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Fragile world economy faces major headwinds – UN report

Hit by low commodity prices and financial instability, the world economy will continue to face major headwinds that will shape both its short- and long-term prospects, according to a UN economic outlook report. The global slowdown is in turn expected to impact adversely on such areas as unemployment and humanitarian and development aid.

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World economy stumbles in 2015, major headwinds persist

Coming off a year in which it grew less than expected, the world economy continues to face "major headwinds" that will affect both its near-term outlook and long-run prospects, says a UN economic report.

by Kanaga Raja

GENEVA: The world economy stumbled in 2015, with world gross product projected to grow by a mere 2.4%, a significant downward revision from the 2.8% that was forecast as of mid-2015, according to a United Nations report.

The *World Economic Situation and Prospects 2016* report (WESP), released on 20 January, said more than seven years after the global financial crisis, policymakers around the world still face enormous challenges in stimulating investment and reviving global growth.

The world economy has been held back by several major headwinds: persistent macroeconomic uncertainties and volatility; low commodity prices and declining trade flows; rising volatility in exchange rates and capital flows; stagnant investment and diminishing productivity growth; and a continued disconnect between finance and real sector activities.

In its chapter on the global economic outlook, the report said the world economy is projected to grow by 2.9% in 2016 and 3.2% in 2017, supported by generally less restrictive fiscal and still accommodative monetary stances worldwide.

The anticipated timing and pace of normalization of the United States monetary policy stance is expected to reduce policy uncertainties, while preventing excessive volatility in exchange rates and asset prices.

"While the normalization will eventually lead to higher borrowing costs, rising interest rates should encourage firms to front-load investments in the short run. The improvement in global growth is also predicated on easing of downward pressures on commodity prices, which should encourage new investments and lift growth, particularly in commodity-dependent economies."

WESP noted that since the onset of the global financial crisis, developing countries generated much of the global output growth. China, in particular, became the locomotive of global growth, contributing nearly one-third of world output growth during 2011-12. As the largest trading nation, China sustained the global growth momentum during the post-crisis period, maintaining strong demand for commodities and boosting export growth in the rest of the world.

With a much-anticipated slowdown in China and persistently weak economic performances in other large developing and transition economies – notably Brazil and the Russian Federation – the developed economies are expected to contribute more to global growth in the near term, provided they manage to mitigate deflationary risks and stimulate investment and aggregate demand.

On the other hand, bottoming-out of the commodity price decline, which will contribute to reducing volatility in capital flows and exchange rates, will help reduce macroeconomic uncertainties and stimulate growth in a number of developing and emerging economies, including in the least developed countries (LDCs).

The report projected the developing countries to grow by 4.3% and 4.8% in 2016 and 2017, respectively.

Average global inflation continues to decline amid persistently subdued economic activity, modest wage growth and lower commodity prices. In 2015, global consumer price inflation is projected to fall to 2.6%, the lowest level since 2009, owing to reduced oil and commodity prices. Inflation in developing countries is expected to rise moderately in 2016, mainly driven by higher levels of inflation in transition economies.

"Risks of deflation, however, still persist in developed countries, mainly in Japan and the euro area, and to a lesser degree in the United States, where average inflation hovered at about 0.2% during the past four quarters," the report cautioned.

Five major headwinds

According to WESP, global growth prospects face considerable headwinds in the near term, amid a macroeconomic environment of falling inflation and weak employment generation.

Five major headwinds – both cyclical and structural – will continue to shape the near-term outlook of the global economy as well as its long-term prospects: persistent macroeconomic uncertainties and volatility; low commodity prices and declining trade flows; rising volatility in exchange rates and capital flows; stagnant investment and diminishing productivity growth; and continued disconnect between finance and real sector activities.

The report noted that persistent uncertainty has been a legacy of the global financial crisis that began in the third quarter of 2008. The policy deliberations in the United States Federal Reserve (Fed), for example, have repeatedly identified macroeconomic uncertainty as a key factor affecting the subdued economic performance during the post-crisis period.

While lax regulations that allowed the financial sector to take excessive risks precipitated the financial crisis, persistence of macroeconomic uncertainty continues to adversely affect aggregate demand and investment in the post-crisis period.

Both output growth and inflation have shifted downward since the global financial crisis, representing the level effects of the crisis. At the same time, volatility of output growth has increased in developed economies in the aftermath of the crisis.

WESP emphasized that effective fiscal, monetary or exchange-rate policies can help reduce uncertainties and influence the behaviour of firms and households. "Macroeconomic policies, as such, need to be designed and implemented more effectively to reduce uncertainties and stimulate aggregate demand and growth of the global economy."

Slowdown in trade

WESP noted that in the aftermath of the financial crisis, international trade, largely driven by demand from China, played a critical role in sustaining global output, particularly for developing economies.

During 2009-11, high commodity prices and early signs of recovery sustained the export income of large emerging and developing economies in Asia, Africa and Latin America. The downward trends in commodity prices since 2011 and sharp decline in oil prices since mid-2014 have altered the trade dynamics of many commodity-exporting countries.

The commodity price declines have generally deteriorated the terms of trade of commodity exporters, limiting their ability to demand goods and services from the rest of the world. This apparently has had second-order effects on non-commodity-exporting economies, unleashing a downward spiral in the value of global trade.

Global trade flows have slowed significantly in recent months, with total volumes of imports and exports projected to grow by only 2.6% in 2015, the lowest rate since the Great Recession. The source of the global slowdown in trade is primarily rooted in weaker demand from developing economies and a sharp decline in imports demanded by economies in transition.

Global exports to the Commonwealth of Independent States (CIS) countries started to decline in 2014 and dropped sharply in 2015, as geopolitical tensions, weaker oil prices and declining remittances led to large currency depreciations and erosion of real income in many of these economies.

On the other hand, import demand from the United States accelerated, supported by the strong appreciation of the dollar since mid-2014 and relatively solid economic growth, while imports by the European Union (EU) economies have also strengthened and the EU demand is now a key impetus to the growth in world trade.

(In a separate chapter on international trade flows, the report said for the second consecutive year, developed economies played the leading role in driving global trade. Among all regions, the developed economies in Europe contributed most significantly to global import growth in 2015, accounting for 70.3% of the growth.)

WESP noted that sluggish growth, a weak yen and the slowdown in Japan's key trading partners in East Asia, particularly China, has had a dampening effect on global trade growth.

As growth in China moderates, import growth has slowed sharply from the double-digit rates recorded for most of the last two decades. Total East Asia imports grew by an estimated 0.9% in 2015, after just 3.3% growth in 2014.

"The anticipated slowdown of the Chinese economy will have significant adverse effects on the growth prospects of many economies. A larger-than-expected slowdown in China would have further adverse effects on global trade, reducing aggregate demand and slashing global growth," said WESP.

It further noted that the oil price has plummeted by more than 55% since mid-2014, bringing down the price of oil to levels that prevailed a decade ago.

Non-oil commodity prices have continued on the downward trend initiated in 2011, with a particularly sharp drop in metals prices during 2015.

The UNCTAD nominal price index of minerals, ores and metals dropped 13.3% in the first nine months of 2015, and the food price index dropped by 12.2%. This has led to a substantial shift in the terms of trade and a sharp deterioration of GDP growth in commodity-dependent economies.

The low level of oil and non-oil primary commodity prices is projected to remain stable and extend into 2016 before seeing modest recovery for some commodities, as downward pressures recede in the later part of the forecast period.

The global oil market continues to remain oversupplied and demand growth is not expected to accelerate in 2016, in line with the overall weak global economic conditions, especially in China and other emerging economies that have been the main drivers of oil and metal demand for the past decade.

WESP said that in the outlook period, world trade is expected to grow by 4.0% and 4.7% in 2016 and 2017, respectively.

"Weak commodity prices, increased exchange-rate volatility and the slowdown in many emerging economies, including China, will continue to exert some downward pressures on trade flows, but stronger demand in the United States and Europe will offset the downward pressures and contribute to reviving global trade growth."

Volatility in exchange rates and capital flows

Against the backdrop of falling commodity prices, increased capital outflows from developing countries and diverging monetary policies, exchange-rate volatilities have become more pronounced, said WESP.

Global exchange-rate volatility has risen considerably since mid-2014, while many emerging-market currencies have plunged amid significant capital outflows. The downward pressure on emerging-market currencies partly reflects deteriorating market expectations about these economies amid expectations of a rise in United States interest rates.

The Brazilian real and the Russian rouble have recorded the largest losses, and both countries remain mired in severe economic downturns, accompanied by elevated inflation. The sharp declines of emerging-market currencies against the dollar have contributed to concerns over the high level of dollar-denominated debt of many non-financial corporations in emerging markets.

In the case of a sudden currency depreciation or increase in interest rates, deleveraging pressures are likely to rise along with risks of corporate defaults in these economies. Sharp adjustments in commodity prices – and commensurate swing in exchanges rates – have led to reduced capital flows to developing countries, said WESP.

The prospect of an imminent increase in the United States policy rate has also affected the volume and direction of capital flows, particularly to large developing economies.

"Changes in the relative rates of return, heightened risk aversion, deteriorating economic prospects (especially in commodity-exporting economies), and associated sharp realignments of exchange rates leave many developing economies and economies in transition vulnerable to a sudden stop, and reversal, of capital inflows, which may adversely affect their balance of payment and put further downward pressures on their exchange rates."

In 2015, net capital inflows to emerging economies are projected to be negative for the first time since 2008. The current retrenchment in net capital flows to emerging markets is far more severe than that experienced during the financial crisis, with net capital outflows expected to reach about $700 billion in 2015.

WESP noted that during the third quarter of 2015, portfolio outflows reached a record of $40 billion, the largest withdrawal since 2008. Corporate debt in emerging economies has increased more than four times faster than GDP growth over the last decade, with much of the new debt denominated in United States dollars. Given the appreciation of the dollar, this will increase the debt-servicing burden for many large firms, said WESP.

"The risks of more pronounced capital outflows from developing economies and economies in transition are substantial. In the short term, portfolio liquidity could dry up and financing costs might rise abruptly in response to the anticipated interest rate rises of the Fed, putting pressure on exchange rates, equity prices and international reserves."

Such a scenario would exacerbate the difficulties that many economies face in reinvigorating investment, as volatile capital flows tend to amplify financial and real business cycles, it cautioned.

"In the medium term, the adjustment in emerging economies to the new global conditions, including lower financial market liquidity and commodity prices and higher levels of risk aversion, will pose new challenges for monetary, fiscal and exchange-rate policies."

Investment and productivity

WESP also said that the global financial crisis has had the most pronounced negative effect on investment rates. Notwithstanding the debates as to whether the lack of aggregate demand or the absence of structural reforms and improved business environment inhibits new investments, it remains clear that global investment rates have sharply declined since the onset of the financial crisis.

The growth rates of fixed capital formation nearly collapsed since 2014, registering negative quarterly growth in as many as nine large developed and developing countries and economies in transition.

Fixed capital formation is, however, likely to witness a moderate increase during the forecast period, supported by less restrictive fiscal positions, an accommodative monetary policy stance and also by reduced macroeconomic uncertainty and stabilization of commodity prices. Low (but stable and predictable) commodity prices are likely to attract new investments in the sector.

WESP said that alongside declines in investment rates, productivity growth has also slowed down significantly in recent years across a large set of economies. Reversing the trends in productivity growth will be critical for putting the world economy on a trajectory of sustained, inclusive and sustainable growth, as envisaged in the 2030 Agenda for Sustainable Development.

"This will require extensive policy efforts and coordination among fiscal, monetary and development policies to increase investments in physical infrastructure and human capital, as well as alignment of policies and effective regulations to ensure that the financial sector facilitates and stimulates long-term and productive investment."

WESP also highlighted that a growing disconnect between finance and real sector activities is evident in the data: fixed investment growth nearly collapsed, while debt securities (a financial instrument to raise capital) issued by non-financial corporations increased by more than 55% between 2008 and 2014, representing a nearly 8% increase per year.

The total stock of financial assets worldwide is estimated at $256 trillion at the end of 2014, increasing from $184 trillion at the end of 2008. Total financial assets in the world – measured in terms of all debt securities outstanding, equities and the stock of bank credit – exceeded the pre-crisis level as early as 2010.

"Given the rapid build-up of financial assets and the decoupling of finance and real sector activities, the world economy again faces the risk of rapid financial deleveraging, as observed at the onset of the financial crisis between the second and fourth quarters of 2008," said WESP.

In G7 economies, the financial sector deleveraging of securities averaged 6.1% of GDP during those periods. In the United Kingdom, total deleveraging was as high as 18.3% of GDP in 2008.

WESP cautioned that a similar deleveraging pressure may rise – particularly in developing countries – with increases in the United States policy rates, which may increase the debt-servicing cost and the counter-party risks of borrowing firms.

"A sudden and disorderly adjustment in equity prices could increase the debt to equity ratio of highly leveraged firms and force them to reduce their debt level to avoid defaults. The deleveraging may increase financial market volatility and have significant negative wealth effects on households and corporations, reducing investment and aggregate demand and possibly pushing the world economy towards an even weaker growth trajectory than currently anticipated."

Policy challenges

WESP noted that more than seven years after the global financial crisis, policymakers around the world still face enormous difficulties in restoring robust and balanced global growth.

In developed countries, most of the burden of promoting growth has fallen on central banks, which have used a wide range of conventional and unconventional policy tools, including various large-scale quantitative easing (QE) programmes, forward guidance and negative nominal interest rates. These measures have led to an unprecedented degree of monetary accommodation in recent years, with monetary bases soaring and short- and long-term interest rates falling to historically low levels.

Accommodative monetary conditions and abundant supply of global liquidity have also given rise to wide swings in capital flows to emerging markets. Financial stability risks have increased amid concerns over the excessive build-up of financial assets, commensurate asset price bubbles and balance-sheet vulnerabilities, especially in emerging markets.

Volatility in commodity, currency, bond and stock markets has moved up since mid-2014, partly as a result of monetary policy adjustments and uncertainties over future policy moves.

Against this backdrop, said WESP, the monetary authorities in developed countries face the task of balancing the need for continued monetary accommodation with the goal of limiting real and nominal volatilities and minimizing the risks to global financial stability.

"Macro-prudential policies, when designed and applied effectively, can help mitigate financial sector volatility and redirect financial resources to more productive sectors of the economy."

For developed-country central banks, the main challenge over the coming years is how to normalize monetary policy without crushing asset prices, causing major financial volatility and potentially threatening the expected recovery.

At present, the international focus is on the US Fed, which is the first major central bank to start the monetary tightening cycle. Going forward, the challenge for the Fed is not only to get the timing of interest-rate hikes right, but also to adequately prepare financial markets for the moves via effective communication of its plans.

Referring to the expected normalization of United States interest rates, WESP said some uncertainties remain regarding both the anticipated path of interest rates and the reaction of global financial markets and the real economy to the shift in policy rates.

A rise in debt-servicing costs will necessarily be associated with the United States interest-rate normalization, both domestically and in the many developing economies and economies in transition that hold debt denominated in US dollars.

In addition, as the rates of return on United States assets normalize, a sudden change in risk appetite could trigger a collapse of capital flows to developing economies and economies in transition, or sharp exchange-rate realignments as experienced following the Fed's announcement in 2013 that it would soon begin tapering its QE programme.

Significant levels of net capital outflows have already occurred in many developing economies in anticipation of the normalization of United States policy rates, and there is a risk that these withdrawals could increase further, drying up liquidity in many developing economies. This may lead to a depreciation of many developing-country exchange rates, or pressure them to raise interest rates to prevent capital outflows.

Countries that hold a large stock of net external debt are particularly exposed to the associated rising costs of debt servicing. As a downside risk to the outlook, financial markets could overreact and overshoot the adjustment, or exhibit a sudden change in risk appetite, leading to heightened financial market volatility, an even sharper withdrawal of capital from developing markets, and a more significant slowdown in global growth.

In developing countries and economies in transition, the current global economic and financial environment poses major challenges for monetary and exchange-rate policies. Economic growth in most countries has slowed significantly over the past few years amid declining commodity prices and domestic weaknesses.

Given that monetary policies have done most of the heavy lifting for supporting growth during the post-crisis period, both developed and developing countries will need to rely more on fiscal policy instruments to stimulate growth in the near term.

Fiscal policies will need to primarily focus on boosting investment and productivity growth, said WESP.

It stressed that stimulating inclusive growth in the near term and fostering long-term sustainable development will require more effective policy coordination – between monetary, exchange-rate and fiscal policies – to break the vicious cycle of weak aggregate demand, under-investment, low productivity and low growth performance in the global economy.

The Addis Ababa Action Agenda, agreed at the Third International Conference on Financing for Development in July 2015, provides the framework for policies and actions to align all financing flows and international and domestic policies with economic, social and environmental priorities, said WESP.

The successful conclusion of the 2015 United Nations Climate Change Conference in Paris, leading to binding commitments to reduce emission levels, is expected to pave the way for more effective international policy coordination for sustainable development in all three dimensions: economic, social and environmental, it added. *(SUNS8164)* ❐

Global economic slowdown threatens social stability

The downturn in the global economy is taking its toll on workers everywhere and bringing with it a heightened risk of social unrest, the International Labour Organization has cautioned.

by Tharanga Yakupitiyage

NEW YORK: If current policies continue, the global economy will weaken and pose significant social challenges, the International Labour Organization (ILO) has warned in a new report released on 19 January.

The report, *World Employment and Social Outlook – Trends 2016*, predicts economic health and employment levels around the world, and has found that economic growth has slowed down, the effects of which are reverberating globally.

This slowdown is due, in part, to changes in macroeconomic policies in emerging and developing countries including China. The Asian country has moved away from its reliance on investment and its export-led economic growth has reduced its demand for imports which has long helped support the global economic recovery.

According to the International Monetary Fund (IMF), a one-percentage-point drop in China's gross domestic product (GDP) growth would lead to lower growth in the rest of Asia by 0.3 percentage points. It would also impact a number of European countries that are heavily dependent on exports to China.

Meanwhile, the world has also experienced a decrease in commodity prices, particularly of energy. Oil prices have dramatically declined, reaching a new low of less than $30 per barrel in January, compared to $110 in 2014. This has impacted commodity exporters including Brazil and the Russian Federation, countries that have now entered a period of recession.

"The significant slowdown in emerging economies coupled with a sharp decline in commodity prices is having a dramatic effect on the world of work," ILO Director-General Guy Ryder noted during the launch of the report.

Global unemployment rates have particularly increased as a result of the weakened economy. In 2015, the number of unemployed people reached 197.1 million, 27 million higher than the pre-global financial crisis level of 2007.

Unemployment levels are expected to continue rising over the next two years in emerging and developing countries by 4.8 million.

This has heightened not only income inequality, but also the uncertainty of existing jobs where workers have limited access to social protection and stable earnings.

Already vulnerable employment accounts for over 46% of total employment in the world. In both Southern Asia and Sub-Saharan Africa alone, over 70% of workers are in vulnerable employment.

Though the number of employed people living in poverty has decreased since 2000, progress has stagnated, especially in developing economies.

Decent work

The ILO has highlighted the need to address the quantity and quality of jobs, as well as income inequality.

In the report, the organization recommended the strengthening of macroeconomic policies and labour institutions and the establishment of well-designed social protection systems to prevent increases in long-term unemployment, underemployment and working poverty.

If these issues are not tackled, there is an increased risk of social unrest, Ryder said. In light of Europe's refugee crisis, the organization specifically emphasized the need to provide labour opportunities.

"Integrating refugees into the labour market will be important for helping the newcomers to establish new livelihoods and to ease their social integration into the receiving countries," the report stated.

In the long term, ILO noted, the influx of migrants will also help European economies by filling the gaps in skill shortages and mitigating the risks related to low population growth.

The provision of decent work, however, should not only be limited to refugees in Europe.

"Making decent work a central pillar of the policy strategy would not only alleviate the jobs crisis and address social gaps, but would also contribute to putting the global economy on a better and more sustainable economic growth path," ILO concluded.

The newly adopted Sustainable Development Goals (SDGs) include commitments to promote decent work for all as well as sustained, inclusive and sustainable economic growth. *(IPS)* ❐

Declining oil prices may undermine development, humanitarian aid

One of the areas likely to suffer the effects of a faltering global economy buffeted by the oil price plunge is humanitarian aid.

by Thalif Deen

NEW YORK: The sharp decline in oil prices in the world market – the lowest in nearly 13 years – is expected to have a devastating impact on both developed and developing nations.

As the price of oil hit a new low of less than $30 per barrel in the week of 11 January – compared to $110 in 2014 - the economic realities are gradually coming into play.

As the *New York Times* put it, the long slide in oil prices means "oil-rich nations are not so rich anymore." And predictably, the so-called "oil-rich nations" of a bygone era may vanish from market vocabulary.

The world economy is already suffering from a slowdown in China and the appreciation of the US dollar – resulting in rising anxieties in global markets.

Meanwhile, the decline in oil prices is also expected to drain the $7.2 trillion in sovereign wealth funds, mostly built on oil and natural gas revenues, held by oil-producing countries, including Saudi Arabia, Kuwait, Qatar and the United Arab Emirates.

With the lifting of US sanctions on Iran – the world's seventh largest oil producer in 2014 – there will be a further glut in the market, forcing prices down with negative consequences on the global economy.

Closer home, UN agencies which depend heavily on Western industrialized nations for core and non-core "voluntary contributions" are preparing for the worst.

Asked for a comment, UN deputy spokesperson Farhan Haq told Inter Press Service (IPS) that while Secretary-General Ban Ki-moon understands the economic realities that member states face, "it is crucially important for nations to continue to provide generously to development assistance and humanitarian aid."

Aid gap

A new UN report by a High-Level Panel on Humanitarian Financing, released on 15 January, says there will be a $15 billion shortfall in funding for humanitarian emergencies in 2016.

Titled "Too Important to Fail – Addressing the Humanitarian Financing Gap," the study warns of a growing gap between the increasing numbers of people in need of assistance and sufficient resources to provide relief.

Asked about declining aid, Ban told reporters in December he appreciates the difficulties and challenges facing many European countries. "At the same time, I commend such compassionate leadership and generous support for many refugees who are seeking better opportunities and safety."

"While I appreciate such difficulties, I ask the rich countries, the European countries, to increase their financial support and generous support for all these migrants and refugees, rather than diverting their already earmarked development aid."

Ban said he realizes there is a limit to resources. "So inevitably, they may have to temporarily divert and use this development money for humanitarian purposes but in the longer term, if this kind of trend continues, it will only perpetuate this bad balancing between humanitarian and development."

In its report, the high-level panel makes several recommendations, including the following:

- Reclassifying the eligibility criteria of the World Bank's International Development Association (IDA), so that funding follows people in need – and not countries – to enlarge opportunities to middle-income countries.
- A far higher proportion of official development assistance (ODA) to be directed to situations of fragility and protracted emergencies, and oriented towards building resilience and reducing fragility.
- Tripling IDA's Crisis Response Window and expanding the funding capacity for emergencies in other development finance institutions.
- A voluntary sign-up by governments to a "solidarity levy" mechanism to fund humanitarian aid.
- Channelling Islamic social finance and other instruments to humanitarian causes.

"Our starting point was the stark facts and figures: 125 million people in need; a record $25 billion a year going to aid them; but, in spite of that, the needs continuing to outpace resources," said the report's co-chairs, Kristalina Georgieva of Bulgaria and Sultan Nazrin Shah of Perak, Malaysia.

"A gap of $15 billion is a lot of money but in a world producing $78 trillion of gross domestic product (GDP) it should not be out of reach to find. Closing the gap would mean nobody having to die or live without dignity for lack of money and a victory for humanity at a time when one is greatly needed."

As this report points out, Ban said, more than 120 million people live in constant distress, without jobs, food, water, shelter or healthcare. "If they were all in one country, I am told that it would be the eleventh largest country on earth. And it would be one of the fastest-growing nations."

"And if our world were a school, it would have few spaces for needy children – as you know we have 60 million children out of school."

This is not an abstract analogy, the Secretary-General said, pointing out that three-quarters of a million Syrian children were shut out of classes in 2015 because "we could not fund their right to an education."

The United Nations, he said, is working every hour of every day to address the complex root causes of crises.

"We also rush to fight fires. So many fires are burning around the world."

Ban said he was serving as Secretary-General of the United Nations at a time of tragic records. Since the UN was founded, the world has the most ever people in need of humanitarian assistance and the highest ever amount of funding appeals. "We also face the biggest ever appeal shortfalls."

In 2015, he said, nearly half of the UN's appeals were unmet.

But with oil prices taking a severe beating and world economies shrinking, the prospects for humanitarian and development aid in 2016 seem bleak. *(IPS)* ❐

LDCs, the battleground to win or lose the SDGs

The bleak international economic environment is hurting the world's least developed countries and clouding the outlook for achieving the UN Sustainable Development Goals, the head of a UN development body has said.

by Kanaga Raja

GENEVA: The least developed countries (LDCs) are truly the battleground on which the United Nations' Sustainable Development Goals (SDGs) will be won or lost, and the rural areas in the LDCs are the frontline of the battle, the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) has said.

In his statement at the sixty-second executive session of UNCTAD's Trade and Development Board (TDB) on 25 January, the UNCTAD head, Mukhisa Kituyi, said that this first executive session of 2016 came at a paradoxical moment for the international community.

"Successful agreements reached in 2015 on finance, climate, development, technology and trade offer us a modicum of hope and optimism for the future," he said. "But we also face great uncertainty in the global economy, and a growing gap of trust between people and their governments about the interdependent world in which we live."

"From terrorism to migration, from falling commodity prices and currencies to flagging trade growth, resurgent nationalisms and shrinking trust in the international system are breeding growing insecurity about how we will achieve the aspirations of Agenda 2030," said Kituyi.

The sixty-second executive session was originally scheduled to take place from 9-11 December 2015, but was shifted instead to 25-27 January 2016. The session took up for discussion UNCTAD's *Least Developed Countries Report 2015*, which highlights the structural transformation of rural economies in the LDCs and the important role it plays in achieving the SDGs, as well as the *Trade and Development Report 2015*, amongst others.

In his statement to the TDB executive session, the UNCTAD Secretary-General said that both these reports outline what needs to be done to confront this challenging environment from two very different but complementary perspectives.

"The 2015 *Trade and Development Report* addresses the dysfunction in the international economic and monetary system that has led us to where we are today. The *Report* shows how we have entered a new third phase in the global economic and financial crisis."

According to Kituyi, in the first stage, centred on the United States, most countries applied simultaneously expansionary fiscal and monetary policies that avoided the implosion of the financial system and mitigated economic recession.

In the second phase, originating from Europe, developing countries maintained strong counter-cyclical policies, while developed countries shifted towards fiscal austerity, relying excessively on monetary policy for economic stimulus. "This shift proved ineffective for prompting a strong recovery in developed countries, while encouraging large capital outflows towards emerging economies."

Now in the third phase of the crisis, the capital flows to developing and emerging economies have stopped or reversed. Commodity prices have plummeted, and many developing countries face growing constraints to sustaining counter-cyclical policies.

The UNCTAD head emphasized that the epicentre of the crisis has moved, but the crisis itself has not been overcome.

World output and international trade grew in 2015 at around 2.5%, well below pre-crisis levels, and expectations on economic recovery continue to be revised downward.

This meagre growth has also relied heavily on credit. Developed-country debt is currently around 265% of GDP, according to the Bank for International Settlements. "Several developing and emerging countries also face growing levels of household and corporate debt, making them vulnerable to new episodes of financial instability, as we have seen in recent months," said Kituyi.

The instability in the world economy today stems from pro-cyclical forces in commodity and financial markets, he underlined.

On the commodities side, several years of high prices spurred investment, which has led to excess supply and a reversal in price trends. The current deceleration in demand is putting further downward pressure on commodity prices. Since mid-2014, food prices went down by 20%, minerals and metals by one-third, and oil prices by 70%.

The activities of some momentum-driven algorithmic traders and big hedge funds have driven commodity prices, particularly in the energy sector, significantly beyond the point that even once-bearish commodity analysts consider justified – at least in the medium term – by supply and demand.

"The negative shock on external and fiscal balances for producing countries has been larger than the positive impact on importing countries, leading to overall declining demand."

Kituyi said the plummeting commodity prices have also triggered a negative reaction on the financial side, with large capital outflows from major developing and transition economies leading to currency depreciation and tightening monetary policy. "This has further restrained economic growth and increased financial fragility."

He underlined that these trends are a reminder of the fact that the causes of the crisis have not been sufficiently addressed.

"This failure to address the root causes of the crisis is now beginning to have a strong adverse impact on LDC economies."

Slowing LDC economies

Referring to the *Least Developed Countries Report 2015*, which looks at the challenges facing these economies, particularly from the point of view of rural populations, Kituyi said that economic growth in the LDCs declined from 5.6% in 2014 to 3.6% last year. This contrasts sharply with the post-crisis high of 7.1% in 2012.

"We must recall the target of 7% annual GDP growth for LDCs, enshrined in the Istanbul Programme of Action. That target was easily achieved last decade."

But the bleak international environment is now slowing LDC economies through diminished commodity demand and shrinking aid and investment volumes.

Commodities account for over three-fourths of LDC exports, the UNCTAD Secretary-General noted. Initially, as international commodity prices started declining, LDCs were still capable of compensating by expanding export volumes. "But with the morose international demand for commodities, today this is no longer possible. LDC commodity export earnings are declining steeply."

Total LDC exports started contracting in 2014, and the decline is projected to continually accelerate through this year.

Forecasts indicate a slump of up to one-third in LDC exports between the all-time high of 2013 and 2016. If confirmed, this would mean a $70 billion shortfall in export revenues in just three years.

Kituyi noted that official development assistance (ODA) to LDCs has also fallen victim to the crisis and the fiscal retrenchment measures enacted by developed countries. Bilateral ODA from OECD-DAC countries to LDCs shrank by 8% in 2014. He added that the situation is compounded by the pressure to provide for a surge in immigration. Despite donor-country pledges to reverse the decline in aid to LDCs, the gradual planned increase – if enacted – will still mean that aid to LDCs in 2018 remains less than that of 2013.

In terms of private capital flows, foreign direct investment into LDCs contracted by an estimated 11% in 2015.

The subdued state of the world economy has led to the worldwide slowdown of foreign direct investment in natural resources. In recent years, this sector had been one of the most dynamic in LDCs, in terms of both attracting FDI and generating exports, said Kituyi.

SDG challenge

This negative outlook poses an enormous challenge for the optimism embodied in the Agenda 2030 for Sustainable Development.

"We have only fifteen years to achieve the Sustainable Development Goals, and already they seem farther away than they did just months ago."

But the strongest challenge will be where human and economic development gaps are widest, and where the pace of progress has been slowest. That is in the least developed countries.

"LDCs are truly the battleground on which the SDGs will be won or lost, as the *Least Developed Countries Report* continues to demonstrate," said the UNCTAD Secretary-General. "And the rural areas in LDCs are the frontline of our battle."

Kituyi said that rural people in LDCs are 50% more likely than their urban counterparts not to have access to sanitation or to attend secondary school. They are twice as likely not to have access to electricity, and more than four times as likely not to have access to clean water.

At the same time, rural areas generate 60% of employment and one-fourth of economic activity in LDCs.

Kituyi further said the *Least Developed Countries Report 2015* calls for massive investments in infrastructure and decisive financial backing and commitment of the international community to close the infrastructure gaps.

It also calls on donor countries to respect their commitments to allocate 0.7% of their gross national income to official development assistance. At least half of the increased aid should be directed to LDCs, in line with their share of global human development gaps, he said.

And this ODA should be directed to areas and sectors where LDC deficits are largest, especially agriculture, economic and social infrastructure in rural areas, and agricultural research and development.

"We have a long road to travel to reach 2030, and a steeper path before us than we may have expected," said Kituyi. "But I am confident that through revitalizing our international discussion of these challenges, and by bringing these debates to the minds of people everywhere, we can reenergize confidence and we can reignite trade and development in a way that will deliver the SDGs."

This will be the focus of the discussions at the UNCTAD XIV conference in Nairobi, Kenya (to take place later this year), said Kituyi. *(SUNS8168)* ❐

Global FDI flows rebound to reach $1.7 trillion

Global flows of foreign direct investment rose 36% in 2015 to reach their highest level since 2007, according to an UNCTAD report. The increase did not entail a commensurate expansion of productive capacity, however, as it largely involved mergers and acquisitions instead of new investment projects.

by Kanaga Raja

GENEVA: Global flows of foreign direct investment (FDI) jumped by 36% in 2015, reaching an estimated $1.7 trillion, with the principal factor behind the global rebound being a surge in FDI targeting the developed economies, the United Nations Conference on Trade and Development (UNCTAD) has said.

In its latest *Global Investment Trends Monitor* (No. 22, dated 20 January 2016), UNCTAD however pointed out that the growth was largely due to cross-border mergers and acquisitions (M&As), with only a limited contribution from greenfield investment projects in productive assets.

Moreover, a part of FDI flows was related to corporate reconfigurations involving large values in the financial account of the balance of payments but little movement in actual resources, it said.

According to the UNCTAD report, barring another wave of M&A deals and corporate reconfigurations, FDI flows are expected to decline in 2016, reflecting the fragility of the global economy, volatility of global financial markets, weak aggregate demand and a significant deceleration in some large emerging market economies.

"Elevated geopolitical risks and regional tensions could further amplify these economic challenges," it said.

Stagnant greenfield investment globally and outright declines in a number of developing regions suggest that the current upswing in global FDI flows is potentially fragile and is exposed to the vagaries of the cross-border M&A market.

However, said UNCTAD, an improvement in macroeconomic conditions (with global growth projected to reach 2.9% in 2016 compared to 2.4% in 2015) due to modest recovery in developed economies could strengthen the confidence of investors and induce them to make productive investments to cement their business plans.

"In addition, further depreciation of currencies in emerging markets and possible sales of assets to restructure corporate debt may also stimulate additional FDI."

Global increase

Global FDI flows rose in 2015 to reach an estimated $1.7 trillion, their highest level since 2007, said UNCTAD. A wave of cross-border M&As, which rose significantly in value, was largely responsible for the increase in FDI. Greenfield investment project announcements, in contrast, registered little change in value terms from 2014, with a rise in developed economies roughly compensating a pull-back in multinational enterprises' capital expenditures in developing economies.

According to UNCTAD, the sharp increase of FDI inflows in developed economies changed the pattern of FDI by economic grouping in their favour. They now account for more than half of global FDI inflows.

However, at the regional level, developing Asia remained the largest host region for FDI inflows, surpassing the European Union and North America.

"Developing economies continue to make up half of the top 10 host economies in the year," said UNCTAD.

The United States, with an estimated $384 billion in inflows, vaulted back into first position among host economies in 2015, after exceptionally falling to third in 2014.

FDI inflows to Hong Kong-China – the second largest recipient in the world – reached a record of $163 billion for the first time ever.

UNCTAD said: "The rise in both economies, however, was due in part to inversion deals and reconfiguration of corporate structures involving large values in the financial account of the balance of payments but little movement in actual resources."

According to UNCTAD's preliminary estimates, FDI flows to developed countries bounced back sharply in 2015, reaching their second highest level ever at $936 billion, and accounting for the majority of the increase in global flows.

"Buoyant cross-border M&A activities, most notably acquisitions of assets in the United States by foreign MNEs [multinational enterprises], boosted FDI flows. MNEs seeking growth, rushed to make acquisitions. The low interest environment and strong balance sheets facilitated such moves."

Therefore, the growth of FDI inflows did not translate into an equivalent expansion of productive capacity, as it was due in large part to cross-border M&As and with only a limited contribution from greenfield investment projects in productive assets. Furthermore, some deals were structured as inversions which usually involve little movement in resources.

According to UNCTAD, FDI flows to the EU rose to an estimated $426 billion, after three successive years of decline. Inflows to the Netherlands (+146% to $90 billion), Belgium (from -$8.7 billion in 2014 to $32.7 billion) and the United Kingdom (+29% to $68 billion) rose strongly in 2015.

The region's largest economies, Germany and France, also experienced an uptick in their flows. In Germany, inward FDI returned to positive territory in 2015, after dipping into net divestment in 2014 (-$6.2 billion to $11 billion), thanks to a sharp reduction in net repayment of intra-company loans and a near doubling of reinvested earnings.

"While cross-border M&As to the region jumped (+68%), there was also an important increase in greenfield investment project announcements (+14%) signalling a potential rebound in capital expenditures in productive assets as macroeconomic and financial conditions improve."

UNCTAD found that the primary sector did not contribute to the rise in FDI or the doubling of M&A sales in developed countries.

In Australia, where FDI fell markedly (-33%), significant divestments of mining assets reduced M&A sales and weighed down inflows. A large swing in intra-company loans (from a net inflow of $13 billion in 2014 to a net repayment of $4 billion in 2015) also caused flows to slump.

The fall of FDI flows to Canada (-16%) was largely attributable to the primary sector as well, with a similar reduction in intra-company loans, especially for energy and mining MNEs.

For the United States, while the comparison with 2014 is skewed due to the exceptionally low level in that year caused by a single large divestment, the estimated $384 billion in FDI inflows in 2015 represent the highest level since 2000.

The rise in flows was due largely to a surge in equity investments and a sharp increase in M&A sales, said UNCTAD.

Acquisitions of assets in manufacturing and services more than compensated for the decline in the primary sector, with total M&A sales rising to $228 billion, the largest volume of cross-border acquisitions since 2000.

Flows to developing countries

According to UNCTAD, in 2015, FDI inflows to developing Asia rose by 15% to an estimated $548 billion, setting a new record. It continued to be the largest FDI recipient region in the world, accounting for one-third of global FDI flows.

With FDI inflows jumping to an estimated $163 billion, Hong Kong-China became the largest recipient economy in the region and the second largest in the world. The corporate reconfiguration of Cheung Kong Holdings and Hutchison Whampoa accounted for part of the increase.

FDI inflows to mainland China rose by 6% to an estimated $136 billion. While inward FDI flows in manufacturing declined, those in services kept momentum and drove total inflows to a new record level.

FDI inflows to Singapore dropped slightly by 4% to an estimated $65 billion, contributing to an overall decline of 7% in ASEAN (Association of South-East Asian Nations) as a whole.

FDI flows to India nearly doubled, reaching an estimated $59 billion. Measures taken by the government to improve the investment climate have had an impact, said UNCTAD.

In 2015, West Asia saw its FDI flows increase by 5% to $45 billion after six consecutive years of decline. However, the increase was driven largely by a rise of FDI flows in Turkey (+30% from $12.4 billion to an estimated $16 billion).

FDI inflows to Africa fell by 31% in 2015 to an estimated $38 billion, due largely to a decline of FDI in Sub-Saharan Africa. Flows to North Africa reversed their downward trend as Egypt saw a rebound of investment from $4.3 billion in 2014 to an estimated $6.7 billion in 2015. Central Africa and Southern Africa saw the largest declines in FDI, said UNCTAD, adding that the end of the commodity "super-cycle" had an impact on resource-seeking FDI.

Flows into Mozambique were down 21% but still notable at an estimated $3.8 billion, while Nigeria saw its FDI decline by 27% to an estimated $3.4 billion as the country was hit hard by the drop in oil prices. FDI flows into South Africa fell dramatically, down 74% to $1.5 billion.

According to UNCTAD, FDI flows to Latin America fell again in 2015 (-11%), reaching $151 billion. "Slowing domestic demand and a strong terms of trade shock caused by plummeting commodity prices hampered investment in South America."

FDI flows to Brazil, the region's principal recipient, fell 23% to $56 billion. Inflows were also impacted by the divestment of GVT Participacoes S.A. – a telecommunications provider – by Vivendi S.A. (France) for $9.8 billion to Telefonica Brasil S.A. (Brazil).

Falling profit margins in the extractive sector slowed new investments and crimped reinvestment in South America's commodities exporters, with flows falling in Chile (-38%) and Colombia (-15%), said UNCTAD.

This dynamic notwithstanding, FDI flows to Peru rose (+11%) with an increase in equity investments, it added.

Economic growth and investment in Central America, in contrast, remained robust in 2015, with Mexico registering a 14% increase in FDI to $29 billion.

UNCTAD said that the ongoing geopolitical situation and reduced market confidence in the transition economies led to a further decline of FDI flows by 54%, reaching an estimated $22 billion. FDI flows in South-East Europe rose 3%.

In the Russian Federation and Kazakhstan, the tumbling of international commodity prices weighed heavily on FDI flows, which declined by 92% and 66%, respectively.

Rise in M&As

UNCTAD also noted a pronounced upturn in cross-border M&As, which reached their highest level since 2007.

"MNEs took advantage of record cash positions, as well as exceptional global liquidity conditions, to make acquisitions with a view to boosting revenue growth and generating cost efficiencies."

Net sales rose to $644 billion, an increase of 61% over the previous year, spurred on by brisk deal-making in the manufacturing sector (+132%, to $339 billion).

In particular, sales of assets related to the manufacturing of non-metallic mineral products, machinery and equipment, and electrical components rose sharply.

In contrast, sales in the extractive sector slid (-51%) as plummeting oil prices contributed to a significant retreat in the total value of deals in crude oil and natural gas activities (-68%).

Developed economies were largely the target of the upswing in cross-border M&As. Net sales in the EU rose 68% to $269 billion, driven by strong increases in Ireland and the United Kingdom (together representing roughly three-quarters of the increase).

UNCTAD said tax inversion deals, carried out by MNEs from the United States, were evident in both countries.

Deal activity in the United States rose from $11 billion in 2014 to $228 billion in 2015, with the jump in part reflecting the effect of the low 2014 value due to the divestment of Verizon Wireless (United States) by Vodafone (United Kingdom) in that year, but also a growing appetite for assets in the country.

In contrast, said UNCTAD, the value of M&As in developing economies fell sharply (-44%) to $68 billion.

The abovementioned divestment in Brazil pulled Latin America and the Caribbean down (-60%), while sales in developing Asia retreated (-61%) from their exceptional levels, fuelled by large megadeals, of 2014.

Greenfield project announcements, which are indicative of MNEs' capital expenditure intentions, remained stagnant, registering little dynamism in 2015 (+0.9%).

Project announcements in developing economies declined sharply, particularly in Africa (-19%) and Latin America and the Caribbean (-23%), said the UNCTAD report. *(SUNS8163)* ❐

US, EU begin their campaign for new issues at WTO

Amid continued uncertainty over the future of the Doha Round talks, some WTO member states are pushing for "new issues" and "new approaches" to be taken up in the world trade body.

by D. Ravi Kanth

GENEVA: With the ink hardly dry on the month-old Nairobi Ministerial Declaration (NMD), the United States, China, the European Union, Australia, Canada and other major developed countries have begun at Davos their campaign for pursuing "new issues" at the World Trade Organization (WTO), several participants told the *South-North Development Monitor (SUNS)*.

(The NMD, in its operative paragraph 34, has said without ambiguity: "While we concur that officials should prioritize work where results have not yet been achieved, some wish to identify and discuss other issues for negotiation; others do not. Any decision to launch negotiations multilaterally on such issues would need to be agreed by all Members." – *SUNS*)

The new issues proposed by China, the EU, Canada, Korea and Thailand, among others, include digital trade, investment, small and medium enterprises (SMEs), and domestic farm subsidies. Brazil is reported to have said it is ready to "examine any new issue" that is mature for multilateral commitments.

Without mentioning the Doha issues, the US maintained that there is a fair degree of consensus for adopting "new approaches" to address the "outstanding" issues.

The US stance to do away with the Doha Development Agenda (DDA) architecture based on special and differential treatment flexibilities and less-than-full-reciprocity (LTFR) commitments in market access for agriculture and industrial goods to address the remaining "Doha" issues is also shared by the EU and other major developed countries.

China proposed a "solidarity work programme" in which it called for examining new issues such as electronic commerce and investment while simultaneously carrying out work on market access for agricultural products, industrial goods and services based on the Doha framework.

The EU called for pursuing new issues such as digital trade, investment and domestic farm subsidies.

Several other countries such as Korea and Thailand called for including small and medium enterprises in the new issues.

Paving the way for new issues

During a 23 January closed-door informal ministerial meeting convened by Switzerland on the margins of the annual World Economic Forum event in Davos, the major industrialized countries, especially the US and the EU, began preparing the ground for "new issues" and "new approaches" on the presumption that the DDA negotiations are dead, said a trade minister from a developing country.

The informal meeting was convened by Switzerland to chalk out the immediate priorities and what needs to be done for the WTO's eleventh Ministerial Conference in 2017. Participants at the meeting included the US, the EU, Hong Kong-China, Indonesia, Japan, South Africa, Kenya, Argentina, Australia, Canada, Lesotho, Mexico, Norway, Pakistan, Russia and Thailand. India was not present at the meeting.

During the half-day meeting, the WTO's Director-General Roberto Azevedo claimed that the December 2015 Nairobi Ministerial Conference was a "big success", arguing that it built on the outcomes reached at the Bali ministerial meeting in December 2013.

Azevedo said members must pursue the remaining DDA issues but must be open to talking about new issues without prejudice to the outcome.

Azevedo said members must start with a conversation and remain open to ideas of flexibility and inclusiveness.

The Director-General called for greater private sector engagement in the conversations on new issues at the WTO, according to participants present at the meeting.

Also speaking at the Davos meeting, Kenya's Cabinet Secretary for Foreign Affairs Amina Mohamed, who had chaired the Nairobi conference, said "success begets success." She said members must now broaden the conversation to include the private sector. She said she was "tired of alarmist rhetoric of trade vs. GDP," but did not mention how to address the remaining issues of the DDA during the meeting, according to a participant who asked not to be quoted.

The EU's Trade Commissioner Cecilia Malmstrom said the Nairobi ministerial meeting provided "happiness" as it was an "important" development. She said members must now move forward and focus on "issues of value added to WTO such as trade facilitation and export competition."

She called for "new approaches in a flexible and inclusive way" as well as "new issues" such as "electronic commerce, digital trade, investment and subsidies."

Mexico's Economy Secretary Ildefonso Guajardo Villareal called for a review of the single undertaking on which the DDA negotiations are based. "The reality is that in past three ministerials, the single undertaking has been put aside," he said. "Consensus has been the leading factor and single undertaking should be reviewed."

The WTO must discuss Internet services and manufacturing if it is to remain relevant to current developments, Guajardo Villareal maintained. "New ideas should come with proposals and framework," he argued.

Russia sought to know whether members should continue with the Doha Round or adopt new approaches.

Indonesia said "heads of state must be involved as much as possible." Indonesian Trade Minister Thomas Lembong said the "Bali success was due to Obama who spoke to Indian PM Manmohan Singh."

Thailand called for "new issues such as e-commerce, SMEs, competition, investment."

Turkey said it will closely follow the progress on a special safeguard mechanism for developing countries. Ankara urged progress in all Doha areas.

South Africa's Trade Minister Rob Davies reminded his counterparts that there are still significant divergences among members on the continuation of the DDA and new issues. Davies said the majority of members "wanted reaffirmation of the DDA while others did not."

"Some wanted new issues and some members opposed," Davies said. New issues, he said, are not yet ripe for negotiations. However, South Africa would not shy away from conversation.

Korea called for discussing new issues such as e-commerce, SMEs, global value chains and regulatory coherence on an exploratory basis.

Lesotho, which is the coordinator for the African Group of countries in the WTO, said members must discuss the concerns of those who seek to depart from the Doha mandate. Lesotho pressed for "flexibilities of least developed countries and developing countries based on the architecture of WTO Agreements."

China said WTO members must pursue a "solidarity work programme" to overcome divergences. Chinese Vice-Minister for Trade Shouwen Wang said the programme would include two sets of issues.

The first set would cover agriculture, market access for industrial goods, and services, as well as the remaining issues based on the multilateral approaches in line with the Doha framework.

The second set of issues, said Wang, would cover "issues that are very relevant," particularly new issues such as e-commerce and investment, with a multilateral approach. The solidarity work programme will have a definite timeframe, he said.

The US Trade Representative Michael Froman cautioned against rushing prematurely into "work plans and deadlines." The USTR said issues must develop organically and members must focus on revitalizing the WTO. He said members must not pursue rhetorical initiatives but instead focus on "pragmatic initiatives" based on consultations with diverse groups of the private sector.

Canada's new International Trade Minister Chrystia Freeland, however, said that for all the successes of Nairobi, members didn't live up to the full hopes of the Doha Round. She said it is time to do something on the Doha Round with fresh approaches.

In short, the US, the EU and other developed countries along with their developing-country allies are now preparing the ground for new issues and issue-based outcomes in market access.

The stage is set for making a rupture with the DDA negotiations once and for all, said a developing-country participant after the meeting. *(SUNS8166)* ❐

Davos and its threat to democracy

The annual gathering of world elites held in Davos, Switzerland, could herald an unaccountable, corporate-led model of global governance, *Nick Buxton* warns in this article written on the eve of this year's Davos meet.

It's an all-too-easy event to mock. It's hard to keep a straight face when the world's rich arrive annually in their private jets at the luxury ski resort of Davos to express their deep concern about growing poverty, inequality and climate change. US comedian Jon Stewart has labelled the World Economic Forum (WEF) the "Money Oscars" and lampooned the media's giddy sycophantic coverage of the event. Bono, himself a regular at the summit, jokes that it is a summit of "fat cats in the snow".

This year will be no different. Some 2,500 corporate executives, politicians and a few Hollywood stars are expected to descend this week on Davos to discuss the growing jitters about the faltering global economy as well as pontificate on the official theme of the conference, namely the "fourth industrial revolution" (think robots, AI and self-driving cars).

The real concern about the WEF, however, is not the personal hypocrisy of its privileged delegates. It is rather that this unaccountable invitation-only gathering is increasingly where global decisions are being taken and, moreover, is becoming the default form of global governance. There is considerable evidence that past WEFs have stimulated free trade agreements such as NAFTA as well as helped rein in regulation of Wall Street in the aftermath of the financial crisis.

Less well known is the fact that the WEF since 2009 has been working on an ambitious project called the Global Redesign Initiative (GRI), which effectively proposes a transition away from intergovernmental decision-making towards a system of multi-stakeholder governance. In other words, by stealth, they are replacing a recognized model where we vote in governments who then negotiate treaties which are then ratified by our elected representatives, with a model where a self-selected group of "stakeholders" make decisions on our behalf.

Advocates of multi-stakeholder governance argue that governments and intergovernmental forums, such as the UN, are no longer efficient places for tackling increasingly complex global crises. The founder of the WEF Klaus Schwab says "the sovereign state has become obsolete". The WEF has created 40 Global Agenda Councils and industry-sector bodies, with the belief these are the best groups of people to develop proposals and ultimately decisions related to a whole gamut of global issues from climate change to cybersecurity.

Corporations are put at the heart of this model, because they provide, in the view of Schwab and corporate elites, the possibilities of "agile" governance, drawing on the private sector's experience of "adapting to a new, fast-changing environment". Governments are encouraged to tackle every issue by allying with the private sector in public-private partnerships. And a few carefully selected civil society representatives are invited in to legitimize the process. Questions of how issues are framed, who is chosen, from what sectors, for whose benefit and accountable to whom are brushed under the carpet.

The WEF's board is illustrative of the sort of elite groups that emerge as a result, given that the WEF likes to see itself as a working model of this new, multi-stakeholder world. The WEF says on its website that it is "accountable to all parts of society", carefully "blend[ing] and balanc[ing] the best of many kinds of organizations, from both the public and private sectors, international organizations and academic institutions." But when only six of its 24 "exemplary" board members are women (25%), 16 are from North America and Europe (67%), 22 of the 24 went to universities in the US and Europe (10 in fact went to the same university, Harvard) and there is not one African board member, it does raise questions about what they think accountability and representation look like.

However, it's when you look at the careers of the board members that the real driving force behind this model is clear. While half of the board (12) are currently corporate executives, if you look at their career history, this rises to two-thirds. Only one member can be said to represent civil society (Peter Maurer of the Red Cross). There are no representatives of trade unions, public sector organizations, human rights groups, peasant or indigenous organizations, students and youth.

It is therefore no surprise when multi-stakeholder policy groups rarely, if ever, recommend any binding regulations that would damage corporate profits. University of Massachusetts professor Harris Gleckman, who has closely studied the GRI, says one of its central tenets is that opt-in, voluntaristic approaches are the best way for tackling social and environmental issues. So codes of conduct become the norm, and international binding standards and regulations are rejected (except of course when it concerns facilitating trade in commerce and finance, in which case legally enforceable protections for corporations are very welcome). In other words, corporations are free to pick and choose what they act on and are not bound by any enforceable legislation that could control their social and environmental impact.

Shift towards multi-stakeholderism

This elite-led model of governance is proliferating globally like a virulent rash. The World Water Forum, the Marine Stewardship Council and the Internet Corporation for Assigned Names and Numbers (ICANN) are just three of thousands of multi-stakeholder groups. They are becoming the default option for global governance, and there is nothing in international law to stop this. What the WEF is trying to do is to turn these models into a multi-stakeholder governance system. As Gleckman points out, "What is ingenious and disturbing is that the WEF multi-stakeholder governance proposal does not require approval or disapproval by any intergovernmental body. Absent any intergovernmental action the informal transition to multi-stakeholder governance as a partial replacement of multilateralism can just happen."

This model is even having a growing impact on existing intergovernmental forums. The recent agreement at the UN climate change conference in Paris, so celebrated worldwide, is typical. Gone was any reference to binding agreements, such as the Kyoto Protocol agreed in 1997, or any attempt to tie actions to scientific advice let alone historic responsibility. Instead we got voluntary 'promises' of action (known as Intended Nationally Determined Contributions), a call for greater private sector involvement, and a commitment to try and do better in five years' time.

The critical issue of food provides another example of what this shift towards corporate-led multistakeholderism can mean in practice. When food prices surged dramatically in 2007-08, causing food riots and social unrest, a plethora of multi-stakeholder initiatives emerged in response. These included the Global Alliance for Improved Nutrition (GAIN), the African Green Revolution Association (AGRA), the UN Secretary-General's High-Level Task Force on the Global Food Security Crisis and its parallel G8 public-private partnership initiative, the Global Partnership for Agriculture and Food Security, and the Scale Up Nutrition (SUN) initiative. They also included the WEF's own Global Food, Agriculture and Nutrition Redesign Initiative (GFANRI).

The groups' proposals all followed a very similar template – advocating for policies that liberalize trade, increase production, encourage corporate investment and help expand agroindustries' control of food. They pointedly ignore issues of distribution and waste or the need for democratic access and control of land and food. Moreover these groups systematically sought to close down multilateral spaces, such as the UN Standing Committee on Nutrition (SCN), that actually examined these issues. No wonder long-time food sovereignty activist Flavio Vicente calls this corporate capture a "life grab" which "threatens the achievement of food sovereignty and the full emancipation of women."

The result is that we are increasingly entering a world where gatherings such as Davos are not laughable billionaire playgrounds, but rather the future of global governance. It is nothing less than a silent global coup d'etat. *(cc Common Dreams)* ❐

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Can the Davos rich do more than talk?

Just a busload of billionaires, says Oxfam, now hold as much wealth as the entire bottom half of humanity. The elites at Davos could, if they so chose, start steering that bus in a different direction.

by Sam Pizzigati

Every winter the world's political and business elite retreat to the Swiss mountain resort of Davos to think deep thoughts and sup at five-star eateries. The corporate execs, bankers and finance ministers who frequent this annual Davos World Economic Forum have of late devoted considerable time to the topic of inequality. The 2015 forum, for instance, identified income inequality as the year's "most significant trend."

But talk can be cheap. In fact, the more the elites at Davos seem to contemplate our global great divide, the more global wealth seems to concentrate in fewer pockets.

Back in 2010, as the global charity Oxfam reminds us in a new report released on the eve of Davos 2016, the world's 388 richest billionaires had a combined fortune that equalled the net worth of the poorest half of the world's population. But in 2015 just 62 top billionaires had enough net worth to match the wealth of humanity's poorest half. That bottom half totals some 3.6 billion people.

Since 2010, those 3.6 billion folks have together lost just over $1 trillion – 41% of their household wealth. The richest 62 of our global billionaire class, meanwhile, have gained $542 billion over that same time span, a 44% increase in their personal net worth.

These fortunate 62 – a group small enough to fit in a bus – certainly do have some good-times company. Our world's wealthiest 1-percenters now average $1.7 million each in wealth, a total over 300 times greater than the average net worth of our world's bottom 90%.

The ultimate global inequality bottom line? Our top 1%, notes Oxfam, "now have more wealth than the rest of the world combined."

The crowd assembling in Davos could, with a snap of a few fingers, end this staggeringly stark inequality in a relative matter of minutes. Wealth, after all, isn't concentrating at such a ferocious rate because the rich are "innovating" at some spectacular level. Wealth is concentrating so ferociously in good part because the rich have become incredibly adept at concealing – from tax collectors – a huge chunk of their fortunes.

Oxfam's researchers put the amount of wealth that the global rich now have stashed away in offshore tax havens at $7.6 trillion. And those doing the hiding include the hefty share of the movers and shakers at the Davos World Economic Forum.

Oxfam has analyzed the tax machinations of 200 of the world's top corporations, a group that encompasses a fair number of the corporate "strategic partners" at Davos. Nine of ten of these corporate giants turn out to "have a presence in at least one tax haven."

Those corporate CEOs sashaying around Davos, in other words, could, with some simple executive orders, put a huge dent on a "global system of tax avoidance" that, says Oxfam, "denies poor countries the resources they need to tackle poverty, put children in school, and prevent their citizens dying from easily curable diseases."

Don't hold your breath. *(cc Inequality.org)* ❐

Sam Pizzigati edits Too Much*, the Institute for Policy Studies online monthly on excess and inequality. His latest book is* The Rich Don't Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class, 1900-1970 *(Seven Stories Press).*

The TPP fraud

Advocates of the Trans-Pacific Partnership Agreement have overstated the treaty's benefits and ignored its crucial costs.

by Jomo Kwame Sundaram

The Trans-Pacific Partnership (TPP) Agreement, concluded in Atlanta in October 2015 and to be signed in Auckland in February 2016, privileges foreign investors while imposing substantial costs on partner countries.

Touted as a "gold standard" 21st-century trade deal, it is critical to ascertain what gains can really be expected from the agreement and whether these exceed costs.

Dubious assessments

Mainly using methodologically-moot computable general equilibrium (CGE) models, all studies so far project modest direct economic growth gains from TPP trade liberalization.

Actual net gains may be even more modest, if not negative, as many assumptions in projection exercises are not in the final trade deal.

To make the case for the TPP, some studies looked for benefits elsewhere, mainly from supposedly projected investment boosts, while ignoring costs or presenting them as benefits.

The most widely cited study was issued in 2014 by the well-known US globalization cheerleader, the Peterson Institute for International Economics.

Wide-ranging expected TPP provisions were fed into the economic models as simple cost reductions, with no consideration given to downside risks and costs, e.g., due to reductions in national regulatory autonomy resulting from the TPP. The non-inclusion of such costs does not provide for a real cost-benefit assessment.

By excluding crucial costs, TPP advocates exaggerate projected trade benefits by claiming dubious gains. For example, they view provisions to extend intellectual property rights (IPRs) as cost reductions that will increase the trade in services.

Provisions allowing foreign investors to sue governments in private tribunals or undermining national bank regulation are seen as trade-promoting cost reductions, ignoring the costs and risks of sidelining national regulation.

The study claimed huge benefits by assuming that the TPP will catalyze large exports by lowering the fixed costs of entering foreign markets.

Although the huge gains claimed have no analytical bases, it assumed that half the impact of the TPP would be from cutting fixed trading costs.

If the modelling used conventional methods for estimating gains from trade, the results would have been much more modest, as per the only US government study of TPP impacts.

The remaining benefits projected by the Peterson Institute study are mainly from a foreign direct investment (FDI) boom. It arbitrarily assumed that every dollar of FDI within the TPP bloc would generate additional annual income of 33 cents, divided equally between source and host countries, without any economic theory, modelling procedure or empirical evidence for this supposition.

Thus, the study greatly overstates the benefits to be derived from the TPP. While most of its claims lack justification, the only quantified benefits consistent with mainstream economic theory and evidence are tariff-related benefits that make up an unknown but very small share of the projected gains.

The gains are much smaller than claimed by the TPP governments citing them. Less than a quarter of overall gains claimed can be considered seriously. Even these need to be compared against costs conveniently ignored by the study as well as actual details of the final deal.

Needless to say, ostensible country gains calculated similarly need to be discounted for the same reason.

Even unadjusted, the gains are small relative to the GDPs of TPP partner economies. Also, while projected trade benefits will take a decade to realize, the major risks and costs will be more immediate.

They represent one-time gains and have no recurring annual benefit, i.e., they do not raise the economies' growth rates.

The distribution of benefits has not been sufficiently analyzed in these exercises; if they mainly go to a few big businesses, with losses borne by others, the TPP would exacerbate inequality.

"Managed trade regime"

The TPP goes much further into how governments operate than needed to facilitate trade. Such 'disciplines' significantly constrain the policy space needed for countries to accelerate economic development and to protect the public interest.

The modest benefits projected make it crucial to consider the nature and scale of costs currently ignored by all available modelling exercises.

The TPP will impose direct costs, e.g., by extending IPRs and by blocking or delaying generics production and imports.

The TPP's investor-state dispute settlement (ISDS) provisions will enable foreign investors to sue a government in an offshore tribunal if they claim that new regulations reduce their expected future profits, even when such regulations are in the public interest.

As private insurance is already available for this purpose, ISDS provisions are completely unnecessary.

Jagdish Bhagwati, a leading advocate of free trade and trade liberalization, along with others, have sharply criticized the inclusion of such non-trade provisions in ostensible free trade agreements.

Instead of being the regional free trade agreement it is often portrayed as, the TPP seems to be "a managed trade regime that puts corporate interests first".

The TPP, offering modest quantifiable benefits from trade liberalization, is really a thin-edge-of-the-wedge package which will fundamentally undermine the public interest.

Net gains for TPP partners seem doubtful at this stage. Only a complete and proper accounting based on the full text can settle this key question.

The TPP has in fact already been used to try to kill the Doha 'Development' Round of multilateral trade talks, but may well also undermine multilateralism more broadly in the near future. *(IPS)* ❐

Jomo Kwame Sundaram was an Assistant Secretary-General responsible for analysis of economic development in the United Nations system during 2005-15, and received the 2007 Wassily Leontief Prize for Advancing the Frontiers of Economic Thought. The Peterson Institute report is available at www.sustainabilitynz.org/wp-content/uploads/2014/02/EconomicGainsandCostsfromtheTPP_2014.pdf.