive Director on the significance of the CELAC Summit, on teleSUR television station.

Closing Remarks of Cuban President

Below is an excerpt of the closing remarks of Army General Raul Castro Ruz, President of the Council of State and Ministers of the Republic of Cuba, at the Second Summit of the Community of Latin American and Caribbean States (CELAC), Havana, 29 January 2014:

The celebration of the Second Summit of our Community marks the end of Cuba's one year Pro Tempore Presidency, which we tried to carry out in a serious and responsible way.

We have received a valuable support from all of you and I would like to convey to you the deepest gratitude of the government and the entire Cuban people for your participation in these days of broad and profound discussions of our countries' biggest concerns.

The documents adopted at this Second Summit have reaffirmed our commitment with the values that led to the foundation of CELAC and our strong belief that unity amid diversity as well as the Latin American and Caribbean integration are the only viable alternatives for the region.

We have reached important agreements on transcendental issues, such as the promotion of a "Zone of Peace" in the region and the rules and regulations required to ensure that the intraregional and extraregional cooperation bring about tangible benefits for this community.

CELAC has reiterated, among other aspects, the unrestricted respect for

Jorge Luis Baños/IPS

Heads of state at the Second Summit of the Community of Latin American and Caribbean States (CELAC), at the Palacio de la Revolución, Havana. (Jorge Luis Baños/IPS)

Grupo Informativo

One of the meetings at the Second Summit of CELAC, Havana, 2014.

the Purposes and Principles contained in the Charter of the United Nations and International Law.

It has reaffirmed that, in order to eradicate poverty, it is indispensable to change the present world economic order, promote solidarity and cooperation and demand compliance with the development assistance commitments that have been entered into.

Emphasis has been made on the importance of the State's permanent sovereignty over their natural resources. We intend to establish the best ways to exercise that right.

We likewise expressed our firm determination to work in order to cope with the challenges posed by the international situation and make every effort to promote equity and social inclusion, eradicate discrimination, inequalities, marginalization, human rights violations and the infringements of the Rule of Law.

Cuba will continue to work indefatigably within CELAC, and particularly as a member of the Quartet during the present year, to ensure the continuity of the process of consolidation of our Community.

Once again, thank you very much to all of you for your presence and your contribution to the works of CELAC in 2013 and at this Summit.

And now I have the honor to proceed to hand over the Pro Tempore Presidency of CELAC to Her Excellency Mrs. Laura Chinchilla, President of Costa Rica, to whom we wish every success in her endeavors.

Proclamation of Latin America and the Caribbean as a Zone of Peace (Original signed by the Heads of State and Government of the Community of Latin American and Caribbean States)

The Heads of State and Government of the Community of Latin American and Caribbean States (CELAC) gathered in Havana, Cuba on January 28 and 29, 2014 at the Second Summit, on behalf of their peoples and faithfully interpreting their hopes and aspirations,

Declare:

1. Latin America and the Caribbean as a Zone of Peace based on respect for the principles and rules of International Law, including the international instruments to which Member States are a party to, the Principles and Purposes of the United Nations Charter;

2. Our permanent commitment to solve disputes through peaceful means with the aim of uprooting forever threat or use of force in our region;

3. The commitment of the States of the region with their strict obligation not to intervene, directly or indirectly, in the internal affairs of any other State and observe the principles of national sovereignty, equal rights and self-determination of peoples;

4. The commitment of the peoples of Latin America and the Caribbean to foster cooperation and friendly relations among themselves and with other nations irrespective of differences in their political, economic, and social systems or development levels; to practice tolerance and live together in peace with one another as good neighbors;

5. The commitment of the Latin American and Caribbean States to fully respect the inalienable right of every State to choose its political, economic, social, and cultural system, as an essential condition to ensure peaceful coexistence among nations;

6. The promotion in the region of a culture of peace based, inter alia, on the principles of the United Nations Declaration on a Culture of Peace;

7. The commitment of the States in the region to guide themselves by this Declaration in their international behavior;

8. The commitment of the States of the region to continue promoting nuclear disarmament as a priority objective and to contribute with general and complete disarmament, to foster the strengthening of confidence among nations.

Transcript of the interview of Martin Khor (South Centre Executive Director) with teleSUR on the CELAC Summit, 30 January 2014

Positive Evaluation of the 2nd CELAC Summit from the South Centre

From the Swiss headquarters of the South Centre, the Malaysian Intellectual Martin Khor, who is its Executive Director, valued highly the contributions of the second summit of CELAC to Latin American and Caribbean integration. The South Centre is an intergovernmental agency of developing countries with its headquarters in Geneva. Mr. Khor pointed out the meaning of Latin America and the Caribbean being proclaimed a zone free of nuclear weapons and a Zone of Peace, and hoped that the desire of the Declaration of Havana to resolve disputes among states without interference from extra-regional powers sets an exemplary precedent.

teleSUR: To discuss the advances and challenges of CELAC we talked with the Executive Director of the South Centre. Mr. Khor, to start, in your opinion, what is the importance of this new mechanism of integration in the context of international relations?

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MK: I think that the Summit of CELAC is extremely important and we congratulate the region for this very important event that had the attendance of almost all heads of state. Surely, among the most important themes, there is peace and security of the region. In this regard, we wish to congratulate the region for declaring a zone of peace and free from nuclear weapons. Furthermore, it is important, and we consider this to be a great achievement, the fact that in case there is a problem in the region it will be solved in the region before becoming a conflict. If all this is implemented it will be a great contribution to world peace. Secondly, CELAC will be very important for the development of the region as countries will prosper more by trading among themselves. They will increase relations of investments and cooperation in education, medical assistance and many other areas of economic and social development not only for the region but for all the developing countries. We hope that the region will also reach out to other parts of the world such as Africa and Asia.

teleSUR: Mr. Khor, Cuba has been isolated from its Latin American and Caribbean neighbours for a good time as a result of pressure from the US but was elected to the pro tempore presidency of CELAC during 2013. What is the historical importance of this gesture towards Cuba?

MK: Well, Cuba is a very important country of the developing world. Cuba is an active Member of NAM and the G77, considered as a sister nation by all the nations of the developing world. The fact that CELAC was established with Cuba not only as a member but also accepted by the countries to lead the second phase after Chile (pro tempore of the first CELAC Summit) is something symbolic, with an important significance not only for Cuba but for all the region and all developing countries. We wish to congratulate Cuba and we believe Cuba has been responsible to advance CELAC.

teleSUR: Mr. Khor, Latin American and Caribbean countries are meeting to discuss its own issues and plan/draw the lines for its development without a call by or presence of the US. How do you judge this fact/event?

MK: The region comprises developing countries. They have all been colonized in the past at political or economic levels. This is why we share a common history and have some similar problems. This is why we also need to unite to fight poverty and underdevelopment in all the regions of developing countries. The fact that CELAC countries are getting united in a spirit of self-confidence and independence to combat together the problems that have historically affected us is an important element because I do not consider that CELAC is an anti-US organization, but a pro-Latin American and Caribbean organization established to deal with its own problems and that is consolidating through its integration and also, that is capable of thinking independently and of coordinating policies that will enable them to become strong partners. I think this is the historical role that CELAC can play: to boost integration and strengthen allowing the region to have better relations not only with the US, but also EU, Japan, and the developing countries. For Asia, Africa and Latin America and the Caribbean this Summit is certainly a great move ahead/leap forward and we all at the South Centre wish the region and its people all the success after this summit.

teleSUR: Good, this is the wish of all the countries. Many thanks Mr. Khor, Executive Director of the South Centre who shared with us his views on the 2nd CELAC Summit.

Watch this interview of Mr. Martin Khor (on the significance of the CELAC Summit) on the teleSUR TV station (http://multimedia.telesurtv.net/web/telesur/#!es/video/valoracion-positiva-de-la-2a-cumbre-celac-hace-el-centro-del-sur , in Spanish only).

Reuters/ Enrique de la Oso

The venue of the Second Summit of CELAC.

A bigger global role for China?

China seems to be preparing to play a bigger role in global economic affairs, but not at the cost of giving up its developing country status.

cifal Shanghai

Participants of the conference Transformative Global Governance: China and the United Nations, Shanghai, 2014.

By Martin Khor

After years of being rather low key in economic and social affairs at the United Nations, it looks as if China is now ready to upgrade its role in the future.

This is the impression I got after taking part in a conference on Transformative Global Governance: China and the United Nations, at Shanghai on 13 – 14 January 2014 .

For decades China has been careful not to assert itself at the forefront of the UN's economic and social affairs, focusing instead on its own economic development, and insisting that it is a poor or average developing country.

It has played an active role as part of developing country groupings, particularly the Group of 77 and China, which is the umbrella body for over 130 developing countries.

In recent years there have been calls especially by Western leaders for China to play a "leadership role" in international affairs. And a debate has been taking place in China itself on how to respond to this.

The Shanghai conference debated this as its central theme. The meeting was organised by UNITAR (the UN institute for training and research) and the UN Association of China and several Chinese research institutes.

But equally telling, it was hosted by and held at the China Executive Leadership Academy Pudong, which is a leading institution which trains senior government bureaucrats and officials of the Chinese Communist Party, thus giving the workshop a high-level official stamp.

Participants included senior officials of the Foreign Ministry, Chinese international affairs scholars, diplomats and academics from foreign countries including the US, European and African countries, and high-level UN staff including senior advisors of the UN Secretary General, the head of the UN's political affairs department, and representatives of UNCTAD and UNDP.

In my session, I gave the view that China is still very much a developing country and its high standing as the world's number two economy and number one trading nation is due more to its large population.

In per capita terms, China is average, being Number 90 to 100 out of 200 countries in terms of per capita income, human development index, and carbon dioxide emissions.

At the same time, in absolute terms, China has become economically important and its actions significantly influence the global economy and environment. Thus, the calls for it to contribute more.

It would be best for China and for the developing world if the country remains, in identity and behaviour, firmly within the family of developing countries, while taking a leadership role in advocating the cause of these countries and their development aspirations.

A question was raised as to how to respond to calls for China to increase its contribution in global affairs. My response, which received support from those present, was that it depends on what contribution was being asked of China, and what are the related conditions.

Many developed country leaders and diplomats when asking China to play a greater role are asking it to give up its status as a developing country, and to take on the obligations of a developed country.

Such obligations may include slashing tariffs and helping to create new rules at the WTO and taking on similar commitments on reducing climate-related emissions as the developed countries. Agreeing to this may constrain the country's "policy space".

At the same time, China is not being offered a corresponding increase in power in global governance. For instance, China's share of quota (and voting weight) in the IMF and World Bank has risen only slightly, and not in line with its increasing weight in global GNP.

But it is asked to contribute loans to the IMF for recycling to countries in debt crisis, which in recent years have been in Europe. China has provided US$100 billion.

Also, China is being called on to provide aid to other developing countries, and attach conditions similar to the aid provided by developed countries.

China is already providing massive amounts of loans and grants to many developing countries, usually without the many conditions of Western aid. South-South aid is also provided by India, Brazil and others, but on a basis of solidarity rather than obligation.

(Continued on page 11)

A step forward for Asian cooperation

ESCAP's Ministerial Conference on Regional Economic Cooperation and Integration in Asia and the Pacific 2013 held on 17-20 December 2013 in Bangkok could be the start of a regional coordinated response to the many big problems facing the Asia-Pacific region.

UN ESCAP

(Left to right) Deputy Executive Secretary of UN ESCAP Shun-ichi Murata, Prime Minister of Timor-Leste Xanana Gusmão, former Finance Minister of Samoa Faumuina Tiatia Liuga, former Executive Secretary of UN ESCAP Noeleen Heyzer, and ESCAP South-Southwest Asia Office Director Nagesh Kumar at the opening of the Ministerial Conference on Regional Economic Cooperation and Integration in Asia and the Pacific.

This is the Asian century, many books and articles have proclaimed. Many others around the world often look at Asia, economically, with some envy.

On the other hand, in the wake of the global economic slowdown, some Asian countries are bracing themselves for tough times ahead.

They include countries like India and Indonesia which have current account deficits and are expected to face difficulties when the United States reduces the pace of its easy-money policy.

For China, the era of guaranteed rapid growth of exports to the United States and Europe is over. It is changing direction from export-led to domestic growth, and from investment-based to consumption-based domestic demand.

Economic growth as a goal in itself in Asia is also being challenged on many fronts: by the need for more equitable sharing of benefits, by environmental degradation such as health-threatening air pollution, natural disasters, and climate change.

One weakness is that the Asian and the Pacific countries do not have the practice of thinking and working together as one region. There are separate sub-regional organisations, such as ASEAN (for Southeast Asia), SAARC (for South Asia) and the Pacific Islands Forum.

But there isn't an organisation of the developing countries for the whole region. ASEAN-plus-3 and the East Asia Summit come nearest, but these are informal gatherings and even then they cover mainly East Asia.

By contrast, Africa has the African Union with its Commission, that unites the various sub-regions. In South America there is UNASUR; and most recently the emergence of CELAC (which groups together South and Central America plus the Caribbean countries).

In the policy-making vacuum for our region has stepped in ESCAP, the United Nations Economic and Social Commission for Asia and the Pacific.

It used to be little noticed. But in recent years ESCAP has grown in profile and stature, under the leadership of Dr. Noeleen Heyzer, a Singaporean with close family ties with Malaysia.

In December 2013, ESCAP Ministers took a step forward by adopting a four-pronged programme to link up the countries of West, Central, East, and Southeast Asia and the Pacific.

The Ministerial conference adopted a Bangkok Declaration on regional economic cooperation and integration in Asia and the Pacific.

Dr. Heyzer highlighted the four pillars for regional cooperation – an integrated regional market, seamless connectivity, financial cooperation and regional response to vulnerabilities.

In the opening ceremony, East Timor's Premier Xanana Gusmao pointedly said that the context and circumstances of each country are different, which should be taken into account when advocating regional cooperation.

Moreover, the aim should be development for the people, not the benefit of transnational companies or a corrupt global financial elite.

He struck a cautionary tone, that the plans for regional integration should result in mutual benefits including for the weaker countries, and should not pry open the economies to powerful economic entities and the global financial markets.

Leaders from less developed countries, such as Samoa, Laos and Tuvalu, stressed the need to give leeway and special treatment for the smaller and weaker countries when negotiating trade agreements, so that they do not get further marginalised.

The Bangkok Declaration was a good blend of four action areas:

- Moving forward towards forming an integrated market, including bringing down trade barriers (but with special treatment for weaker economies), recognising the importance of migration flows and intra-regional tourism.

- Enhancing financial cooperation, including mobilising Asia's immense financial resources towards short-term liquidity support (to help countries with foreign exchange problems), trade finance, and funds for infrastructure development.

- Increasing cooperation to address shared vulnerabilities and risks, including the issues of food security (through a new regional agriculture network), economic shocks, natural disasters, environment and climate change.

- Developing 'seamless connectivity' in the region in the areas of transport (including an Asian Highway Network and a Trans-Asia Railway Network), energy (to be developed through an Asian and Pacific Energy Forum), and information and communications technology.

To avoid this Declaration from being only another document at just another meeting, the Ministers agreed to a follow-up plan. This includes setting up four expert working groups (to propose actions for each of the issues), convening a second Ministerial meeting on regional cooperation in 2015, and having an inter-governmental process open to all ESCAP member states to receive the expert group reports and to prepare for the Ministerial meeting.

The understanding is that there will be a Ministerial conference every two years on regional cooperation and integration to review progress on the actions in the four areas.

With the Bangkok conference, ESCAP is thus set to get concrete action going on Asian-Pacific regional integration and cooperation.

Pursuing this cooperation agenda is "an important step towards realising a broad long-term vision of an economic community of Asia and the Pacific," says the Bangkok Declaration.

Malaysia's delegation was led by Deputy International Trade Minister Datuk Hamim Samuri, who described the conference as very useful, and stressed the need for "action with concrete outcomes" and called on the four expert groups to come up with solid deliverables.

At the final session, the conference chairperson, Samoa's former Finance Minister Faumuina Tiatia Liuga, said: "For us to be stronger, to be the Number One region in the world, we need to support one another, and help the weakest."

It remains to be seen whether this conference lives up to its promise of sparking a process for Asian Pacific countries to talk with one another and generate region-wide cooperation in concrete ways in finance, connectivity and addressing vulnerabilities.

If it does, then policy making in the region will become more mature, which is what's needed in this complex globalised world with its many big challenges in the near future.

By Martin Khor

China's bigger role

(Continued from page 9)

Brent Lewin/ Bloomberg

Rice fields and city meet in fast-emerging China, which is still a developing country.

There are implications for other developing countries if China were to agree to give up its developing country status. Many of them, including Malaysia, have higher GNP per capita than China. If China gives up its status, they too will be pressurised to take on same obligations as developed countries.

If the developed countries are willing to cede some of their privileged positions of dominance in decision-making in global institutions, and open up the space for China and other developing countries, this would be most welcome.

There are few signs that this will be forthcoming anytime soon. Thus the "democratic deficit" in global governance continues.

China should thus take a leading role, through the G77 and China, to expand the power of developing countries in global affairs.

At the Shanghai conference, most of the Chinese participants indicated that their country is now ready to assume a greater role, pointing for example to its increasing share in the UN budget and in the UN's peace-keeping activities.

However all of them stressed that China is a middle income developing country, citing the existence of 150 million poor people, and wide imbalances between the urban and rural people. It was definitely not willing to be considered a developed country.

The Chinese participants also showed great interest in the issue of global governance, voicing dissatisfaction at how developing countries as a whole are still very under-represented in decision-making and influence in global institutions and in economic and social affairs.

I was also struck by the attitude of the UN officials and Western diplomats and thinkers.

Almost all of them were impressing on the Chinese how important it is for China to be a leader in the UN and global affairs.

Perhaps there is a perception that China can fill in the monetary void caused by the decline in funds from cash-strapped Western countries.

It could be more than that, however. China has not been very assertive at the UN previously, and there is a willingness among UN officials to see a more active role for it in the future.

South Centre pledges continued support to the Group of 77 and China

Below is the statement delivered by Mr. Vicente Yu on behalf of the South Centre at the G77 and China Geneva Handover Ceremony on 24 January 2014 at the Palais des Nations, Geneva.

UNCTAD

H.E. Mr. Malloum Bamanga Abbas of the Republic of Chad (left, Chairman of the G77 and China, Geneva Chapter) and H.E. Mr. Miguel Carbo Benites of Ecuador (right, outgoing Chairman)

We would like to congratulate Ambassador Carbo for his able and distinguished leadership of the Group in 2013 and express our full confidence that under the Chairmanship of Ambassador Abbas of Chad, 2014 will be another year of activity and success for the Group of 77 and China in Geneva.

As many of you know, the relationship between the Group of 77 and China and the South Centre is a long-standing and organic one. The South Centre's work derives its credibility and importance from the value and use that the Group of 77 and China makes of our work. As the intergovernmental policy research institution of the South, the South Centre has long prioritized working closely with the Group of 77 and China as one of its main mandates.

Most recently, we had worked closely with the Group and many of your missions and delegates in the preparations for UNCTAD XIII. We have also been working very closely with the Group of 77 and China in New York on issues that are dealt with there but which are also highly relevant here in Geneva and UNCTAD – such as on climate change, sustainable development goals, and the post-2015 development agenda.

This year, here in Geneva, we look forward to continuing this relationship with you as preparations for UNCTAD XIV start and as UNCTAD and the Group of 77 and China celebrate their twin 50th anniversaries. Coincidentally, this year is also the 20th anniversary of the opening for signature of the treaty that established the South Centre. We will fully support and help in the efforts of the Group as well as of UNCTAD in making these twin anniversaries very relevant and substantive. We would like to thank Mr. Miguel Bautista and his team, with whom the South Centre has worked closely, as the focal point for UNCTAD's support to the Group of 77 and China, and we also look forward to working with UNCTAD's other units, such as the Division on Globalization and Development Strategies under Dr. Kozul-Wright.

There will also be many opportunities for the Group of 77 and China, its individual members, and the South Centre to work together on many issues other than those in UNCTAD. Just to highlight a few, the global economic situation is still very fragile with developing countries being adversely affected more and more; trade negotiations at the WTO have revived after its ministerial conference in Bali last month, as will also the EPA negotiations that African countries are faced with; negotiations on the SDGs and the post-2015 development agenda in New York will also ramp up this year, as will also the climate change negotiations; there continue to be major policy discussions taking place at WIPO. On these issues and more, the South Centre stands ready to work together with the Group of 77 and China to promote and protect developing countries' rights and interests.

Finally, the South Centre is the South's own research institution that is tasked with promoting the views of the South on various development issues. We take this mandate seriously. We look forward to interacting closely with the Group and your missions, either through meetings such as this one, or joint activities, or even individual visits and discussions.

G15 to be engaged in post-2015 Development Agenda

The Group of Fifteen announced plans for heightened South-South Cooperation and engagement with Geneva-based institutions at their Annual Meeting of the G15 Foreign Ministers in New York.

The G15 agreed to expand cooperation in step with the Post-2015 Development Agenda at the 36th Annual Meeting of the Foreign Ministers in New York in 2013.

The Ministers of Foreign Affairs of the Group of Fifteen held their 36th annual meeting on the sidelines of the 68th UN General Assembly on 27 September 2013 in New York where they renewed their commitment for enhanced engagement and cooperation among themselves, as well as with the relevant Geneva-based institutions including the South Centre. Agreeing to expand cooperation in step with the evolving Post-2015 development agenda, the Group decided to include information and communications technology, intellectual property, migration for development and renewable energy as new areas for G15 cooperation.

The meeting was chaired by Professor G.L. Peiris, Minister of External Affairs, Sri Lanka. Ministers/Heads of Delegations of the G15 member states reviewed and unanimously approved recommendations spanning the new thematic and other areas of cooperation including formalizing the ongoing working relationship with the South Centre.

Established as a Summit Level group of developing countries in 1989, following the conclusion of the Ninth Non-Aligned Movement Summit in Belgrade, the Group comprises 17 developing countries from Asia, Africa and Latin America and the Caribbean. The aims and objectives of the Group are to harness the latent potential of the member states for mutually beneficial cooperation, besides serving as a forum for the conduct of regular consultations in pursuance of their common agenda.

Sri Lanka's Permanent Representative to the United Nations in Geneva and the Chair of the Personal Representatives of the Group, Ambassador Ravinatha Aryasinha, while presenting the highlights of the activities undertaken by the Group, made special mention of the common positions arrived at by the Group on vital global issues delivered during the year at the sessions of the WHO, ILO, FAO, ECOSOC and UNCTAD with more in the pipeline. Noting the dire need for enhanced cooperation, engagement and solidarity among nations of the Global South for securing bargaining power and leverage, Ambassador Aryasinha pointed to the need for developing countries to engage more unitedly towards framing the international development agenda, in order to forestall it from being "imposed" by the developed countries as a *fait accompli*.

The Sri Lankan External Affairs Minister G.L. Peiris, noting the ongoing deliberations in shaping the global development landscape beyond the year 2015, called for a collective voice in articulation of common interests and convergence across a wide spectrum of fields, including eradication of poverty, balancing economic development with environmental protection, access to technology, reforms in international financial institutions, sustainable growth, among others. He reaffirmed that the Group not only has the potential to be an active contributor to the Post-2015 Development Agenda, but can also be a voice on behalf of the Global South.

The Group unanimously accepted Kenya's offer to be the next Chair of the G15 following the Summit of the Heads of State and Government of the G15 scheduled to be held in the last quarter of 2014 in Colombo.

Equity, climate change and sustainable development: Perspectives of Developing Countries

- South Centre-Ecuador Side Event at COP 19 Warsaw November 2013

L-R: Rene Orellana of Bolivia, Daniel Ortega of Ecuador, Mariama Williams of the South Centre, Zou Ji of NCSC China, Martin Khor of the South Centre and Victoria Tauli-Corpuz of the Tebtebba Foundation at the panel of the South Centre & Ecuador side event during the COP 19 in Warsaw, November 2013.

By Mahlet Melkie

A South Centre side event to the Nineteenth Meeting of the UNFCCC's Conference of the Parties (COP 19) took place in Warsaw on November 21, 2013. The side event which addressed different conceptions and approaches to operationalizing equity in the ongoing climate negotiations was held in conjunction with the Ministry of Environment and Ministry of Foreign Affairs, Government of Ecuador. Side event speakers from delegations of diverse developing countries addressed questions such as 'Equity as the gateway to mitigation ambition – Why and how?', 'How can equity be operationalised in the negotiations and the 2015 Deal?' and the role of a rights-based approach to sustainable development.

The moderator, **Dr. Mariama Williams of the South Centre**, opened the discussion by remarking that equity is a key issue in the ongoing negotiations. She noted that a high level of frustration and disappointment with the process had led to the walkout from COP 19 of over 800 representatives of NGOs that very day. Williams highlighted that climate change does not affect every one equally - those from countries such as the Philippines, the LDCs, SIDS and African countries are highly vulnerable. Particular groups, such as women, due to existing inequalities between men and women, and Indigenous Peoples, with a long history of marginalization and dispossession, are already suffering from the impacts of climate change as well as from some of the solutions being imposed in response to the climate challenges. She reviewed that sustainable development as a concept is defined as meeting the needs of the present generation without compromising the needs of the future generation. Hence equity in the context of climate change has multiple dimensions including intergeneration, intrageneration, gender and North and South aspects.

At the international level, Williams said that the UNFCCC recognised that developed countries had contributed to the accumulation of GHG and hence bear historical responsibility. Developing countries who had contributed the least to climate change historically must now bear the disproportionate negative effects. Thus, under the Convention, which is grounded in equity and common but differentiated responsibility, developed countries have the commitment to take the lead in mitigating GHG emissions and modifying long-term trends so as to protect the climate system and prevent catastrophic climate change. These countries also have the commitment to finance, technology transfer and other means of implementation to support developing countries in adapting to climate change and in transforming their economies to clean and efficient energy pathways.

Mr. Daniel Ortega, Undersecretary of Foreign Affairs, Ecuador, led off the panel discussion by stating that equity is not a mathematical formula, rather it is a political definition in which the implementation of the principle of CBDR should be ensured without affecting the main priority of poverty eradication of developing countries such as Ecuador. When looking at equity in the context of climate change it should not compromise the needs of the people and should not transfer the responsibility to communities in the developing world. There should be a rights-based approach that includes rights to nature which are also included in Ecuador's Constitution. The Undersecretary further argued that the 2015 climate deal should comprise rights in terms of human rights, poverty eradication and human development, and the rights of mother earth.

Ortega said that the President of Ecuador introduced the concept of net avoided emissions at the 2010 Cancun meeting of the COP as a means of financing the Yasuni Initiative which Ecuador offered as part of its contribution to the global mitigation effort. He said that this was an alternative to the Kyoto Protocol and its market mechanisms which do not reduce emissions that are already in the atmosphere. Hence the essence of the Yasuni Initiative—to leave the oil in the ground. However, while Ecuador would like to do this it needs to be compensated so that it can continue to deal with pressing poverty and other development issues. Ecuador is also supportive of the Daly-Correa Tax (i.e., a small tax on oil exporters to support developing countries). However, in the negotiations there is no opportunity to discuss the sources of finance.

Undersecretary Ortega also flagged the iniquitous situation of the multinational company Chevron which had polluted and created destruction in Ecuador with damages far exceeding that which occurred with Exxon in Alaska. The communities won the case against Chevron. But then Chevron turned around and sued the government of Ecuador under an international (investment) arbitration tribunal.

Undersecretary Ortega reminded the audience that Ecuador and other Latin American countries champion the right of nature. He argued that the 2015 deal should have rights and justice at its center.

Ortega added that climate change is not only an environmental issue but also a political problem. But if all (governments, CSOs, academia and others) work together a solution can be found.

Prof. Zou Ji, Deputy Director of the National Center for Climate Change Strategy and International Cooperation in China, in his intervention during the side event, stated that equity as a concept has been there for a long time; it is also mentioned in the IPCC reports. Equity is a normative and a value judgment at the same time; it is very diversified. The basic question for China is how the international climate regime reflects the spirit of equity in terms of equity rights. The other question is: do developing countries have adequate opportunity to move to a low carbon development path?

Prof. Ji said that in history North America and Europe had experienced the high growth curve. Carbon emission levels become lower and lower in developed countries and now others are blaming China while comparing China's emissions with those of Germany, UK or France. However, China has lower per capita emissions.

Prof. Ji argues that with the urgency of the need to act on climate change, developing countries should not repeat the classic emission trajectory of developed countries to achieve the same development goals. However, this is not easy and is more risky for developing countries. Therefore equity should be elaborated with a focus on an opportunity for low carbon development. There are two pre-conditions here: equity within two groups of people—the most vulnerable and the future generation.

He highlighted that in the negotiations in Warsaw there were three main points that needed to be given emphasis:

1. Historical responsibilities
2. Equity Reference Framework
3. Principles of the Convention

Mr. Rene Orellana, Head of the Delegation of Bolivia, further deepened the discussion on equity in the climate governance by saying that developing countries have concrete demands and needs. He further elaborated that in general when one makes an evaluation of mother earth, the concept and visions of development must be taken into consideration. He also linked it with the 'Future We Want' document of the 'Rio+20' mentioning that there are interesting elements to discuss with regards to sustainable development and stressed climate change to be included in these discussions. He said that it was important that we interrogate the tools that we are using for development in order to better understand in the context of the present and continuing environmental, financial and climate crises. He raised a question about the utilization of concepts and frameworks such as ecosystem services payment and the carbon market. Mr. Orellana called for a broader approach that goes beyond carbon markets. Ultimately, Orellana argues that equity should have the principle of CBDR as its core element. As with Prof. Zou Ji, Mr. Orellana identified four main components of equity:

1. Historical Responsibility
2. Population
3. Poverty
4. National circumstances

Finally, Mr. Orellana concluded that in order to achieve the terms of equity, provision of the means of implementation and adaptation are needed. We also need regeneration and restoration of nature with a new sustainable and also environmental vision.

Mr. Martin Khor, Executive Director of the South Centre, began his intervention by expressing his appreciation to the government of Ecuador for co-organizing the event. He also mentioned that Ecuador is the latest member of the South Centre and this shows another manifestation of the collaboration. Mr. Khor then moved on to discuss a number of issues that were relevant to equity and sustainable development such as the role of technology and technology transfer, the growth of bilateral investment arbitration, controversy over developing countries' energy and other subsidies designed to outreach modern energy services and to help to transform their economies to a low carbon pathway.

Khor said that criteria for technology assessment under the CTCN should include assessing if the technology is suitable or not before transferring them. However, the CTCN feels that their mandate is only to transfer the technology and countries are responsible for the assessment. He stressed the fact that we have to be careful about transferring the right and suitable technologies and also see if nuclear energy, GMOs and biofuels are also transferred as climate friendly technologies. They need to be climate friendly and at the same time environmentally sound, good and safe for the population and livelihood and also cost effective. Renewable energy is cheaper but is not as cheap as coal - that is the trade-off.

Khor noted that there is a trade-off between economy and the environment. Therefore we need international financing to move to low carbon development. If a country's population is

2% of the world but emits 10% of the total CO_2 in the atmosphere there will be debtors and creditors.

In order to implement the Convention, we have the Annex I and non-Annex I countries divided. This is due to the reason that the responsibility of reducing emissions by Annex I countries is much higher. In addition they have the obligation of supporting developing countries (non-Annex I) with finance. Moreover, we need to distinguish that loss and damage is not part of adaptation. Governments will have to pay to rehabilitate and rebuild the houses that were lost and damaged. The finance needed for loss and damage was estimated to be $200 billion a year ten years ago and is expected to be much higher now.

With regards to financing, several estimates conclude that at least $600 billion per year is needed for mitigation and $400 billion per year for adaptation, totaling about $1 trillion per year. This is a huge difference from the $100 billion per year by 2020 promised by developed countries for both mitigation and adaptation in Cancun. Even then, as Khor noted, there is still no clarity about the roadmap towards reaching the $100 billion goal.

Khor also informed the audience that even though climate finance is argued to have achieved its goal with the fast start finance initiative, hence signaling an increase in climate finance, ODA has fallen by 6%. This indicates that the money allocated for FSF is not new and additional.

Mr. Khor ended his intervention by pointing to a growing international governance problem which is a threat to both equity and sustainable development. He said MNCs are bent on suing governments who enact climate and health-related reforms. These companies identify a change in regulation as an attack on their rights and as 'stealing' their property (expropriation) for which governments in question must compensate these firms. A case in point is that of the Swedish Company Vattenfall now suing the German government because of that government's decision to withdraw from nuclear power. Khor said that as governments seek to tighten up climate and environmental regulations they will be facing more such suits.

Khor also flagged the issue of unilateral trade measures by developed countries. He pointed out that both China and India are being sued by developed countries for having subsidies for renewable energy.

Ms. Victoria Tauli-Corpuz, Executive Director of the Tebtebba Foundation, and a member of the Philippine Delegation, in charge of the reducing deforestation and degradation (REDD+) negotiations, presented the perspectives of Indigenous Peoples of the Philippines on the equity issue. She stated that we need to address inequality between races and generations. Many of these are exacerbated as well by some of the climate change solutions that are negotiated in the UNFCCC. Tauli-Corpuz said that we need to look into these kinds of inequities under investment agreements, climate negotiations, etc. All of us are aware of the science and how we need to act urgently to tackle the challenges of climate change. However, Annex I countries (developed countries) make lots of excuses such as recession and financial breakdowns. In the meantime indigenous peoples are one of the most vulnerable and are some of the poorest people in the world. In actual reality that is where the richest ecosystem and biodiversity is found and additionally 4,000 languages are spoken by indigenous peoples. Huge hydropower plants that are sometimes done in the name of renewable energies are displacing many of them. We really have to push for the promotion of rights of indigenous peoples. With regards to equity, Tauli-Corpuz also, as with Prof. Zou Ji and Mr. Orellana, flagged four main approaches:

-Ecosystem-based approach

-Human rights-based approach

-Intergenerational approach

-Intercultural approach

The final intervention was by **Ms. Ling Xiao from the youth group, SustainUS.** Ms. Xiao reminded the audience of the increasing numbers of natural disasters in the past few years. She argued that the developing world needs technology transfer and developed countries must be willing to transfer sustainable technologies, provide capacity building and share experiences. Ms. Xiao said that climate change has become a serious problem and that there is no time to wait. She gave support to Ecuador's proposed Net Avoided Emissions to prevent the climate crisis which will help developing countries without contributing to the furtherance of climate change. She pointed out that this can be done through leaving fossil fuels unmined, limiting or stopping deforestation, as well as using renewable energy technologies to pursue development. However, in order to pursue this, the developing countries need the participation of the developed countries in transferring sustainable technology and to support developing countries in capacity building. Ms. Ling Xiao ended her intervention by pointing out that South-South cooperation in the sharing of best practices is a good way to also help bolster suitable solutions to respond to the threats posed by climate change.

Mahlet Melkie was a Researcher at the South Centre.

The youth group SustainUS participated at the side event.

WIPO at Crossroads: Results of the General Assembly 2013

This article by the South Centre gives a summary and brief analysis of the outcome of the General Assemblies of the World Intellectual Property Organization (WIPO) in September 2013 and the Extraordinary Session in December 2013.

In 2007 a Development Agenda (DA) was adopted in WIPO. The aim was to change the institutional culture of WIPO towards a more balanced approach to intellectual property protection, weighting the interests of right holders against the public interest. This requires introducing a development orientation to the WIPO activities such as norm-setting, technical assistance and capacity building. WIPO, as a United Nations specialized agency, has a central role to play in ensuring that intellectual property rules help countries to achieve their development goals, and not hinder their development prospects.

These broader goals of the DA initiated by developing countries should remain the benchmark for evaluating progress for its realization in WIPO. After four years of discussion, the agreed process for the implementation of the DA took the form of a set of 45 painstakingly negotiated recommendations. A single minded focus on this process risks overlooking the broader DA purpose.

There is evidence of some progress towards a DA in WIPO. The best example is the conclusion in June 2013 of the Marrakesh treaty on limitations on exceptions to copyright to facilitate access to copyright protected print or audio works for people who are blind or have other print disabilities. But WIPO has come short of making necessary substantial institutional reforms and incorporating a development orientation in all areas of WIPO's work.

The 2013 WIPO General Assembly is an indication of the increased interest of developing countries in shaping the international IP system, and the slow pace of transformation within WIPO. Important issues that the Assembly was to decide upon included the adoption of the Program and Budget for the 2014-15 biennium, WIPO governance reform, the process for establishing external offices, and defining a work plan to finalize an international legal instrument/s on genetic resources, traditional knowledge, and traditional cultural expressions.

The Assemblies 2013

The Fifty-First Series of Meetings of the Assemblies of the member States of WIPO (the 2013 WIPO Assemblies) took place from 23rd September to 2nd October 2013 at the International Conference Center Geneva (CICG), with the participation of 186 member States and observers.

The WIPO Assemblies include the main decision making bodies of WIPO which are the General Assembly and the WIPO Coordination Committee, and the nineteen assemblies and other bodies of the member States of WIPO and of the Unions for various Treaties administered by WIPO. These meetings bring together WIPO's member States, allowing them to take stock of the progress in the organization's work and to discuss future policy directions.

Last year's session of the WIPO Assemblies had a particularly heavy agenda with a number of key issues forwarded to the Assemblies for decision making from the 21st session of the Program and Budget Committee (PBC) held in September which had ended in deadlock on a number of items, including the approval of the Program and Budget for the 2014/2015 Biennium and the establishment of new external WIPO offices. The Assemblies also had to decide, among other things, on whether to renew the mandate of the WIPO Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore (IGC), whether to convene a Diplomatic Conference for the adoption of a Design Law Treaty (DLT), and also to take a number of decisions relating to the work program of the Standing Committee on Copyright and Related Rights (SCCR).

However, despite spending most of the time in informal consultations, the General Assemblies were unable to reach consensus on all the agenda items. The Chair, Amb. Päivi Kairamo of Finland, proposed the suspension of the WIPO General Assembly citing the inability to complete the business prior to the midnight of 2nd October. She announced that an Extraordinary Session would be convened in December where decisions on a number of outstanding issues will be required including the approval of WIPO's Program and Budget for the next two years.

The Assemblies had also opened with some controversy regarding the convening of the WIPO Forum 2013 with the theme "From Inspiration to Innovation: The Game-Changers" during the afternoon of the 2nd day of the Assemblies. There had been no prior Member State approval regarding the convening of this Forum. The Development Agenda Group (DAG) which is a group of developing countries in WIPO said that although parallel events were important, "they should not affect the substantive discussions among member states unless there is a decision on this subject." In similar vein, the African Group said that any such future forum should be held on the sidelines of the Assemblies.

Summary of Key Decisions and Discussion Points during the 2013 WIPO General Assemblies

Adoption of the Proposed Program and Budget for the 2014/15 Biennium

The session of the Program and Budget Committee (PBC) in September 2013 had recommended to the WIPO Assemblies the approval of the Program and Budget for 2014/2015 subject to a number of key decisions including on the opening of new WIPO External Offices and how the WIPO Global Challenges Division reports to member states. Despite intensive informal consultations and the circulation of a draft decision, the 2013 WIPO General Assemblies was unable to adopt the proposed Program and Budget due to the suspension of the Session at midnight of 2nd October.

In December 2013, an Extraordinary session of the WIPO Assemblies was held to further consider this item. The Extraordinary session made a decision to approve the Program and Budget subject to the following changes:

(1) The target for program 2 - trademarks, industrial designs and geographical indications – has been reformulated as a possible diplomatic conference for the adoption of a Design Law Treaty.

(2) The target for program 4 – traditional knowledge, traditional cultural expressions and genetic resources – has been reformulated as the adoption of an international legal instrument(s) by a possible diplomatic conference.

(3) In respect of program 20 – external relations, partnerships and external offices – a reference to establish 5 new external offices (in China, the Russian Federation, the US and 2 offices in Africa) was deleted.

(4) 0.6 million CHF was allocated as non-personnel resources for establishing two external offices in China and Russia for which contracts had already been signed.

(5) 0.9 million CHF was provided as unallocated non-personnel resources for possible new external offices that may be established.

(6) It was also decided that program 18 on IP and Global Challenges will report to the 20th session of the Standing Committee on the Law of Patents and the 13th session of the Committee on Development and Intellectual Property on the patent and development related aspects of its activities respectively.

The outstanding elements in the Proposed Program and Budget for 2014/2015 from the September session of the Assemblies included:

New WIPO External Offices (Program 20):

The session of the PBC had been unable to reach agreement on the establishment of new WIPO external offices on the basis of a proposal made by the WIPO Secretariat. The Secretariat's proposal called for five new offices to be established, namely in China, Russia, United States and two in Africa. (There are currently 3 WIPO external offices in Japan, Brazil and Singapore.) However, during the PBC, concerns were raised both by developing and developed countries regarding the lack of a common transparent process, the need for a member state driven process and for overarching guiding principles for the selection of new offices. In addition, some member states said they had not been properly consulted and expressed concern that their regions were not included in the Secretariat's proposal.

The South Centre organised a reception in conjunction with the 51st WIPO General Assembly.

In parallel, however, the Coordination Committee during the Assemblies had already been transmitted two proposed agreements to establish new external offices of WIPO for approval: 1) Agreement of WIPO with the government of China 2) Agreement of WIPO with the government of Russia.

During the Assemblies, member states including Chile, Mexico, Panama, Peru and India also signaled their interest in the opening of WIPO offices in their countries.

The draft decision resulting from informal consultations included guiding principles for the external offices under the heading of (i) the transparency of the procedure in setting up WIPO external offices; (ii) rationale for establishing external offices and their purpose; (iii) financial sustainability and budget neutrality; (iv) geographical aspects/location aspects and (v) External Offices accountability/reporting. It also included India and the Latin American and Caribbean Region in addition to the five locations/regions for External Offices already proposed by the Secretariat.

The draft decision had not been approved by the WIPO General Assemblies in September and this item was further discussed in the Extraordinary Session in December. However, the differences on the substance of the guiding principles for external offices could not be resolved and the Assembly decided to continue open-ended consultations on the proposed guiding principles and the establishment of new external offices. This issue will be presented for consideration and recommendation by the PBC and approval by the General Assembly in 2014.

Trademarks, Industrial Designs and Geographical Indications (Program 2):

During the session of the PBC, member states had also been unable to reach consensus on whether there should be a target of a Diplomatic Conference for the proposed Designs Law Treaty (DLT). During discussions, the issue was linked with the work undertaken in the IGC (Program 4) with developing countries calling for "equal treatment" on both the issue of IGC and DLT.

The draft decision circulated in the Assemblies, shows that the target for Program 2 is the "Adoption of a Design Law Treaty by a *possible* Diplomatic Conference".

The draft decision was approved by the Extraordinary Session of the Assemblies in December.

Traditional Knowledge, Traditional Cultural Expressions and Genetic Resources (Program 4):

As with Program 2, the issue at hand was whether to have a target of a Diplomatic Conference for TK, TCEs and GRs as advocated by most developing countries. However, Group B which represents developed countries had expressed reservation regarding the progress made on the texts in the IGC and maintained that the target of a Diplomatic Conference was too premature. The draft decision circulated to the Assemblies included a target of "Adoption of an international legal instrument(s) by a *possible* Diplomatic

Conference".

The draft decision was approved by the Extraordinary Session of the Assemblies in December.

IP and Global Challenges Program (Program 18):

During the PBC, the DAG had raised concerns regarding the lack of formal reporting by the WIPO Global Challenges Division which deals with issues of particular importance for developing countries including climate change, public health and food security. DAG, in particular, had called for the establishment of a reporting mechanism whereby the Global Challenges Division would report on its work to the Committee on Development and Intellectual Property (CDIP). This was resisted by Group B who said that the appropriate committee for the Global Challenges Division to report to was the PBC.

The draft decision paragraph on this issue requests the Global Challenges Program to inform the member states at the 12th session of the CDIP on the development related aspects of its activities and to inform the member states at the 20th session of the Standing Committee on Patents (SCP) on the patent related aspects of its activities.

The draft decision was approved by the Extraordinary Session of the Assemblies in December.

Proposed Definition of "Development Expenditure" in the Context of Program and Budget

Another item forwarded to the Assemblies from the PBC due to lack of consensus was on the proposed definition of "development expenditure". A proposal by the Chair of the PBC has been on the table since 2012 regarding a revised definition of "development expenditure" which would more appropriately reflect the allocation to development oriented activities by WIPO. DAG, in its statement, noted that it was important that "member countries can count on an appropriate index that identifies budget allocations that are aimed at bridging the knowledge gap between developed and developing countries."

Decision: After informal consultations on this agenda item, the Assemblies decided that member states should continue informal consultations with the view to finalizing the definition of "Development Expenditure" for the next session of the PBC and in time, for the preparation for the Program and Budget in 2016/17.

Governance at WIPO

The issue of WIPO Governance has been discussed in the PBC since 2011, however, the PBC session in September 2013 decided to send it to the General Assembly for a decision. The PBC had been in particular, unable to approve an African Group proposal aimed at improving the governance structure in WIPO and making its activities more efficient, participative and transparent.

During the GA, the African Group and DAG circulated a proposal which was put forward as the basis upon which the discussions on WIPO Governance should proceed. The proposal directed the General Assembly to request the Secretariat to organize a two-day meeting to discuss the Joint Inspection Unit Report that made many suggestions for improvements at WIPO, the proposals submitted by member states and make recommendations to the next session of the PBC.

Some of the key governance issues identified in the proposal include improving the work of the PBC, improving the work of the coordination committee, improving interaction between member states and the independent advisory oversight committee, improving interaction between member states and the external auditors, and establishing a fair and efficient mechanism to select chairs and vice chairs of WIPO bodies.

However, Group B said that this issue is "at the heart" of activities at WIPO, and that the African Group proposal "contains elements that have been debated over and over to no avail."

The African Group/DAG proposal was not adopted by the General Assembly.

CDIP and the Development Agenda

During the General Assembly, the DAG, the Africa Group and several other developing countries expressed concerns that the mandate of the Committee on Development and IP (CDIP) has not been fully implemented. Developing countries called for a General Assembly Decision to reinforce full implementation of all three pillars of the CDIP mandate.

One of the issues of concern expressed by developing countries was the non-implementation of the third pillar of the CDIP mandate, which establishes that the Committee should discuss IP and development related issues as agreed to by the committee and those decided by the GA. DAG and others have long tried to establish a permanent agenda item on this issue in the CDIP to no avail due to resistance from other member states.

The other issue relates to the Committee on WIPO Standards (CWS) and the Program and Budget Committee (PBC) to be considered as "relevant WIPO bodies" for purposes of reporting as required by the Coordination Mechanism and which implements the second pillar of the CDIP mandate. The mechanism was established in 2010 for relevant WIPO bodies to annually report on their contribution to the implementation of DA Recommendations.

During the General Assembly, the DAG requested informal consultations on these items. It underlined that "full implementation of the Development Agenda depends specially on a cultural change within WIPO as well as in the framing of intellectual property issues". This was initially objected to by the US and Group B who referred to "a full agenda" and that the CDIP was the appropriate forum for discussion for these issues. It was also stated that it was up to the WIPO Bodies themselves to determine if they were "relevant" for the purposes of the Coordination Mechanism.

Other issues raised by developing countries under this agenda item related to concerns regarding the provision of WIPO Technical assistance, the postponement of the conference on IP and Development and the need for the WIPO Global Challenges Division to report to the CDIP.

Decision: The result of informal consultations was a decision which called upon the CDIP to discuss implementation of the CDIP Mandate and the implementation of the coordination mechanism during its next two sessions and report to the GA in 2014.

This, in effect, returns the discussion to the CDIP. The 12th session of the CDIP was held from November 18 to 21, 2013.

IP, Genetic Resources, Traditional Knowledge and Folklore

One of the decisions before the WIPO General Assembly of great consideration for developing countries was the renewal of the mandate of the IGC which undertakes work in relation to IP, genetic resources, traditional knowledge and traditional cultural expressions. The General Assembly decided to renew the mandate of the IGC for the 2014/2015 biennium and instructed the IGC to hold three sessions in 2014 and to finalize the legal instrument(s) for the protection of GR, TK and TCE in 2014 when it reports to the GA. The IGC can also consider the need for additional meetings.

The schedule of meetings of the IGC would include:

(i) the next IGC in February 2014 with a focus on Genetic Resources for five days;

(ii) March-April 2014, a focus on Traditional Knowledge and Traditional Cultural Expressions for ten days;

(iii) July 2014, a cross cutting session and stock taking for three days and

(iv) September 2014 for the WIPO GA to finalize the text(s); take stock of and consider the text(s), progresses made and decide on convening a Diplomatic Conference.

At the beginning of the first meeting in February a meeting of Ambassadors/senior capital-based officials was held "to share views on key policy issues relating to the negotiation, to further inform/guide the process". The IGC may decide to hold further such a meeting during the session in July.

Although developing countries welcomed the renewal of the mandate, a concern regarding the lack of political will was raised. The divergent views of the member states on the nature of the document to be produced, the maturity of the text etc. came out in the open during their interventions. In particular, the developing countries (GRULAC, India, African Group) reiterated the need for a legally binding instrument or instruments. They also noted that substantial progress had been made across all three texts and that the level of maturity of the texts was appropriate for a Diplomatic Conference in the next biennium (2014/2015).

However, the developed countries (Australia, EU, Japan, USA, etc.) argued that due to the complexity of the issue, more work needs to be done within the Committee. The USA was of the opinion that only by reaching consensus of fundamental norms can the member states exercise the more challenging issues. Group B reiterated the need for the text(s) to be "non-binding, flexible and very clear".

Design Law Treaty Diplomatic Conference

The WIPO General Assembly was called upon to make a decision on another WIPO norm setting activity and to decide whether to convene a diplomatic conference for the adoption of a Design Law Treaty in 2014.

Work on industrial designs has been on going in the Standing Committee on the Law of Trademarks (SCT) since 2005. Developing countries have been making textual suggestions in the SCT, however an important consideration is the inclusion of a specific provision on technical assistance and capacity building. Developing countries including DAG and the African Group are of the opinion that capacity building and technical cooperation should be addressed properly, in an article that should be an integral part of the instrument. There has been resistance by Group B to including this provision in the draft articles as the Group prefers a resolution instead.

During the GA, developing countries expressed support for the negotiation process in general, but reiterated that for a positive outcome there needed to be an adequate inclusion of a TA provision in the Treaty text. Group B was of the opinion that the text was "mature" for a Diplomatic Conference to be held in 2014. Russia also offered to host the proposed Diplomatic Conference in June 2014.

This Item was subject to informal consultations.

However no decision was reached by the General Assembly and this was on the agenda of the Extraordinary Session in December. The Extraordinary Assembly decided that the SCT should finalize its work on the text of the basic proposal for a Design Law Treaty. The Extraordinary Session of the General Assembly to be held in May 2014 will take stock of and consider the text, progress made and decide whether to convene a diplomatic conference in 2014 in Moscow. If the Assembly decides to convene a diplomatic conference, a preparatory committee for the diplomatic conference will be held immediately after the Extraordinary Assembly in 2014.

Standing Committee on Copyright and Related Rights (SCCR) Work Program

The discussions during the GA focused on the future work plan of the SCCR and the determination of priorities. There are currently three on going norm setting activities within the SCCR:

(i) work on an international treaty for the protection of broadcasting organizations and work on two instruments relating to exceptions and limitations to copyright for:

(ii) libraries and archives

(ii) educational, teaching and research institutions and persons with other disabilities.

Developing countries were generally supportive of having a discussion on broadcasting organizations but stressed that SCCR's work should prioritize work in the area of exceptions and limitations. India, Thailand, Iran stated that any discussion on broadcasting organizations should strictly adhere to the 2007 GA mandate for a "signal based" approach to ensure that provisions on signal theft in themselves did not give broadcasters additional rights over programme content. DAG also expressed the wish that work in broadcasting would take into account the Development Agenda. Algeria, on behalf of the African Group noted that the positive spirit of the Marrakesh Treaty should inspire work in other exceptions and limitations in the SCCR.

The EU stated that the current copyright system provided an adequate framework for exceptions and limitations for educational and research institutions and persons with other disabilities and for libraries and archives. The EU was of the opinion, that the way forward in terms of the work program in this area was an exchange of best practices and ideas.

During the GA, the Group of Central European Baltic States (CEBS) presented a proposal which outlined the schedule for the completion of work with regard to the treaty on broadcasting organizations. The proposal directed the GA to "accelerate and finalize the work on the broadcaster's treaty as a matter of priority" and that within three SCCR meetings planned prior to the 2014 GA, no less than three days per meeting is devoted on refining the text on broadcasting organizations. It also called for the GA to direct that the SCCR submit to the GA 2014 a text developed during these meetings and for the GA to decide on the convening of a Diplomatic Conference in 2015.

This proposal had the support of countries such as US, EU, Japan and Poland. However, DAG stated that it was not in a position to accept the CEBS proposal and queried as to how the proposed work program would affect SCCR's work on other issues.

This agenda item was also subject to informal consultations and no decision was reached. Following informal consultations by the Chair of the Assemblies, it was decided that the SCCR should continue its current work and no new mandate was given in terms of the proposal by the CEBS group.

Committee on WIPO Standards (CWS)

The WIPO Committee on Standards was created in 2009 and is responsible for work on the revision and development of WIPO standards relating to industrial property information.

During the WIPO General Assembly, developing countries again raised the issue of the full implementation of the coordination mechanism of the DA and the need for the CWS to report to the CDIP on its development orientation. This has been consistently resisted by Group B which has stated that the CWS was not a "relevant body" for the purposes of reporting on its implementation of the DA.

Brazil stated that the CWS should coordinate with the CDIP and that the member states should find a simple and efficient mechanism to allow the CWS to develop its work with full compliance to the Development Agenda.

The Chair of the GA had circulated a draft decision which proposed that subject to further instructions given by the GA in 2014 regarding the coordination mechanism, the CWS should continue its work in accordance with the present system, as decided by the GA in 2011.

The draft decision was not approved by the GA. The Extraordinary session of the General Assembly decided that the CWS should continue its work based on its current mandate.

Implementation of WIPO Language Policy

The 2013 WIPO GA approved the recommendation of the PBC that the Secretariat continue to apply the measures to further reduce the number and average length of working documents; and to commence the six-language coverage known as the WIPO Language Policy, for the documentation for the Working Groups, in a "phased and cost effective manner", during the biennium 2014/2015.

In 2010 and 2011 the Assemblies had considered the WIPO Language Policy and approved the recommendation of the PBC that the language coverage for meetings of WIPO main bodies, committees and working groups, and core and new publications, be extended to the six official UN languages (Arabic, Chinese, English, French, Russian, Spanish) in a phased manner from 2011.

During the General Assembly, the US said it had reluctantly agreed for the Secretariat to extend the 6-language policy for the documentation for the Working Groups as it was generally opposed to the expansion of language services and the increase in overhead costs.

Developing countries such as Egypt argued that WIPO was an international organization and in this context all member states should be treated equally particularly with regard to the WIPO language policy.

Other Decisions approved by the 2013 GA include the following:

1. The WIPO GA noted the procedural steps with regard to the Appointment of the Director General in 2014 and approved the convening of the WIPO General Assembly on May 8 and 9, 2014.

2. New Members were elected for the Executive Committees of the Paris and Berne Unions, the WIPO Coordination Committee and the Program and Budget Committee.

3. The WIPO GA approved the convening of a Diplomatic Conference for the Adoption of a Revised Lisbon Agreement on Appellations of Origin and Geographical Indications in 2015.

Conclusion

The 2013 Assemblies failed to reach consensus to take decision on key issues, requiring an extraordinary session meeting in December to finalize, among other issues, approval of the Program and Budget and the renewed mandate of the Committee on IP, Genetic Resources, Traditional Knowledge and Folklore. This outcome reflects a deep division between the North and the South on the direction that WIPO should take. This is the second time since the adoption of the WIPO Development Agenda that the General Assembly has not been able to conclude and the Program and Budget has not been adopted during the General Assembly.

In view of the decisions taken by the WIPO Assemblies, the following are key issues to be addressed in WIPO in 2014: decision on establishing new external offices and guiding principles for the same; future of the process on the Design Law Treaty discussions in the SCT to be decided by the extraordinary session of the WIPO General Assembly in May 2014; the future of discussions in the SCCR for a treaty on exceptions and limitations for libraries and archives, and for educational and research institutions; the outcome of discussions on a broadcasting treaty in the SCCR; adoption of a balanced work program in the SCP; decision of the General Assembly on a Diplomatic Conference for an international legal instrument(s) on TK, TCE and GRs; advancing discussions on WIPO governance reform; independent evaluation of the implementation of the WIPO Development Agenda recommendations and reform of WIPO's technical assistance.

As WIPO member States will elect a new Director General to lead the WIPO Secretariat, it will be important for developing countries to engage in the process to ensure that the leadership has the vision and development orientation to be able to implement internal reform and assist member States to arrive at a balanced norm-setting.

By the South Centre's Innovation and Access to Knowledge Programme (IAKP) team

Welcome to the real world

By Humberto Campodónico

It is currently being discussed in the United States if the Export Administration Act (EAA) of 1979, that prohibits crude oil exports, is to remain in force. Why? Because the US is experiencing a sharp increase in the production of shale oil and shale gas (also called "unconventional"). And oil and gas companies want to export their surplus production.

First question, how can there be a law in the US that prohibits such an elemental activity as exports? Well, the EAA exists due in large part to the geopolitical problems of the late 1970s, and applies not only to oil.

Let's see. The EAA says that the export restriction will come into force "when foreign policy issues or short-term supply is necessary to ensure the fundamental national security". The law also gives the President the authority to "prohibit or curtail the export of any goods" (Section 7(a)(1)) where "necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of foreign demand" (Section 3(2)(C)).

Interesting. There is talk of national security and protection. It is also said that foreign merchandises could be more expensive than domestic merchandises. And that this could bring inflation. Where did the "cost of opportunity" go? Well, it is subordinated to the "national interest" of the U.S.

Currently the law applies to only some products, including oil, where the US now has an enormous trade deficit (in 2013, imports amounted to $433 billion, twice the GDP of Peru). And how does this work in practice? Like this: "Under the restrictions passed in the 1970s, most U.S. crude can be exported only if the U.S. Commerce Department grants an export license based on a finding that it would be in the "national interest"" (1). What do you think?

And here we return to the beginning: the revolution of "shale oil" has increased production from 5.0 to 7.4 million barrels per day from 2008 to 2013. And the production of "shale gas" is now bigger than the production of conventional gas. A recent US government report says that by 2020 the US will be the world's # 1 producer of hydrocarbons. Moreover, it will reach self-sufficiency by 2035 (2).

But then, why do you want to export "shale oil" if the US is still in deficit? The answer: "shale oil" is "light" oil and refineries in the Gulf of Mexico are prepared to process "heavy" oil from Venezuela, Mexico and Canada. In short: much "shale oil" is going to stay underground, because it cannot be refined in the U.S. and, at the same time, it cannot be exported because of the 1979 EAA. Hence the pressure to modify the law.

OK. But there's more. The freight cost by ship from deposits of "shale oil" to refineries in the Gulf of Mexico nearly quadruples the freight cost from the same fields to refineries in Canada. This is because the Jones Act of 1920, known formally as the Merchant Marine Act, requires that any shipment from one US port to another be carried on vessels built in the US, owned by US citizens, and operated by a US crew.

Why does this law exist? Tom Allegretti, the CEO of American Waterway Operators, a trade group for ship owners, says: "The Jones Act boosts the economy by keeping roughly 74,000 maritime jobs in the US, helps national security by making a fleet available for the military, and assures homeland security by keeping transportation in the hands of US citizens" (3).

Thus, the US has a protectionist law that increases the cost of domestic freight because of national security and provides a national fleet and employment, among others. Which adds to the 1979 Act, which explicitly prohibits exports of crude oil.

Welcome all to the real world, which, of course, is not the world of "the" economic theory, as if there were only "one" theory and not several schools of economic thought. This "theory" is auto complacent because it only reads and looks at itself and does not say what are the economic interests of companies that are behind it.

That is what is also seen in the various negotiations on the Doha Round of the World Trade Organization, the ongoing negotiations on climate change under the United Nations umbrella and, also, in the Trans Pacific Partnership led by the US to implement a Free Trade Agreement among several countries of America and Asia-Pacific.

For this motive, it is important to promote a wide debate at all levels of civil society in our countries, so that its national interests in issues such as intellectual property rights, patent medicines, ownership and scope of State Owned Enterprises can be taken into account. The examples of US realpolitik show us the way.

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Mr. Humberto Campodónico is professor at the Faculty of Economics at the National University of San Marcos, Peru. He was also formerly President of Petroperu and a consultant at ECLAC.