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UNCTAD proposes "Global New Deal"

Noting that "the prioritizing of narrowly financial interests has created an unsustainable and inequitable world", the United Nations Conference on Trade and Development (UNCTAD) has put forward the case for a policy overhaul to achieve greater inclusiveness. The proposed "Global New Deal" would encompass national and international policy measures of recovery, regulation and redistribution aimed at rebalancing globalization.

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131 Jalan Macalister
10400 Penang, Malaysia
Tel: (60-4) 2266728/2266159
Fax: (60-4) 2264505
Email: twn@twnetwork.org
Website: www.twn.my

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Publisher: S.M. Mohamed Idris; **Editor:** Chakravarthi Raghavan; **Editorial Assistants:** Lean Ka-Min, T. Rajamoorthy; **Contributing Editors:** Roberto Bissio, Charles Abugre; **Staff:** Linda Ooi (Administration), Susila Vangar (Design), Evelyne Hong & Lim Jee Yuan (Advisors).

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A "Global New Deal" needed to rebalance globalization

A UN development body has called for a "Global New Deal" of policies at the national and international levels to tackle the problems of hyper-globalization and promote recovery, regulation and redistribution.

by Kanaga Raja

GENEVA: Rebalancing globalization and exiting this age of anxiety needs a profound change in the thinking and policy mix that caused these problems in the first place: it needs a Global New Deal, the UN Conference on Trade and Development (UNCTAD) has said.

In a recent policy brief, UNCTAD has suggested an interrelated set of policies that it says will be needed to address the problems of hyper-globalization and help build more inclusive, stable and sustainable societies ("Achieving the Global New Deal we need – Some steps forward", UNCTAD Policy Brief No. 63, December 2017).

According to UNCTAD, the broad aim is to catalyze a big transformative push by breaking with austerity economics, promoting public investment and crowding-in productive private investment, and levelling the playing field for working families everywhere.

While the appropriate mixture of recovery, regulation and redistribution will vary across countries (and with policy experimentalism of particular importance in the developing world), all policymakers can still usefully recall the original New Deal of the 1930s, but they must further translate its message to the global level to leverage the opportunities of today's interdependent world.

UNCTAD noted that in many countries, governments are currently grasping for a "quick fix" to the problems of hyper-globalization – whereby, over three decades or more, the prioritizing of narrowly financial interests has created an unsustainable and inequitable world in which too many people in too many places feel left out.

Stagnant wages, vertiginous levels of debt and recurrent financial crises are the most visible manifestations of a dangerously unbalanced world. But rigged markets, corporate rentierism and a dearth of productive investment are also hobbling economic recovery and longer-term transformation.

In developing countries, these problems are compounded by premature deindustrialization, the diminishing opportunities for export-led growth and a heightened vulnerability to external shocks both economic and environmental.

Other, older problems that long hindered developing countries are now emerging in even the most advanced economies, such as the surge in informality in many parts of the economy, resources lost to transfer pricing, or, after years of low investment, the problem of ageing and inadequate infrastructure.

"Despite this daunting landscape, the default policy regime in most advanced economies has not changed much since a global economic meltdown was averted following the sub-prime crisis of 2007-2008," said UNCTAD. It continues to be a mixture of quantitative easing, fiscal austerity and market liberalization; the outcomes have been neither sustainable nor inclusive.

Having resisted the austerity route for longer, the recent slowdown of growth in many developing countries, along with attendant debt market pressures, is beginning to encourage some policymakers in that direction.

The heightened sense of economic anxiety has not only stoked a distrustful, and at times xenophobic, politics but a sense of alarm each time interest rates rise by infinitesimally small amounts, currency and equity markets wobble or commodity prices take a dip, and there is a growing fear that technological advances, such as robotics, will only work for the few rather than the many. Quick fixes, from tax cuts to public-private partnerships (PPPs), have been tried but have failed.

"Rebalancing globalization and exiting this age of anxiety needs more than tinkering around the edges, it needs a profound change in the thinking and policy mix that caused these problems in the first place. It needs a Global New

Deal," said UNCTAD.

Inclusive macroeconomic regime

It noted that an enduring lesson from the original New Deal is the need to establish and nurture a pro-growth, inclusive macroeconomic regime which uses all the levers of aggregate demand not just to absorb under-utilized resources and boost incomes but to raise productivity by supporting structural transformation.

It said that the policy mechanisms are many and vary depending on country conditions and circumstances, but include short-to-medium-term proactive counter-cyclical policies alongside long-term investment in social and physical infrastructure. They need also to be supported by a bold political and social vision that goes beyond cautious technocratic tinkering.

"This calls for rejecting austerity while prioritizing spending over tax cuts to maximize multiplier effects and using public investment programmes to crowd-in private investment to priority sectors."

Government spending should be seen as a vector with both magnitude and direction: increased spending on social services, for example, not only boosts overall demand but generates many jobs as well as improving quality of life.

Government procurement, particularly in developing countries, can be an effective way of stimulating both demand and investment, as long as it is well designed and with appropriate monitoring and feedback mechanisms.

According to UNCTAD, a second, complementary element, common to advanced and developing countries alike, is public investment in transformative infrastructure – just as during the 1930s and post-WWII European reconstruction, when markets were unable to generate the investment needed to meet economic, human, social or environmental needs. Massive public works schemes (in the US) such as the Tennessee Valley Authority galvanized structural transformation and created dynamic new sources of growth and development, as well as thousands of jobs.

"China's ambitious Manufacturing 2025 shows the lesson has not been forgotten today, and indeed in many other countries governments plan to revive public investment in infrastructure in order to restore their economic fortunes."

Hyper-globalization has not been short of cheap money, not least in the post-crisis era, but it has been short of demand, particularly in advanced economies. Even so, the idea of a Global New Deal quickly faces talk of budget constraints and financial impropriety. But as Keynes recognized, by taking care of jobs (and rentiers), much of the concern about budget pressures at the national level will take care of itself.

In some parts of the world, fiscal revenues are already sufficient for what is needed but should be better directed; in others, even a small change in fiscal policy could have positive effects on boosting government's spending capacities.

While the case for lowering taxes has little empirical support, UNCTAD finds that raising taxes by 5%, on the top income decile in 43 countries that either belong to the OECD or G20, could gather additional revenues of around $1 trillion.

According to UNCTAD, inclusive macroeconomic proposals include the following:

- For developing and advanced economies alike, placing job creation with decent remuneration as top priority over other targets.
- Employing the full menu of fiscal policies in order to manage demand, and encourage credit allocation towards the most productive and job-creating uses; and directing interest rate and exchange rate policies to the goal of recovery, job creation and expansion, rather than exclusive targets for inflation. Particularly in developing countries, the central bank can become a more active participant in creating and directing credit.
- Using public procurement as an effective mechanism stimulating employment, consumption and investment demand; this can include large-scale public infrastructure projects.
- Targeting job creation to where the unemployed or underemployed can quickly best benefit. This may likely require a strong regional focus. Also, investing in paid care – both for the environment and people – can absorb large numbers in jobs that are not easily replaced by technology, and create large multiplier effects in terms of aggregate employment increases.
- Income policies can help boost effective demand and promote formalization; managing resulting macroeconomic trade-offs and legislative action (minimum wage, proper contracts for informal work, etc.) can help rebalance labour markets back towards the needs of working households.

Regulatory reversal

The UNCTAD policy brief notes that rolling back regulations on the movement of capital while restricting the ability of labour to organize collectively has, over recent decades, led not only to a sharp decline in the wage share but also to equally significant increases in market concentration and a proliferation of "rentierism", whereby the world's largest corporations protect their privileged market position and power through a variety of exclusionary (and on occasion predatory) mechanisms in search of surplus profits.

"Such a world is a long way from the textbook paradigm of perfect competition and is linked with excessive financialization, whereby easy speculative gains are privileged over patient investment and job creation in the productive economy."

Rising corporate debt levels have pumped up the market capitalization of the largest firms, with bloated dividend payments and excessive share buybacks crowding out reinvested profits. Bilateral and regional trade agreements that give corporations wide-ranging powers to shape or dispute regulatory policies have locked in a financialized world with no boundaries and limited countervailing pressures.

UNCTAD has advanced some policy recommendations to reverse these trends:

- Stricter enforcement of anti-trust legislation, along with stronger national disclosure and country-to-country reporting requirements for large corporations and a distributional component in competition policy.
- Reining in value-stripping CEOs by establishing a code of practice for executive pay, making salary packages of top managers more transparent and based on long-term performance, not on stock-based compensation.
- Stopping the looting of natural monopolies through a mixture of public ownership and stronger oversight along with a closer eye on the scale and scope of subsidies made to the private sector through PPPs and privatization programmes.
- Creating a more diversified and stable banking system that can cater to different needs, including through stronger regulation of shadow banking and supporting public banks for infrastruc-

ture lending and for venture capital for small and medium-sized enterprises.

Redistributive agenda

According to UNCTAD, redistribution was the last of the three Rs of the original New Deal (recovery and regulation being the other two), encompassing measures to bolster social security and promote a broad range of economic rights.

"These are just as essential today. Persistent insecurity and inequality is at the heart of the current malaise and the underlying cause of the loss of trust in the economic system and its ability to provide sustainable livelihoods and credible pathways to prosperity."

Support for redistribution is gathering pace as people realize unequal societies are not only socially unstable but also economically inferior.

Measures must not only involve ex-post social transfers that shift wealth and opportunities more equitably from richer to poorer, but also address profound imbalances in bargaining power between capital and labour, and between governments and globalizing corporations, that have been allowed to develop in recent decades.

In this context, UNCTAD has suggested the following proposals for policy action:

- Adopting progressive taxation measures beginning with a return to the marginal income tax rates in place at the start of the hyper-globalization era and extended to rents earned through intellectual property rights, property incomes, etc.
- Innovative supplementary income support schemes including social funds capitalized through shares issued by the largest corporations and financial institutions; or acquiring shares in publicly supported companies and initial public offerings (IPOs) in key sectors.
- A universal basic income as a complement, not a replacement to existing social and public services.

Global approach

The original New Deal offered a positive alternative to a fearful society, in which social inclusion went hand in hand with economic recovery, shared technological progress and a healthy environment. It dropped any pretence that markets, left to their own devices, could deliver desirable outcomes and instead built a mixed economy underpinned by effective government policies and regulations and a strong social contract.

"Today, as then, much can be achieved at the national level, and typically that is the main locus of transformative development strategies." A full employment and infrastructure agenda at the national level can, moreover, help to revitalize and rebalance world trade and fend off protectionist threats.

But inclusive macroeconomic policies will require policy coordination across countries, particularly amongst the systemically important economies, to ensure the buildup of global imbalances does not undermine expansionary measures at the national level.

Just as importantly, reversing the inequities of hyper-globalization needs a global approach, because many of the sources of exclusion and stratification have a large international footprint, and some of the tools needed to build a more inclusive economy have been constrained or even forbidden by international rules and agreements that strengthen the hand of footloose capital. Reviewing these agreements is a prerequisite for ensuring governments have sufficient space to adapt policies to local conditions and capabilities.

But policy space is a double-edged sword and must be employed responsibly and pragmatically, said UNCTAD. As such, responsible nationalism depends on effective international coordination to avoid beggar-thy-neighbour approaches, to support national policy efforts, and to share the benefits of inclusive growth amongst all countries.

"After 70 years of operation, a public auditing of the multilateral system with a view to identifying gaps, biases and overreach is long overdue."

UNCTAD has suggested the following policies that it said can help support a Global New Deal:

- Continue efforts to stop global tax base erosion and profit-shifting, which is costing governments hundreds of billions of dollars annually. Introduce a financial transaction tax which on some estimates could generate another half-trillion dollars. Clamping down on the use of tax havens will require legislative action at the international level but interim efforts could include a global financial register, recording the owners of financial assets just as the owners of physical assets are recorded in most countries.
- Increased mobilization of multilateral financial resources, strengthening of regional reserve funds, payment systems and development banks; the coordinated use of other public resources such as sovereign wealth funds currently valued at more than $7.5 trillion should also be considered.
- Increased official development assistance (ODA) to meet the 0.7% target and more, to refocus aid programmes in ways that enable recipients to mobilize resources quickly for sustainable economic development.
- A more balanced approach to sovereign debt restructuring; in particular, establishing a set of statutory procedures for relief restructuring and recovery that supports both debtors and creditors.
- A Global Competition Observatory to monitor market concentration and restrictive business practices, and to gather information on the large variety of existing regulatory frameworks around the world, including on investment agreements, as a first step towards coordinated international best practice guidelines and policies.
- Extending the redistribution agenda to the global level by ensuring that working conditions of expatriate and migrant workers are decent, not precarious or exploitative, including globally portable insurances and pension schemes.

"The constraints and deficits perceived to block today's Global New Deal are, typically, believed to be financial and motivational in nature." But, UNCTAD noted, finance is not lacking, though it has often been hidden or misdirected. *(SUNS8611)* ❐

FDI flows fell by 16% last year, says UNCTAD

Global flows of foreign direct investment declined in 2017 as developed economies registered significant drops in inflows, according to a UN investment monitor.

by Kanaga Raja

GENEVA: Global foreign direct investment (FDI) fell by 16% in 2017, to an estimated $1.52 trillion, with the slump in FDI flows to developed countries being the principal factor behind this global decline, the UN Conference on Trade and Development (UNCTAD) has said.

A strong decrease in flows was reported in Europe (-27%) as well as in North America (-33%), mainly due to a return to prior levels of inflows in the United Kingdom and the United States after spikes in 2016. However, this decline was tempered by an 11% growth in flows to other developed economies, principally Australia.

FDI flows to developing economies remained stable, at an estimated $653 billion, 2% more than in the previous year, according to UNCTAD. Flows rose marginally in developing Asia and Latin America and the Caribbean, and remained flat in Africa.

Developing Asia regained its position as the largest FDI recipient region in the world, followed by the European Union and North America.

These figures were contained in UNCTAD's latest *Global Investment Trends Monitor* (No. 28, January 2018).

"FDI recovery continues to be on a bumpy road," said UNCTAD Secretary-General Mukhisa Kituyi. "While FDI in developing countries remained at a level similar to the previous year, more investment in sectors that can contribute to the Sustainable Development Goals is still badly needed. Promoting FDI for sustainable development remains a challenge," he added.

"The decline of global FDI flows is in stark contrast to other macroeconomic variables, such as GDP and trade growth, which saw substantial improvements in 2017," said James Zhan, Director of UNCTAD's Investment and Enterprise Divison. "Upward synchronization of the trends in 2018 is probable, but risks are abundant."

According to UNCTAD, global FDI flows fell 16% in 2017, reaching an estimated $1.52 trillion, down from a revised $1.81 trillion in 2016, with the decline mainly concentrated in developed economies.

Equity investments at the global level fell by almost 40% mainly due to a 23% decrease in the value of cross-border mergers & acquisitions (M&As). The value of announced greenfield investment projects reached an estimated $571 billion, a decrease of 32% from the previous year.

At the regional level, said UNCTAD, falling flows to North America (-33%), Europe (-27%) and the transition economies (-17%) contributed to the global decline in FDI. In contrast, FDI flows increased in other developed economies (11%) due to a strong recovery of investment in Australia.

FDI flows remained stable across developing regions.

As a result of these regional differences, the share of developed economies in world FDI flows as a whole decreased to an estimated 53% of the world total.

Half of the top 10 host economies continue to be developing economies.

The United States remained the largest recipient of FDI, attracting an estimated $311 billion in inflows, followed by China with record inflows of $144 billion, despite an apparent slowdown in the first half of 2017.

Decrease in developed countries

According to UNCTAD, FDI flows to developed economies fell by 27% to an estimated $810 billion.

It said that the significant drops in FDI flows to the United Kingdom and the United States – the major factors behind the overall decline – can largely be explained. In the United Kingdom, this was due to the absence of a few large mega-deals that caused an anomalous peak in 2016. In the United States, this was due to sharply reduced inflows from a number of offshore financial centres.

Cross-border M&As in developed countries registered a 30% decrease (to $553 billion) in 2017, with fewer of the major transactions that shaped global investment patterns in 2015 and 2016.

In contrast, the value of announced greenfield projects was up 11% to $282 billion, which points to a potential rebound in capital expenditures in productive assets, as macroeconomic conditions continue to improve, said UNCTAD.

FDI flows to Europe declined from $541 billion in 2016 to an estimated $397 billion, with much of the drop being explained by lower inflows to the United Kingdom (-90%). In 2016, inflows to the United Kingdom had amounted to $196 billion, boosted by three cross-border M&A mega-deals.

Despite the overall decline, a generally positive economic outlook meant that FDI inflows grew in 19 of the 32 European economies, compared with just 14 economies in 2016. FDI inflows more than trebled in Germany (from $10 billion to an estimated $35 billion), mostly due to intra-company loans. FDI flows to France rose 77% (from $28 billion to an estimated $50 billion), mainly due to large M&A deals such as the acquisition of the animal health business of Sanofi by Boehringer Ingelheim (Germany) for $12.6 billion. In Switzerland, despite a few large acquisitions, such as that of Syngenta by China National Chemical for $41.8 billion, inflows saw a decline (from a revised $48 billion to an estimated $28 billion).

According to UNCTAD, inflows to North America fell by a third to an estimated $330 billion, partly due to falling cross-border M&As in both Canada and the United States. Inflows to the United States from Bermuda, Ireland, Luxembourg and Switzerland also fell sharply in 2017.

In Asia-Pacific, the upward trend in flows to Australia continued, with FDI reaching an estimated $60 billion, while flows to Japan and New Zealand lost ground in 2017.

Barely budged

Despite improving economic growth and rising commodity prices, FDI flows to developing economies barely budged in 2017, said UNCTAD. Inflows rose by 2% (to an estimated $653 billion), due to modest increases in developing Asia and in Latin America and the Caribbean.

There was a 44% increase in cross-border M&A value across developing sub-regions during the year (from $69 billion to $100 billion). In contrast, the value of announced greenfield projects fell 49% to reach $261 billion, with the majority of countries recording sharp declines.

Estimated FDI flows to developing Asia amounted to $459 billion in 2017, about 2% up from 2016. The region regained its position as the largest FDI recipient region in the world. Against the backdrop of a decline in worldwide FDI, its share in global inflows rose from 25% in 2016 to 30% in 2017.

The three largest recipient Asian economies were China, Hong Kong (China) and Singapore, in that order. Their estimated FDI inflows were $144 billion, $85 billion and $58 billion, respectively. With reported inflows (which do not reflect data on divestments) reaching an all-time high, China continued to be the largest FDI recipient among developing countries and the second largest in the world, behind the United States.

FDI inflows to ASEAN (Association of Southeast Asian Nations) rose by one third to $130 billion, with Indonesia accounting for a major part of this increase, as inflows to the country grew nearly six-fold to $22 billion.

According to UNCTAD, developing Asia's higher FDI inflows were mainly the result of a sharp increase in the value of cross-border M&A sales, from $42 billion in 2016 to $73 billion in 2017. This mainly reflected the cross-border M&A activities of foreign companies in Hong Kong (China), India and Singapore. In particular, the value of cross-border M&A sales in India grew sharply, increasing from $8 billion to $22 billion, driven by a small number of large deals.

UNCTAD said that FDI flows to Latin America and the Caribbean (an estimated $143 billion) were 3% higher than in 2016, the first rise in five years, but still 25% below the level reached in 2012, at the peak of the commodity boom.

Economic growth in the region resumed modestly in 2017 after two years of contraction, and investors have started looking for opportunities again, particularly in Brazil, it said. Nine of the 10 largest acquisitions by foreign companies in the region were in Brazil, and seven involved a Chinese buyer. This pushed up FDI flows to Brazil by 4%, from $58 billion to an estimated $60 billion.

Flows to Central America and the Caribbean (excluding offshore financial centres) were also stable, with notable growth in Costa Rica (15%).

According to UNCTAD, FDI flows to Africa registered a marginal decline (-1% to an estimated $49 billion). "Harmful macroeconomic effects of the commodity bust were still being felt in some countries, although commodity prices have started to rise again," it said.

South Africa had a notable recovery in FDI (up 43% to an estimated $3.2 billion), although flows still remained low by historical standards. Ethiopia saw record FDI inflows (up 14% to an estimated $3.7 billion), with increasing investments in the agricultural, manufacturing and health sectors.

After a vigorous recovery in 2016, FDI flows to transition economies declined by 17% in 2017, to an estimated $55 billion, their lowest level since 2005.

FDI declined in major recipient countries in the region: by 17% to $31 billion in the Russian Federation; by 29% to $6 billion in Kazakhstan; by 29% to $3

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Efforts afoot to smuggle e-com pluri-talks at WTO

Proponents of contentious new issues in the WTO appear to be intensifying the push for plurilateral negotiations on these subjects, including electronic commerce, in the absence of multilateral consensus.

by D. Ravi Kanth

DAVOS (SWITZERLAND): Major industrialized countries and their developing-country allies have stepped up their efforts to smuggle in plurilateral negotiations on electronic commerce by stealth at the World Trade Organization while erasing the unresolved issues of the Doha multilateral trade agenda, several trade ministers and envoys told the *South-North Development Monitor (SUNS)*.

An early indication of what is in the offing on the plurilateral project of the major industrialized countries, including the United States, on e-commerce came at an informal trade ministerial meeting on 26 January in Davos on the margins of the annual World Economic Forum (WEF).

Under the dubious slogan of a "political dialogue", major industrialized countries and their allies are attempting to bring plurilateral negotiations on e-commerce by ignoring the WTO's 1998 e-commerce work programme which was multilaterally agreed by all members, said a trade envoy who asked not to be identified.

During the three-hour meeting at Davos, trade ministers from industrialized countries and their developing-country allies pressed in chorus for plurilateral negotiations on e-commerce.

While some of the industrialized countries present at the meeting also flagged other issues – investment facilitation and disciplines for micro, small and medium-sized enterprises (MSMEs) – the US Trade Representative (USTR) Robert Lighthizer said the plurilateral route is not viable for all areas of rule-making. He said only e-commerce is the suitable candidate for plurilateral negotiations, according to a participant who asked not to be quoted.

South Africa and India, among others, demanded prior multilateral consensus before approaching any plurilateral initiatives on new issues.

South Africa's trade minister Rob Davies, who spoke before Lighthizer, said pursuing plurilateral initiatives without multilateral consensus can also be easily replicated for improving special and differential flexibilities and securing policy space for developing countries in other areas. Davies referred to the proposal for improving special and differential flexibilities mooted since 2001 by more than 100 countries of the developing-country G90 group at the WTO.

A large number of trade ministers and envoys present at the Davos meeting also demanded an immediate resolution to the continued impasse at the WTO's Appellate Body in which the US has repeatedly blocked the filling of three vacancies on unreasonable grounds, said a trade minister after the meeting. But Lighthizer remained stoically silent on this matter, said another trade minister who asked not to be quoted. (On the Appellate Body impasse, see the following article.)

Many industrialized countries, including the USTR, raised the issue of "differentiation" of developing countries – "the question of how to take into account different and evolving levels of development" of members. The USTR said "exemptions are not the best way forward, particularly among the biggest economies."

Many participants at the meeting also emphasized the importance of reaching an agreement on fisheries subsidies at the WTO by end-2019 but the USTR cautioned that the US cannot accept low-level ambition in the final outcome.

South Africa, India, China, Thailand, Saudi Arabia and Turkey, among others, called for resolving the unfinished issues. But major industrialized and several developing countries did not mention the Doha trade negotiations at all.

During the interventions, South Korea's trade minister Kim Hyun-chong voiced concern over the punitive US safeguard duties on solar cells and large washing machines, and said that members must ensure that trade remedies such as anti-dumping, countervailing and safeguard actions are consistent with the WTO rules.

Participants, including the WTO Director-General Roberto Azevedo, welcomed India's initiative to convene an informal ministerial meeting on 19 March.

Divergent views

The meeting at Davos brought to the fore divergent views among members on both old and new issues such as plurilateral initiatives for e-commerce, MSME disciplines, and trade and gender issues.

Azevedo said there is a need for "political dialogue on all issues". The challenge is how to get a "meaningful agreement based on multilateral consensus and for this trade-offs are important to make it possible", Azevedo said, according to a participant who asked not to be quoted.

The Swiss economy, education and research minister Johann N. Schneider-Amman, who hosted the meeting, issued a chair's summary at the conclusion.

According to the summary, ministers and trade envoys who spoke at the meeting expressed "disappointment" over lack of further convergence and outcomes at the WTO's Eleventh Ministerial Conference (MC11) in Buenos Aires in December.

"With reference to the decision on Fisheries Subsidies, a need to complete the negotiations by 2019 was emphasized frequently [during the meeting]," the summary noted.

"Moreover, in many interventions, the adoption of Joint Ministerial Statements by groups of Members was referred to as a significant development at MC11."

The joint statements refer to the plurilateral initiatives on e-commerce, investment facilitation, services domestic regulation, and gender and trade.

The chair's summary suggested that the WTO is facing important challenges and that fundamental reflections, including at political level, will be required on issues where major divergences exist.

The participants, according to the summary, underscored the "need to preserve and enhance the functioning of the multilateral trading system and the existing WTO framework, in particular: the work of the regular WTO bodies; and the WTO's dispute settlement mechanism, with particular concern being expressed about the situation of the Appellate Body."

"Among horizontal challenges faced in multilateral negotiations, the question of how to take into account different and evolving levels of development of Members was highlighted," the summary noted.

The summary was not a reflection of what WTO members want as it was dominated by the proponents of new issues and not the large majority of WTO members, South African minister Davies told *SUNS*.

Unresolved and new issues

Trade ministers and envoys at the meeting echoed their respective positions on the unresolved Doha issues as well as new issues such as the plurilateral initiatives for e-commerce, MSMEs, investment facilitation, and trade and gender.

USTR Lighthizer said the US wants an ambitious plurilateral outcome on e-commerce and a comprehensive agreement on fisheries subsidies. He added that the US doesn't think MC11 was a disappointment, suggesting that Washington had low expectations.

The USTR said he would concur with his South African counterpart Davies that all sectors – investment facilitation, MSMEs, and trade and gender – are not suitable for plurilateral outcomes. Only in some areas like e-commerce is plurilateral action possible to make a forward movement in the WTO, he said.

Lighthizer said the US remains optimistic that the WTO can take things forward. "We reject the notion that most WTO members can be exempted from WTO rules, especially the large economies [China, India, Brazil]," he maintained.

Argentina expressed support for all the new issues.

South Korea said the WTO must reflect the changing realities, particularly the need for rules for e-commerce in the context of the fourth industrial revolution.

Korean minister Kim expressed sharp concern over the safeguard duties, arguing that they must be consistent with the WTO rules. He also said the prolonged vacancies at the Appellate Body are not desirable.

Russia, Singapore, the European Union, Norway and Pakistan, among others, supported the new issues.

EU Trade Commissioner Cecilia Malmstrom called for new "approaches", saying business as usual will not be acceptable. She called for immediate work on the new issues.

Several other countries, including Costa Rica, Colombia, Nigeria and Brazil, also spoke in favour of e-commerce and other new issues such as investment facilitation.

India said the multilateral route must be the basis for further work at the WTO for building trust and confidence.

Indian trade envoy Ambassador J. S. Deepak said negotiations must be resumed on the basis of the existing agenda while simultaneously addressing institutional issues, particularly the impasse at the Appellate Body. As regards new issues, India said they must be approached only on the basis of multilateral consensus.

China's trade envoy Ambassador Zhang Xiangchen urged the participants to make a "balanced" assessment on the relationship between current WTO functions and their commitments. Zhang said the WTO system is indispensable for trade and cooperation. He said China will pursue old issues based on previous negotiated ministerial decisions and is also ready to address new issues that are relevant for the future.

South Africa's Davies expressed grave concern at the manner in which countries went out and issued joint statements for plurilateral initiatives after failing to secure multilateral consensus. If such practices are adopted, he said, then more than 100 countries of the G90 can go out of the WTO and frame rules on stronger special and differential flexibilities for policy space as part of a plurilateral outcome and later bring it to the WTO for all members to follow.

Brazil said special and differential flexibilities were part of the balanced concession in the Uruguay Round.

Thailand called for addressing the unresolved Doha issues, while Indonesia said members must pursue issues based on the United Nations Sustainable Development Goals (SDGs).

In short, the battle over the dubious plurilateral project which lacks integrity and consistency with the WTO rules has started taking shape a month after the collapse of MC11. Unless the developing and poorest countries remain vigilant to nip the plurilateral dialogue in the bud, they might be drawn into the negotiations by next year, said a trade envoy who asked not to be quoted. *(SUNS8610)* ❐

Continuing impasse over AB selection process

The WTO system for resolving trade disputes could be hamstrung by the prolonged failure to appoint new members for the system's appellate body due to US objections.

by Kanaga Raja

GENEVA: The United States has once again blocked efforts to launch the selection process to fill three current vacancies on the seven-member Appellate Body (AB) of the World Trade Organization.

At a meeting of the WTO's Dispute Settlement Body (DSB) on 22 January, the US rejected a new joint proposal tabled by some 60 WTO members that called for the simultaneous launch of the selection processes to fill the three vacancies.

The second and final four-year terms of two AB members, Ricardo Ramirez-Hernandez and Peter Van den Bossche, have expired. Ramirez-Hernandez's term expired on 30 June 2017, and Van den Bossche's on 11 December 2017.

According to trade officials, both Ramirez-Hernandez and Van den Bossche are continuing their work on appeals to which they had been assigned before their second terms expired.

Another vacancy pertains to Kim Hyun-chong from South Korea, who tendered his resignation with immediate effect on 1 August 2017 prior to taking up his appointment as a minister in the Korean government.

In light of these developments, the AB is now down to four members from its regular seven-member complement.

With the US blocking the launch of the selection processes to fill these vacancies, effectively it will become impossible for the AB to hear and dispose of appeals.

At the 22 January DSB meeting, the Chair of the DSB, Ambassador Junichi Ihara of Japan, reported on his most recent consultations with WTO members concerning the continued deadlock over filling the three vacancies on the AB.

According to trade officials, the chair said that there were differences with regard to Rule 15 of the Working Procedures for Appellate Review, which allows AB members to continue working on cases they were assigned to before their terms ended. But there was also a common understanding that such a transitional arrangement was needed, the chair added.

At the same time, according to the chair, there appears to be broad recognition that Rule 15 could be updated and improved.

(Rule 15 states: "A person who ceases to be a Member of the Appellate Body may, with the authorization of the Appellate Body and upon notification to the DSB, complete the disposition of any appeal to which that person was assigned while a Member, and that person shall, for that purpose only, be deemed to continue to be a Member of the Appellate Body.")

Several members considered the AB's 24 November explanation of the operation of Rule 15 to be a useful clarification.

A number of delegations said that the transitional arrangements for Ramirez-Hernandez and Van den Bossche could be addressed by the DSB's endorsement of their continued service, while many delegations emphasized that, while addressing matters related to Rule 15, the selection process of AB members should be launched without delay.

The chair said he would continue his informal consultations on the matter. He encouraged delegations to come up with concrete ideas for a solution.

Joint proposal

A joint proposal on AB appointments was tabled at the DSB meeting by Argentina, Australia, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, El Salvador, the European Union (28 member states), Guatemala, Honduras, Hong Kong-China, Kazakhstan, Korea, Mexico, New Zealand, Nicaragua, Norway, Pakistan, Panama, Paraguay, Peru, the Russian Federation, Singapore, Switzerland, Chinese Taipei, Turkey, Ukraine, Uruguay and Vietnam. (Canada and the Dominican Republic also expressed their intention to co-sponsor the joint proposal.)

Citing the urgency and importance of filling the vacancies in the AB, in compliance with the WTO's Dispute Settlement Understanding (DSU) and so that it can carry on its functions properly, the joint proposal called on the DSB to take a decision with regard to the following four elements:

(1) to launch one selection process to replace Ramirez-Hernandez, a second one to replace Kim, and a third one to replace Van den Bossche;

(2) to establish a Selection Committee composed of the WTO Director-General and the 2018 chairpersons of the General Council, the Goods Council, the Services Council, the TRIPS Council and the DSB, to be chaired by the DSB chair;

(3) to set a deadline of 22 February 2018 at 6 pm for members to submit nominations of candidates; and

(4) to request the Selection Committee to carry out its work in order to make recommendations to the DSB as soon as possible so that the DSB can take a decision to appoint three new AB members as soon as possible.

Mexico introduced the joint proposal on behalf of the 58 WTO members plus Canada and the Dominican Republic. It said that the proposal continues to reflect the increased concern of a considerable number of members with the current situation in the AB that is seriously affecting its workings and the overall dispute settlement system against the best interest of its members.

According to Mexico, WTO members have a responsibility to safeguard and preserve the AB, the dispute settlement system and the multilateral trading system. "Thus, it is our duty to proceed with the launching of the selection processes for the Appellate Body members, as submitted today to the DSB."

Mexico underlined that the proponents are flexible in the determination of the deadlines for the selection processes but they should take into account the urgency of the situation.

US stance

In its statement, the US said: "We are not in a position to support the proposed decision."

As noted in the past, said the US, Ramirez-Hernandez continues to serve on an appeal despite ceasing to be a member of the AB nearly seven months ago. Now, a new situation has arisen: Van Den Bossche continues to serve on five appeals despite ceasing to be a member of the AB last December.

According to the US, the latest decision by the AB to, in its words, "authorize" a person who is no longer a member of the AB to continue hearing appeals creates a number of very serious concerns.

First and foremost, as stated at past meetings, the US said, the AB simply does not have the authority to deem someone who is not an AB member to be a member. It is the DSB that has a responsibility under the DSU to decide whether a person whose term of appointment has expired should continue serving. The US said it is resolute in its view that members need to resolve that issue first before moving on to the issue of replacing such a person.

Second, in one current appeal, only one member of the division hearing that appeal continues to be a member of the AB pursuant to DSB appointment decisions.

Third, the US noted that, with the most recent AB "authorization", one person who is no longer a member of the AB is serving on more appeals – at least five – than anyone who is a member of the AB.

"And so, in addition to our concern that all of this is contrary to the DSU and without any DSB authorization, we have to ask: is this reasonable or appropriate?"

The US said it has continued to convene meetings to discuss this issue informally with a number of delegations. "This outreach has been productive in that we believe we have heard a general recognition that it is the DSB that has the authority to set the term of an AB member under DSU Article 17.2; it follows that the DSB has a responsibility to decide whether a person should continue serving beyond that term."

"We have also heard agreement from several delegations that Rule 15 raises difficult legal questions that the DSB should address," said the US.

"In the course of our engagement, we have not heard delegations reject the importance of the issue we have brought to the DSB's attention. To the contrary, we have heard a willingness of delegations to work together on this issue to find a way forward."

The US also recalled that the AB provided members with a background note on Rule 15. "That communication appears to raise more questions than it answers. We look forward to discussing that communication with Members as well."

"We therefore will continue our efforts and our discussions with Members and with the Chair to seek a solution on this important issue," the US concluded.

No linkage

According to trade officials, many members that took the floor reiterated their concerns about the continued impasse and the impact it could have on the WTO's dispute settlement system as well as the WTO as a whole.

They were prepared to discuss the concerns about Rule 15 and other procedural matters, but said there should be no linkage between these discussions and the launch of the selection process, which needed to begin as soon as possible.

Members that spoke included Pakistan, China, Colombia (for the GRULAC group), Canada, Australia, Brazil, Uruguay, Norway, Panama, Singapore, Switzerland, New Zealand, Japan, Chinese Taipei, Turkey and the European Union.

Canada said it deeply regrets that the DSB has been unable to fulfil its legal obligation under DSU Article 17.2 to appoint AB members as vacancies arise.

Canada agreed that it is time to start a process or, if necessary, several processes to select new AB members for the three current vacancies. It was pleased to join the joint proposal and urged the DSB to adopt it without further delay.

Like other members, Canada said, it was disappointed that the US has linked the start of the AB selection processes to the resolution of certain procedural concerns it has shared with members. However, Canada said it remains committed to working with other interested members – including the US – with a view to finding a way to address those concerns so as to allow the selection processes to start and be completed as soon as possible.

Increasing concern

China said that the growing number of co-sponsors of the joint proposal demonstrates an increasing concern among the membership over the current situation. Even though three vacancies have arisen in the AB, none of them can be filled because of the concerns raised by the US.

With regard to Rule 15 of the Working Procedures for Appellate Review, China said that it is open to engaging in further discussion on this provision in a proper forum. "However, this is without prejudice to our position that China can-

(continued on page 15)

The myth that Davos can change the world

The luxury Swiss resort of Davos once again played host to an annual gathering of global elites but gone this time, say pro-poor activists, was the idea that the meeting would yield solutions for a more equal world.

by Thalif Deen

NEW YORK: When the World Economic Forum (WEF)'s 23-26 January annual meeting in Davos concluded, the outcome of the yearly talkfest was, predictably, plenty of unrestrained platitudes but, surprisingly, less of the American populist, protectionist rhetoric.

The presence of US President Donald Trump was a political sideshow as he proudly declared that America was "open for business" – even as standup comedian Jimmy Kimmel wisecracked: "And who better to make that declaration than a man who declared bankruptcy six different times?" (when Trump was a self-declared "billionaire" businessman before he ran for the presidency).

Trump, who has increasingly opted for bilateralism over multilateralism – while pulling out of the 11-member Trans-Pacific Partnership (TPP) and threatening to do the same with the North American Free Trade Agreement (NAFTA) with Mexico and Canada – appeared more restrained before the world's business elites, even though he arrived in Davos immediately after he slapped tariffs on imported solar panels and washing machines.

But then appearances, as they say, can be frighteningly deceptive.

Implicitly taking a shot at Trump, Indian Prime Minister Narendra Modi told the Davos forum that "forces of protectionism are raising their heads against globalization." Their intention is not only to avoid globalization but also reverse its natural flow, he warned.

Even the usually restrained United Nations expressed concern over Trump's call for countries to pursue their own self-interest in an age of globalization and multilateralism.

The UN High Commissioner for Human Rights, the outspoken Zeid Raad al-Hussein, declared: "It's the script of the 20th century. He urged all countries to pursue their own interest, almost without reference to the fact that if you do all of that, if each country is narrowly pursuing its agenda, it will clash with the agendas of others and we will take the world back to 1913 once again."

Ben Phillips, Launch Director at the Nairobi-based Fight Inequality Alliance, told Inter Press Service (IPS): "Davos is over. This is not merely to say that the private helicopters have taken their charges back to private airstrips for their onward journey home. This year, 2018, was the nail in the coffin for the idea that Davos could change the world."

He described the Davos forum as a "speed-dating club for plutocrats and politicians". But the idea that it will be a force for a more equal society is dead, he added.

At Davos, WEF boss Klaus Schwab embraced Trump, complaining that Trump's "strong leadership" had suffered "misconceptions and biased interpretations". He praised Trump's tax giveaway to billionaires that is cutting services, increasing debt and widening inequality: "On behalf of the business leaders here in this room, let me particularly congratulate you for the historic tax reform package passed last month, greatly reducing the tax burden of US companies."

According to *The New York Times*, some in the audience booed at Schwab's remarks praising Trump.

Davos is now Trump-Davos, said Phillips: the racism and cruelty of Trump is forgiven. "And Trump became Davos-Trump: his claimed revolt against globalization is now exposed as merely an attack on poor migrants and not a challenge to the global elite."

"Goldman Sachs – once the target of Trump's rhetoric but now the source of his key cabinet picks – was clear. [They] really like what he's done for the economy," Phillips added.

Jennifer Morgan, Executive Director, Greenpeace International, told IPS she saw no evidence that the corporate or government leaders in Davos really understood the urgent need to provide justice for the people or the planet.

"While they speak of inclusive growth and climate action, they fail to investigate or challenge their own role in propping up and benefiting from the underlying system that has created the fractured world we live in," she added.

However, she said, she was inspired by many of the young global shapers, particularly women, whom she met, leading the way with big ideas and collective leadership.

Morgan pointed out that climate risk and climate action were more present in discussions at Davos this year, but not at the speed or scale required when measured against the scale of the challenge we face. "Climate disruption is the new norm, which means a transformation of our energy and land-use systems is the only way forward," she noted.

"Zero results"

Phillips told IPS that it was not just the embrace of Trump that has ended the myth of Davos as an equalizing force. It is the consistent failure of Davos to deliver. "For years now, Davos has listed inequality as a major concern, and yet has also noted that it keeps increasing. (Don't these leaders have any influence?)" he asked.

As former World Bank economist Branko Milanovic, a leading expert on inequality trends, has noted, Davos has "produced zero results" in lessening inequality – while the economy has been further adjusted by inequality-exacerbating policies that have returned us to the "early 19th century".

For students of history, said Phillips, this should all be unsurprising: never, at any time or place, have great strides been made in tackling the concentration of power and wealth by a few by literally concentrating together those powerful and wealthy few.

Indeed, all major equalizing change has involved a process of those outside the elite gathering together, building confidence and strength, and pushing for a fairer share. Greater equality has never been freely given, it has always been won through collective struggle, declared Phillips.

"Happily, last week was a week when that process of people organizing together for change also took a step forward. But not on the Davos mountain, but on very different mountains."

As the media summarized it: "Forget Davos – Dandora is the key to tackling inequality."

Dandora in Nairobi is a slum situated on top of a garbage mountain, and it was there, not at the WEF, that NGOs, social movements and trade unions which have come together in the global Fight Inequality Alliance centred their organizing.

Dandora played host to an Usawa Festival ("Equality Festival") pulled together by Kenya's greatest hip-hop star Juliani along with grassroots groups working to build strength from the ground up.

Across the world, similar festivals and rallies brought people together to demand change and build their power.

Attendees at Davos complained of being trapped in fog, stuck in ditches and almost buried by heavy snow. At the Dandora garbage mountain, in contrast, the sun shone, the participants sang in joyful defiance and people took the initiative for change into their own hands, said Phillips.

"We are the people we've been waiting for!" they shouted.

It will take time, they said, but from the garbage mountaintop they felt, in an echo of Dr King and of the captives who ran from the Pharaoh, that they could see the promised land, declared Phillips. *(IPS)*

Wealth concentration continues to increase

***Anis Chowdhury* and *Jomo Kwame Sundaram* survey a global landscape of economic inequality where the rich are amassing an ever-greater share of total wealth.**

As the "masters of the universe" gathered for their annual retreat at Davos, the World Economic Forum (WEF) published its Inclusive Development Index (IDI) for the second time.

After moderating from the 1920s until the 1970s, inequality has grown with a vengeance from the 1980s, with neoliberal ascendance unleashing regressive reforms on various fronts.

Sensing the growing outrage at earlier neoliberal reforms and their consequences, as well as the financial sector bailouts and fiscal austerity after the 2008-09 global financial crisis, politicians and business leaders have expressed concerns about inequality's resurgence.

The record is more nuanced.

While national-level inequalities have grown in most economies over the last four decades, international income disparities between North and South have actually narrowed, largely due to growth accelerations in much of the latter.

But while income inequality trends have been mixed, wealth concentration has picked up steam, recently enabled by the low cost of credit, thanks to "unconventional monetary policies" in the North.

According to the *World Inequality Report 2018*, the top 1% in the world had twice as much income growth as the bottom half since 1980. Meanwhile, income growth has been sluggish or even flat for those with incomes between the bottom half and the top 1%.

Oxfam's new *Reward Work, Not Wealth* report reveals that the world's wealthiest 1% got 82% of the wealth generated in 2017, while the bottom 50% saw no increase at all!

The world's 500 richest, according to the Bloomberg Billionaires Index, became $1 trillion richer during 2017, "more than four times" the gain in 2016, as their wealth increased by 23%, taking their combined fortunes to $5.3 trillion.

According to the UBS / PwC *Billionaires Report 2017*, there are now 1,542 US dollar billionaires in the world, after 145 more joined their ranks in 2016.

Meanwhile, the latest Credit Suisse *Global Wealth Report* found that the world's richest 1% increased their share of total wealth from 42.5% at the height of the 2008-09 global financial crisis to 50.1% in 2017, or $140 trillion.

It shows that the bottom half together owned less than 1% of global wealth, while the richest 10% owned 88% of all wealth, and the top 1% alone accounted for half of all assets.

Thus, global household debt rose by nearly 5% in 2017 despite total wealth increasing by $16.7 trillion, or 6.4%.

The report attributes this to uneven asset price inflation, with financial asset prices growing much faster than non-financial asset values.

Recent unconventional monetary policies of the world's major central banks contributed to such asset price inflation. The European Central Bank has acknowledged that quantitative easing (QE) has fuelled asset price inflation.

Kevin Warsh, a former US Federal Reserve Board member, has argued that QE has only worked through the "asset price channel", enriching those who own financial assets, not the 96% who mainly rely on income from labour.

An International Monetary Fund (IMF) study found that "fiscal consolidation", typically involving austerity, has significantly worsened inequality, depressed labour income shares and increased long-term unemployment.

Another IMF research report shows that capital account liberalization – typically recommended to attract foreign capital inflows without due attention to the consequences of sudden outflows – has generally significantly and persistently increased national-level inequalities.

The *World Inequality Report 2018* also observed that rising income inequality has largely been driven by unequal wealth ownership.

Privatization in most countries since the 1980s has resulted in negative "public wealth" – public assets minus public debt – in rich countries, even as national wealth has grown substantially.

Over recent decades, countries have become richer as governments have become poorer, constraining governments' ability to address inequality by increasing public provisioning of essential services.

An earlier IMF study also noted that neoliberal reforms – promoting privatization, cutting government spending, and strictly limiting fiscal deficits and government debt – have also increased economic inequality.

On average, net private wealth in most rich countries rose from 200-350% of national income in 1970 to 400-700% recently as marginal tax rates for the rich and super-rich have fallen.

The Oxfam report identifies tax evasion, corporate capture of public policy, erosion of workers' rights and cost cutting as major contributors to widening inequalities.

The IMF's recent *Fiscal Monitor* acknowledges that regressive tax reforms have caused tax incidence to be far less progressive, if not regressive, while failure to tax the rich more has increased inequality.

Besides new tax evasion opportunities and much lower marginal income tax rates, capital gains are hardly taxed, encouraging top executives to pay themselves with stock options.

Misleading

It is quite remarkable how increasing wealth concentration has been described and presented to the public. For example, the Allianz *Global Wealth Report 2016* has described the trends as "inclusive inequality", claiming a growing global middle class even as inequality has been rising.

Similarly, the Credit Suisse report argues that wealth distribution is shifting as the world becomes wealthier, thus lowering barriers to wealth acquisition.

Increasing wealth and income inequality are thus merely reflecting faster asset accumulation, including the pace at which new millionaires are being created.

Josef Stadler, UBS head of global ultra-high net worth and lead author of the UBS / PwC *Billionaires Report 2017*, decries "the perception that billionaires make money for themselves at the expense of the wider population" as incorrect, attributing billionaires' fortunes to the strong performance of their companies and investments.

Besides their philanthropic contributions and patronage of the arts, culture and sports, 98% of billionaires' wealth is said by him to contribute to society as the world's super-rich employed 27.7 million people.

Rather than making money from their employees' efforts, billionaires apparently make private welfare payments to them out of the goodness of their hearts! *(IPS)* ❒

Anis Chowdhury is Adjunct Professor, Western Sydney University and the University of New South Wales (Australia); he held senior United Nations positions in New York and Bangkok. Jomo Kwame Sundaram, a former economics professor, was UN Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

Double standards on a taxing issue

Harnessing domestic resources for development in Africa demands national tax systems that are more progressive as well as international action to tackle tax dodging and illicit financial flows.

by Dereje Alemayehu

The tax-to-GDP ratio does not reflect the fairness of a tax system. In most member countries of the Organization for Economic Cooperation and Development (OECD), an umbrella organization of rich nations, the ratio has remained relatively constant in the past three decades. However, a big shift took place from direct to indirect taxes, which led to a redistribution of the tax burden from the better-off to the worse-off. This example shows that fairness depends on what kind of taxes are collected.

African countries could raise their tax-to-GDP ratio by collecting more money from the poor, but that would compound problems of inequality. The aim must be to establish equitable tax systems that make all citizens pay according to their ability to pay. The higher one's income is, the higher the share of taxes one pays should be. That kind of tax system is called progressive. Moreover, African governments must do their best to curb illicit financial flows (IFFs) in the global context.

African countries' tax-to-GDP ratios are low compared with those of OECD members today. However, they resemble those of the OECD nations when the latter's economies were not yet industrialized, diversified and technology-based. Back then, for example, it was not unusual for European governments to raise only 10% of GDP.

The structure of African countries' economies is one reason for the low tax-to-GDP ratios. Tax collection is made difficult by the preponderance of subsistence agriculture, the lack of diversification and the huge share of the informal sector in urban areas. It would make sense to widen the tax base and raise taxes from the informal and subsistence sector. Measures to do so would not only raise revenue but also turn the majority of the people into taxpaying citizens with a voice.

International experience shows that governments that rely on citizens as taxpayers are more likely to be accountable than governments which depend less on taxes. Indeed, taxes reflect a "social contract": the people pay taxes, and in return the government delivers social services and builds infrastructure. Typically, budgets are adopted by parliaments, and the social contract is reinforced in elections.

Unfortunately, African tax systems are not yet in a situation to strengthen the social contract. The reason is that they increasingly rely on indirect taxes, such as the value-added tax. Consumers are often not conscious of paying these taxes. Moreover, these taxes disproportionately burden the poor, who must spend almost all of their income on consumption.

Thanks to loopholes and exemptions, the better-off do not pay appropriate income or other taxes. All too often, governments intentionally provide them with tax avoidance opportunities. Adopting more progressive tax systems would not only raise fiscal revenues but also address the issue of inequality. Another important aspect would be that national revenue services would have to be made more accountable and more transparent in order to minimize corruption, enhance efficiency and boost credibility. All summed up, the governance of African countries would benefit from better and more progressive taxation.

Limited sovereignty

Nominally, tax policies are a sovereign prerogative. Each country is free to determine its tax policy. In practice, however, international financial institutions (IFIs) and donor governments have a strong influence on African policies (see box). African countries have the right – and the duty – to adopt policies that serve their people rather than the interests of multinational corporations. The tax holidays that foreign investors have been granted undermine African statehood and thwart attempts to make tax systems fairer.

The influence of IFIs and donor countries in maintaining the status quo cannot be overstated. OECD countries condone tax dodging in Africa. Their stance reminds one of the attitude they used to have towards bribes. Until the beginning of the century, they not only tolerated this kind of corruption but even made bribes tax-deductible. If they were to deal with multinationals' tax avoidance and tax evasion as illegal, just as they at long last did with bribery, this would be consistent with their rhetoric to support African governments to mobilize more domestic resources.

Illicit financial flows are depleting Africa's public revenue. Stemming them is a hot topic of development discourse. African governments' scope for action is limited, however, as IFFs involve manipulation of international trade prices, theft of public assets and tax-haven operations. The most notorious tax havens actually belong to the OECD: 15 are British crown dependencies and overseas territories, including the Virgin and Cayman Islands.

In 2011, the African Union and the UN Economic Commission for Africa set up a high-level panel on IFFs, chaired by Thabo Mbeki, former president of South Africa. The panel published its report in 2015. It estimated that up to $60 billion a year leaves the continent in the form of IFFs.

Among other things, the panel recommended eliminating secrecy jurisdictions around the world. Scandals such as Swiss Leaks, Luxleaks, the Panama Papers and the recent Paradise Papers revealed the universality of tax evasion and tax avoidance. They also proved the role of secrecy jurisdictions in facilitating such practices. After a few weeks of public outrage, however, it has so far always been back to business as usual.

OECD countries are making efforts

Undermining statehood

In the past decade, donor governments have increasingly been admonishing African countries to improve their domestic resource mobilization. What they tend to overlook is that they themselves played a role in reducing government revenues in Africa in the past – and are still doing so today.

Beginning in the early 1980s, the international financial institutions and donor governments insisted on structural adjustment programmes that emphasized "privatization, deregulation and liberalization". Aid and concessionary loans depended on African governments adopting such policies which, however, reduced public revenues.

Compounding the problems, privatization was linked to the mantra of attracting foreign direct investors. Tax concessions and exemptions were one way to lure foreign companies; another was the free repatriation of profits. Several case studies show that, in some cases, the governments of developing countries spent more money on attracting investors than they collected in taxes from their businesses. The implication is that the governments actually subsidized the companies concerned.

Even today, African governments often grant multinational corporations very favourable tax clauses in investment agreements. In a similar way, double taxation agreements (DTA) are becoming an increasingly important reason behind African governments forgoing and forsaking tax revenues. Officially, DTAs are supposed to ensure that a company is taxed only once and that the revenues are shared fairly by the countries involved. In practice, however, DTAs tend to benefit the countries where the multinationals are based. Case studies and other evidence show that the sums could be significant.

The International Monetary Fund no longer endorses DTAs as a matter of course. Analyzing the case of Mongolia in 2012, it concluded that "some DTAs contain favourable provisions allowing residents of other countries to substantially reduce source taxation in Mongolia". In the ensuing period, Mongolia decided to cancel its DTAs and to selectively renegotiate them with an eye to ensuring taxation in Mongolia.

Since then, the IMF has been advising developing countries to be careful about signing DTAs. Nonetheless, all OECD members continue to insist on such agreements. They are keen on DTAs that ensure tax concessions to "their" respective multinationals. This approach flies in the face of the same donor governments' demand to improve domestic resource mobilization in Africa and undermines the official development assistance they provide in support of this cause. – *Dereje Alemayehu/D+C (Jan 2018)* ❒

to reduce tax dodging at home and prevent profit shifting that affects their own revenues. But not much is being done in terms of profit shifting from developing countries and IFFs from Africa.

If OECD governments really want to support African countries' efforts to mobilize domestic resources, they must do more than merely offering advice on tax policies and the management of revenue services. A good place to start is to minimize revenue loss through tax dodging and IFFs. Measures of this kind would boost the legitimacy of action to improve Africa's domestic tax systems. ❒

Dereje Alemayehu is senior advisor to Tax Justice Network Africa. This article is reproduced from D+C (Development and Cooperation) *magazine (January 2018).*

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not agree with the US that this rule raises any concerns."

According to China, a careful reading of the rules and procedures suggests that the AB is acting precisely within its mandate under the DSU in including Rule 15 in the Working Procedures for Appellate Review.

First, as Rule 15 applies only to "a person who ceases to be a Member of the Appellate Body", it does not extend the terms of the AB members.

Second, past DSB decision supports the inclusion of Rule 15 in the Working Procedures for Appellate Review. Rule 14 of the Establishment of the Appellate Body, which was adopted by the DSB in 1995, states that "Matters such as guaranteeing the rotation required by the DSU ... should form part of the working procedures." China said that by allowing AB members whose terms have expired to finish the cases they were previously assigned, Rule 15 clearly guarantees the rotation required by the DSU, and therefore should be included in the working procedures of the AB.

As members have previously pointed out, dispute settlement is one of the major functions of the WTO. And the AB is a critical component of such a mechanism. China said ensuring the integrity, independence and impartiality of the AB contributes immensely to the proper settlement of disputes between WTO members, and ensures the stability of the application and predictability of the WTO rules.

Moreover, it is the responsibility and obligation of the DSB to launch the selection process because Article 17.2 of the DSU provides that "[v]acancies shall be filled as they arise."

According to China, by linking the initiation of selection processes and the alleged systematic concerns, the US fails to fulfil its obligation and is undermining the proper functioning of the dispute settlement system. Now the US refuses to put an end to such blockage, China charged. Moreover, it refuses to elaborate all of its concerns or provide any concrete proposals to resolve its concerns. In this regard, China urged the US to lift its illegal and unreasonable blockage and the selection process shall launch immediately.

Japan said that it was extremely unfortunate that the DSB was not in a position to launch the selection processes. Appointing a member of the AB is one of the important functions entrusted to the DSB under the DSU. Japan emphasized that it is the responsibility of the entire membership, acting as the DSB, to ensure the proper functioning of the dispute settlement system, including the AB in transition, in a manner consistent with the DSU.

Chinese Taipei stressed that the credibility and effectiveness of the AB is in the best interests of the entire WTO membership. It was therefore very disappointing that such a prolonged deadlock still exists. It called on all members to launch the selection process without further delay.

According to trade officials, India and Egypt also expressed their support for the joint proposal. India said that a further delay in launching the selection process could have major consequences for the timeliness and quality of WTO dispute rulings. *(SUNS8607)* ❒

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billion in Azerbaijan; and by 25% to $2.5 billion in Ukraine.

In contrast, the expansion of FDI was widespread in South-East Europe, including in the largest recipient country of the sub-region, Serbia, where the rate of growth was 24%, to an estimated $2.9 billion.

Cross-border M&As

UNCTAD also reported that overall, cross-border M&A value contracted by 23% in 2017, reaching $666 billion.

The decline was driven by a slump of 30% (to $553 billion) in developed countries, while the value of cross-border M&As in developing economies increased by 44%, to reach $100 billion, in 2017 after a sharp fall in 2016.

The number of mega-deals exceeding $3 billion declined from 76 in 2015 to 70 in 2016 and 63 in 2017.

Prospects for 2018

UNCTAD said that based on macroeconomic fundamentals, including the accelerating growth of the world economy, global FDI flows are expected to bounce back in 2018, to almost $1.8 trillion.

"A synchronized upturn of economic growth in major economies, the gradual recovery in commodity prices, and improved profit prospects in various sectors could boost business confidence, and thus MNEs' [multinational enterprises'] appetite to invest."

In 2018, global GDP growth is projected to edge up to 3.1%, it said, adding that GDP growth is expected in all developed economies, including the United States and the European Union. Some emerging economies will also perform well, with India taking the lead.

World trade is also projected to expand at a faster rate, above 3%, although uncertainties still exist.

Nevertheless, said UNCTAD, elevated geopolitical risks and policy uncertainty could have an impact on the scale and contours of the FDI recovery in 2018.

"The possibility that protectionist rhetoric translates into trade restrictive actions, a worrying rise in global geopolitical tensions, and a rising economic toll from natural disasters may have an impact on FDI flows," it said.

In addition, tax reforms in the United States are likely to significantly affect investment decisions by US MNEs, with consequences for global investment patterns, said UNCTAD. *(SUNS8608)* ❐