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UNCTAD makes case for a Global Green New Deal

The United Nations Conference on Trade and Development (UNCTAD) is advocating a Global Green New Deal to reverse economic polarization and environmental degradation. This policy framework envisions a leading role for the public sector – through income redistribution, fiscal expansion and a state-led investment push – in paving the way towards meeting the UN Sustainable Development Goals.

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Global Green New Deal needed to deliver on 2030 Agenda

A UN agency presents the case for a Global Green New Deal to reverse the ills of the current world economic environment and realize the internationally agreed Sustainable Development Goals.

by Kanaga Raja

GENEVA: A Global Green New Deal is needed to reverse the polarization of income within and across countries, create a stable financial system that serves the productive economy, mitigate the threats and seize the opportunities associated with new technologies, and undertake massive investments in clean energy, transportation and food systems.

This is one of the main conclusions highlighted by the United Nations Conference on Trade and Development (UNCTAD) in its *Trade and Development Report 2019*.

The report, which was released on 25 September, amongst others makes a powerful case for delivering on the 2030 Agenda and its Sustainable Development Goals (SDGs) through a Global Green New Deal with the public sector playing a leading role.

According to the UNCTAD report, a spluttering North, a general slowdown in the South and rising levels of debt everywhere are hanging ominously over the global economy; these, combined with increased market volatility, a fractured multilateral system and mounting uncertainty, are framing the immediate policy challenge.

The macroeconomic policy stance adopted to date has been lopsided and insufficiently coordinated to give a sustained boost to aggregate demand, with adjustments left to the vagaries of the market through a mixture of cost-cutting and liberalization measures. Ephemeral growth spurts and financial volatility have been the predictable results. But there are deeper challenges ahead that are truly daunting for people and the planet.

Financial insecurity, economic polarization and environmental degradation have become hallmarks of the hyperglobalization era, UNCTAD points out. Moreover, these are closely interconnected and mutually reinforcing, in ways that can give rise to vicious cycles of economic, social and environmental breakdown.

This threat coincides with a worrying erosion of political trust, as income gaps have widened across all countries and the policy agenda is perceived as catering to the interests of the winners from hyperglobalization, with scant attention paid to those who have seen limited gains or have fallen further behind.

Even after the global financial crisis, the rules of the game that had generated high levels of inequality, insecurity and indebtedness prior to that crisis have remained largely intact, adding further layers of resentment, often aimed against outsiders, and widening political divisions. This breakdown in trust has occurred at the very moment the collective actions needed to build a better future for all depend on a greater sense of shared responsibility and solidarity.

The SDGs, agreed at the United Nations in 2015, were designed as a guide to that future. But with their delivery – planned for 2030 – already behind schedule, frustration is growing across different policy communities and at all levels of development, according to UNCTAD.

The perceived problem is a shortage of finance to achieve the scaling-up of investments on which the 2030 Agenda ultimately depends. With government finances burdened by increased debt levels and a fractured politics impeding long-term planning, pushing the financial envelope from billions to trillions of dollars each year will, it is claimed, have to rely on tapping the resources of high-wealth individuals and private financial institutions.

The current global economic environment – where austerity is the macroeconomic default option, liberalization the favoured policy tool for effecting structural change and debt the main engine of growth – is heading in the wrong direction when it comes to delivering on the ambition of the 2030 Agenda, UNCTAD argued.

Accordingly, the report seeks to make an alternative case for delivering on the 2030 Agenda through a Global Green New Deal with a leading role for the public sector.

According to UNCTAD, the report has recast the Depression era's signature policy on a global scale as the right policy framework to make a clean break with years of austerity and insecurity following the global financial crisis, help bring about a more equal distribution of income and reverse decades of environmental degradation. It proposes a series of reform measures to make debt, capital and banks work for development and finance a deal.

A bleak picture for the world economy

At a media briefing, Richard Kozul-Wright, Director of the UNCTAD Division on Globalization and Development Strategies, highlighted a "fairly bleak" picture for the world economy right now.

"Obviously, a lot of people are focusing on the tariff tensions," he said, adding that the recent G7 summit in France did not relieve those anxieties. "But we continue to insist that the trade tensions are as much a symptom of the problem as a cause of the problem", and the causes of the problem remain an overly financialized global economy which is fragile, with global demand weak, investment extremely sluggish and multilateralism essentially disabled.

The current multilateral structures cannot deal with the trade problem, cannot deal with the threat of currency wars, cannot deal with the problems of increasing indebtedness and they certainly cannot deal with the problems of technology transfer which has become a major issue for many developing countries, said Kozul-Wright.

As UNCTAD has been arguing since the global financial crisis, he said, "we need to see a much greater emphasis on fiscal expansion and income redistribution if the world economy is going to rebalance in an effective way."

Kozul-Wright emphasized that the fixation with footloose capital has been damaging for many developing countries. "People think that private capital flows to developing countries are a one-way flow. They are not. They come at a cost. There are costs as well as benefits to hosting private capital and the costs can be very large."

The cost of accessing financial flows for many developing countries is much higher than the returns on those flows. Many developing countries, in response to the volatility of those flows, have to hold very large reserves, he explained. These are reserves that are often invested in US Treasuries and other fairly reliable assets that do not give very large returns. The asymmetry of returns in terms of what they get on those assets and what they must pay out on their liabilities is a very high cost to developing countries, he said. UNCTAD estimates the cost to be in the order of $440 billion a year channelled from developing countries to developed countries as a consequence of that asymmetry.

In addition, according to UNCTAD estimates, some $200 billion a year is lost by developing countries due to various forms of tax evasion and illicit financial flows by multinational corporations.

Kozul-Wright cited the *Financial Times*, drawing on a recent study by the International Monetary Fund, as talking about "phantom FDI" – foreign direct investment that carries no real investment in the economy but is largely financial manipulation to avoid paying taxes. It is estimated that around $600 billion a year of FDI to the South is of that nature.

The digital economy is also making life very difficult for many developing countries, Kozul-Wright added, referring to the ongoing debate in the WTO regarding tariffs on electronic goods and whether to retain the current moratorium on customs duties on electronic transmissions.

Kozul-Wright said the debt issue is a huge challenge for developing countries. Global debt stocks have risen 14-fold since 1980. An important message from the UNCTAD report concerns whether developing countries can realistically meet the first four SDGs (no poverty, zero hunger, good health and well-being, and quality education) under the current debt scenario.

"Essentially, we show that to do so, they would have to borrow to make the investments required to undertake those public goods. They would have to borrow on international markets to a level that is clearly unsustainable," he said.

Alternatively, they could grow their way very rapidly via domestic resources to finance those four SDGs, but that would require many of these countries growing in excess of 10-11% a year, which is clearly not going to happen in many of the most vulnerable developing countries.

So in terms of growth or borrowing, these SDGs are already out of the reach of developing countries, he said. "That to us says we need to revisit the whole discussion of debt relief, debt restructuring, and the need for an international debt workout mechanism."

"If you look at the debt profile as it has evolved over the last 20 years, the SDGs are already out of reach for many developing countries," Kozul-Wright concluded.

Key issues at stake

According to the UNCTAD report, the global financial crisis left deep and lasting scars on the societies it touched. Those scars have only been deepened by a decade of austerity, sluggish productivity growth, stagnant real wages, rising levels of household and corporate debt, and increasing inequality. Disparities of wealth and income have grown, and local communities are fragmenting under the dynamic and destructive forces of hyperglobalization. Thousands of lives are being lost to "deaths of despair" each year, and trust in political institutions has evaporated.

Growth has slowed in most developing countries, albeit with considerable variation across regions. The struggle to create good jobs has intensified, with rapid urbanization, premature deindustrialization and rural stagnation widening the gap between the "haves" and the "have-nots".

All over the world, anxiety over the prospect of economic breakdown is compounded by the impending threat of environmental collapse. The Intergovernmental Panel on Climate Change (IPCC) has raised the stakes by giving the world just 10 years to avert climate meltdown; but this is just part of a growing recognition of a wider and deeper ecological crisis. Thousands of species are going extinct every year, soils are being degraded, oceans acidified and entire regions desertified.

The international community has agreed upon a series of goals in an attempt to ensure an inclusive and sustainable future for people and the planet. But with little more than a decade left to meet the SDGs, these efforts have fallen drastically short of their proponents' ambitions.

Today, there is widespread agreement that there is just one option left: a coordinated investment programme on an unprecedented scale across the entire global commons. The numbers are daunting. Cost estimates have gone from "billions to trillions" according to the World Bank, to an additional $3 trillion a year for developing countries alone, according to UNCTAD estimates.

The failures of private financing

Mobilizing investment on this scale will be challenging for many national policymakers. This is certainly true in most developing countries where there have been longstanding resource constraints on development ambitions; but in recent years, sluggish investment, particularly in the public sector, has also been a concern for policymakers in advanced economies, with many acknowledging serious deficits in their infrastructure provision. Moreover, the macroeconomic and financial pressures that are likely to accompany any big investment push require policy coordination that goes well beyond countries simply putting their own house in order to include revitalized international support and cooperation.

According to UNCTAD, rising indebtedness presents a challenge to those attempting to deliver on the 2030 Agenda. A consensus is emerging that with public finances under stress, the required resources must be provided by the private sector. Whether by appealing to their "better angels" through narratives of social responsibility or to their economic self-interest through the use of impact investment, champions of the SDGs are now focused on finding ways to entice high-net-worth individuals and corporations to provide the financial resources necessary to meet these goals.

"At the same time, the scale of the economic, social and environmental challenges requires us to go beyond simply redeploying existing resources to mobilize new ones as well," said the report.

This means taking up the call to reform the multilateral system and to find new ways to finance public goods at both national and global levels. The preferred solution is, once again, to appeal to the private sector to provide these resources – often by creating innovative financial products that can reduce the risks associated with big investment projects.

"The bias towards private financing has continued to go unchallenged, even as such schemes have consistently failed to deliver desired outcomes for the productive economy, whether in the private or the public sector."

Instead, the report suggests that meeting the financing demands of the 2030 Agenda requires rebuilding multilateralism around the idea of a Global Green New Deal, and by implication forging a collective financial future very different from that of the recent past.

The first step towards building such a future is to seriously consider a range of public financing options, as part of a wider process of repairing the social contract on which inclusive and sustainable outcomes should be based, and out of which can emerge a more socially productive approach to private financing.

Financial liberalization has not consistently led to more credit for productive investment. Rather, in periods of financial euphoria, increased access to credit has fuelled the growth of speculative activities rather than productive investment. Even when bank credit has expanded to non-financial businesses, it has been used to finance activities (such as mergers and acquisitions and stock buybacks) that have not established new productive capacity. While some of these activities do stimulate economic growth in periods of rising asset prices – through "wealth effects" that induce higher spending on goods and services – they also slow down longer-term growth of output and productivity.

The emergence of the privatized credit system has allowed the financial sector to transact more and more with itself, creating a complex network of closely interconnected debtor-creditor relations that cannot easily be re-engineered for productive investments (private as well as public) without a fundamental reorganization of the financial system. At the same time, these flows have produced a highly unstable environment that is subject to short-term speculative trading, boom-and-bust cycles and highly unequal patterns of income distribution. When prices inevitably fall, financial booms leave behind large debt overhangs that delay the recovery of the real economy, sometimes for decades.

There is, moreover, abundant empirical evidence that public financing of domestic public goods, particularly infrastructure, is cheaper, more sustainable and more conducive to financial stability. This is unsurprising, as the kind of long-term investment required to finance big infrastructure projects is not attractive to private investors given the high risks and relatively low economic returns.

There is also unambiguous evidence that public incentives aimed at encouraging private investment in infrastructure over the last several years (e.g., through subsidies and risk guarantees) and efforts to marry public and private resources (through public-private partnerships and blended finance) have failed to unlock available pools of private capital, said the report.

Thus, in today's highly financialized world, there seems little likelihood that the expansion of such instruments will bear additional fruit, especially in what are seen as the riskiest environments (such as in least developed countries or for climate-related challenges). Even in the best-case scenario, such tools are simply likely to increase funding for "mega projects" rather than the smaller, more inclusive and environmentally sustainable ones.

The report also said that, as the global crisis made clear, financial deregulation and integration can introduce severe fragility to the financial system. These trends can also inhibit transparency and frustrate attempts to assess risk in the financial system.

The crises that inevitably result from financial market liberalization provide frequent and abrupt reminders of how quickly the value of these assets can evaporate. The bailouts that tend to follow the crises have perverse distributional outcomes as they socialize private risk. Such an analysis should cast serious doubts on the leading desirability of private financing as the mechanism for delivery of the SDGs.

Moreover, the response to the crisis has further increased income disparities. Fiscal austerity has had a disproportionate impact on welfare programmes, while loose monetary policy designed to mitigate the effects of high levels of debt has boosted asset prices and thus the wealth of the already rich.

Even as unemployment has dropped, real wages have remained stagnant in flexible labour markets. Banks that were too big to fail are bigger still (if somewhat better capitalized), while financial services have become the preserve of a small number of giant firms in asset management, credit rating, accounting, business consultancy, etc. Under these circumstances, it is difficult to see how extending the market option will now bring about more inclusive and sustainable outcomes.

The report noted that rolling back financialization is often casually dismissed as "old thinking" or "backward-looking", at odds with the technological opportunities of the 21st century. However, the hyperglobalized world is not an inevitable product of technological progress or disembodied market forces, but of ideological persuasion, institutional reform and policy choice. These same pressures that were once used to promote financialization must now be used to roll it back, in order to forge a global new deal that can halt environmental breakdown and economic polarization, and establish a new social contract with sustainable development at its core.

A Global Green New Deal

The New Deal, launched in the United States in the 1930s and replicated in distinct ways elsewhere in the industrialized world, rolled back the laissez-faire model of the interwar years and, in doing so, built a new social contract that fostered decades of equal and sustainable growth.

This contract was centred on four broad components: relief from mass unemployment; sustained economic recovery; regulation of finance; and redistribution of income. These elements were consistent with more specific policy priorities tailored to particular economic and political circumstances. But all in all, the New Deal policies of the postwar period facilitated the emergence of a virtuous circle of job creation, expansion of productive investment, faster productivity growth and rising wages.

The internationalization of the New Deal through the Bretton Woods regime was only partially directed at development and environmental challenges and certainly not with the urgency or on the scale required today.

The Global Green New Deal must learn from the mistakes, as well as the successes, of its forerunner, said the report.

Under the Global Green New Deal, states will have greater space to implement proactive public policies to boost investment and raise living standards. Such policy space is also a prerequisite for encouraging those states to cede, where appropriate, sovereignty to international bodies to establish international regulations and forge collective action in support of the global commons. Building this Global Green New Deal to meet the ambition of the SDGs will certainly require much greater participation of developing countries in international decision-making than that seen at Bretton Woods.

As before, the Global Green New Deal will be driven by an expansion in the space for public action, in "a pragmatic and non-ideological attempt to restore the balance between government, markets and civil society based on a new social contract between voters and elected officials, between workers and companies, and between rich and poor". Financial sector reform will be critical to such a project.

The underlying intent of reviving the public option in finance is not to extinguish private finance, but rather to find pragmatic ways to make it once again serve the public interest. Definancialization will no doubt take different forms in different countries, but the fundamental goal is "a smaller, simpler financial services system that is better adapted to the needs of the non-financial economy".

Regulating private financial flows will be essential to steering private finance towards social goals, and curtailing predatory and restrictive business practices will be key to reining in rentierism and crowding in private investment to productive activities including in the green economy. But just as importantly, it will require promoting alternative mechanisms of delivering finance in support of a more inclusive and sustainable growth path.

A healthy global economy is a prerequisite for such a reform agenda – and this cannot be taken for granted, said UNCTAD.

By way of an alternative, UNCTAD proposes a globally coordinated reflation strategy with a focus on development and environment recovery, in which the public sector plays a pivotal role.

A significant, well-planned and stable pattern of public expenditure can exert a lasting and positive effect on private investment (crowding-in), support employment creation, decent work conditions and wages, and trigger technological advances for a "green" productive transformation. What is more, an effective public sector can help lift supply constraints, especially in developing economies, and ensure that credit creation and financial conditions serve the real economy, rather than the other way around.

Policy coordination is essential to resolve trade-offs between growth targets, financial stability and environment protection, and to prevent national policy actions that could trigger a regulatory race to the bottom.

Given that credit will be essential to supporting such a massive investment push, sovereign debt sustainability will be key to achieving a more balanced economy. UNCTAD said the current

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Palestinian economy at an all-time low, says UNCTAD

A UN development body has highlighted the ruinous impact of the Israeli occupation on the Palestinian economy.

by Kanaga Raja

GENEVA: The performance of the Palestinian economy and humanitarian conditions in Israeli-occupied Palestine reached an all-time low in 2018 and early 2019, according to the United Nations Conference on Trade and Development (UNCTAD).

In its report on UNCTAD assistance to the Palestinian people, released on 10 September, UNCTAD pointed to falling per capita income, increasing mass unemployment, deepening poverty and the rising environmental toll of the occupation in both the Gaza Strip and the West Bank.

According to UNCTAD, the reasons behind the near-collapse of the Palestinian economy are the expansion and tightening grip of occupation, suffocation of Gaza's local economy, a 6% drop in donor support between 2017 and 2018, deterioration of the security situation and lack of confidence as a result of bleak political horizons.

The Palestinian people are also being denied the right to exploit oil and natural gas resources and thereby deprived of billions of dollars in revenue, it said.

At a media briefing on 10 September, Richard Kozul-Wright, Director of the UNCTAD Division on Globalization and Development Strategies, said that when looking at the numbers presented today, "we are looking not simply at the immediate horrors that face the Palestinian people but also our own future."

According to Kozul-Wright, when one looks at the trends that the Palestinian economy is being subject to – stagnant growth, high levels of debt, fiscal squeeze, environmental crises, water shortages, declining wages – "these are problems that we see as endemic in a wider neoliberal agenda."

"Obviously, in the case of the Palestinian situation, you have the very specific challenges around occupation; but in many respects, what we see on the ground in Gaza and in the West Bank has uncomfortable ramifications beyond the immediate Middle Eastern context," he said.

"In reading these numbers, it is very disconcerting to see parallels between a wider situation in the global economy and the particular challenges that are being faced by the Palestinian economy," Kozul-Wright added.

Slowdown

According to the UNCTAD report, precipitous deterioration in Gaza and a slowdown in the West Bank combined in a scant 0.9% growth in gross domestic product (GDP) in 2018, well below the population growth rate, implying a drop in per capita income and worsening unemployment and poverty crises.

The slowdown was driven by the dire conditions in Gaza, with the recent decimation of the productive base and capital stock and restrictions on the importation of essential production inputs. The economy of Gaza contracted by 7% and poverty deepened.

Investment in Gaza practically vanished, falling to 3% of GDP, 88% of which was channelled to the rebuilding of structures destroyed during several major military operations in the last 10 years. Non-building investment remained minimal, at 0.5% of GDP. Had the capital stock accumulation and productivity growth rates been similar to those in the West Bank, output growth in Gaza could have reached 9%, said UNCTAD.

In the West Bank, the economy may have reached the limits of consumption and credit-led growth; GDP growth slowed from 4% to 3% between 2017 and 2018.

"The slowdown is explained by the decrease in donor support, contraction of the public sector and deterioration of the security environment, which discouraged private sector activities."

The forces set in motion by occupation restructured the Palestinian economy and made its growth performance driven by the non-tradable goods sector, namely, construction, wholesale, retail and services, while exports contribute little and the massive trade deficit adversely affects GDP growth.

The overall share of manufacturing in total value added shrank from 20% to 11% of GDP between 1994 and 2018, while the share of agriculture and fishing declined from over 12% to less than 3%.

According to UNCTAD, this pattern underscores the incapacity of the Palestinian National Authority (PNA) to steer the economy towards an export-led growth strategy, which would be most suitable for a small, open economy.

The distorted distribution of investments across sectors gives rise to jobless growth in good times and deprives the economy of the benefits of technological innovation and the dynamism it entails, which are characteristic of the manufacturing and agricultural sectors hampered by occupation.

The prospects for the Palestinian economy are grim because the sources of growth that have propelled it in the last two decades are disappearing, while the constraints imposed by prolonged occupation persist and worsen, said UNCTAD. Many new developments render the horizon bleaker, including heightening political uncertainty, the steep decline in donor support and the volatile fiscal situation.

In the short term, growth is expected to hover around 1%, well below the population growth rate, which means continuous decline in real per capita income and rising levels of poverty.

The depression-level unemployment rate in the Occupied Palestinian Territory continued to climb in 2018, reaching 31%: 52% in Gaza and 18% in the West Bank. Adverse labour market conditions manifest themselves in a low overall labour force participation rate of 46% (21% for women) and the fact that more than one-third of private sector employees receive less than the minimum wage, with the situation being worse in Gaza, where four in five employees work for less than the minimum wage.

The trends in the real wage and labour productivity have been declining. In 2017, the real wage and productivity per worker were 7% and 9% below their levels in 1995, respectively.

The anaemic GDP growth, declining real income, high unemployment level and falling donor support resulted in worsening incidence of poverty and food insecurity in the Occupied Palestinian Territory. This situation leaves 2.5 million people in need of humanitarian assistance, the overwhelming majority of whom live in areas outside the control of the PNA, that is, Gaza, Area C of the West Bank and East Jerusalem.

Citing Palestinian Central Bureau of Statistics data, the UNCTAD report said that in 2017, 29.2% of Palestinians lived below the consumption-based poverty line, defined as $4.6 per day, including social assistance and transfers. Furthermore, deep poverty afflicts two-thirds of the poor, who live on less than $3.6 per day.

The poverty rate was 13.9% in the West Bank and 53% in Gaza, where over 1 million people, or one in two, are now poor, including over 400,000 children. In Jerusalem, 72% of Palestinian families live below the poverty line, compared with 26% of Israeli families, and 81% of Palestinian children live below the poverty line, compared with 36% of Israeli children.

Dependence

According to UNCTAD, the incapacity of the restrained economy, under occupation, to generate jobs, in the face of a growing population, forces a high number of Palestinians to seek employment in Israel and settlements in the West Bank, which are illegal under international law. Over 127,000 Palestinian workers (24% of the West Bank employed workforce) are employed in Israel and settlements, at wages 60% higher than domestic wages.

Occupation fosters uncertainty and high transaction costs, which undermine investment in the export and import-competing sectors and thereby deepen the dependence of the Occupied Palestinian Territory on imports and transfers, including aid, remittances and income from the employment of Palestinians in Israel and settlements, said UNCTAD.

In 2018, import dependence continued unabated. Imports were at 60% of GDP, while exports were at 20%, and the trade deficit, in absolute terms, increased by 8%. In relative terms, the trade deficit in 2018 increased from 37% to 40% of GDP. Export revenue covered one-third of the $8.7 billion import bill and the ensuing trade deficit is the sixth highest in the world, behind that of Lesotho, Nepal, Somalia, Tonga and Tuvalu.

According to UNCTAD, the exchange rate of the new shekel, set in Israel according to the evolving needs of its economy, is economically inappropriate for the structurally different Palestinian economy. The appreciation of the shekel in 2017 and early 2018 added to the overvaluation of the real exchange for the Palestinian economy, estimated by the International Monetary Fund to range between 5% and 25%.

However, the key driver of the deficit is the loss of competitiveness and potential investment thwarted by the physical and administrative restrictions put in place by the occupying power, including a dual-use list that bans the importation of technology, critical production inputs and machinery. Within the 5,655 sq km total area of the West Bank, 705 permanent obstacles restrict Palestinian vehicles and pedestrian movement, including checkpoints, road gates, earth mounds, roadblocks, trenches and earth walls. These barriers render the average trade cost per container for Palestinian firms greater than the cost for Israeli firms by a factor of 3, while the time cost is higher by a factor of 2 to 4. These restrictions are of greater negative significance than tariff barriers.

Enforced isolation from global markets compels the Palestinian people to overwhelming dependence on Israel for trade. In 2018, Israel accounted for 57% of total Palestinian trade, or 21% of GDP. The trade deficit with Israel, at over $3 billion, was greater than the total value of all Palestinian exports of goods and services.

Except for the control system of the occupying power, there is no economic logic to justify the fact that Israel absorbs nearly 80% of Palestinian exports or supplies 58% of imports, while neighbouring Arab markets, with much higher incomes and greater populations, account for 17% of Palestinian exports and 12% of imports, said UNCTAD.

The Palestinian market absorbs 4-6% of Israeli exports of goods and ranks fourth among Israel's top export markets, directly behind the largest markets, such as China, the United Kingdom and the United States, and ahead of large markets such as France, Germany and India.

Fiscal challenge

Despite deteriorating political and economic conditions, the PNA persisted with its fiscal reform efforts and further reduced its budget deficit by $1.1 billion in 2018, to 7.3% of GDP from 8% in 2017.

In 2018, domestic tax revenue (excluding clearance revenue) and non-tax revenue increased by 9% and 10%, respectively. However, total net revenue declined by 5%, driven by lower clearance revenues.

In July 2018, the government of Israel enacted a law freezing funds paid by the PNA with affinity to terrorism out of funds transferred to it by Israel, which mandates the deduction from clearance revenues an amount equivalent to the payments made by the PNA to families of Palestinian prisoners in Israel and Palestinians killed in attacks or alleged attacks against Israelis. Consequently, in February 2019, Israel informed the PNA that it would deduct $11.5 million per month ($138 million annually) and the PNA declared that it would not accept anything less than the full amount of its rightful revenues. The ramifications of this fiscal challenge are underscored by the fact that clearance revenue accounts for 65% of total PNA revenue (15% of GDP).

Deprived of two-thirds of its tax revenue, the PNA did not publish a budget for 2019 and operated on an emergency cash management plan, addressing the crisis through a cut of 30% to the wage bill, freezing hiring and promotions, reducing social assistance to the neediest, increasing public debt and accumulating greater arrears. Finally, the PNA declared that, as of March 2019, public employees would be paid only 50% of salaries, with exceptions to protect employees at the lower end of the pay scale.

According to UNCTAD, the exploitation of the West Bank by the occupying power is not restricted to land, water and natural resources, but includes the transfer of large amounts of hazardous waste produced in Israel to the Occupied Palestinian Territory. This threatens the health of the Palestinian people and the integrity of their environment and natural resources, it said.

The stringent environmental regulations in Israel and the associated high cost of waste disposal have prompted Israel to use the West Bank as a "sacrifice zone" in which to place its waste treatment facilities, without the consent of the Palestinian people. The transfer of waste is facilitated through the application of lower environmental standards in industrial zones in settlements and subsidies and tax breaks for firms operating there.

With respect to the situation in Gaza, UNCTAD said that 12 years of an almost complete economic siege and repeated major military operations have gutted the local economy of Gaza and all of its productive sectors. The share of Gaza's productive sectors fell from 28% to 13% of GDP between 1994 and 2018; the share of manufacturing halved, to 8%, and that of agriculture fell from 9% to 5%.

Gaza's share in the Palestinian economy has declined from over one-third in the 1990s to less than a quarter in recent years and its per capita real GDP is now less than half of that in the West Bank. Had Gaza had the same access to production inputs as the West Bank, growth rates could have been three times higher than the actual rates, said UNCTAD.

Unrealized oil and natural gas potential

The UNCTAD report said that studies by geologists and natural resources economists have separately confirmed that the Occupied Palestinian Territory lies above considerable reservoirs of oil and natural gas wealth off the coast of Gaza and in the West Bank.

In 1999, the BG Group (BGG) discovered a large gas field (Gaza Marine) at a distance of 17 to 21 nautical miles off the Gaza coast. In November 1999, within the bounds of the Oslo Accords, which give the PNA maritime jurisdiction over its waters up to 20 nautical miles from the coast, the PNA signed a 25-year contract for gas exploration with BGG.

In 2000, BGG drilled two wells in the field and carried out feasibility studies with good results. With reserves estimated at 1 trillion cubic feet of good-quality natural gas, it was envisioned that the Palestinian people would be able to satisfy domestic demand and export the remainder.

The 25-year contract gave BGG 90% of the licence shares and PNA 10% until production began. Subsequently, the PNA share was slated to increase to 40%.

In July 2000, the Israeli government granted BGG authorization to drill the first well, Marine 1. The authorization to drill the second well and the successful gas strikes at the two wells promised a potential windfall for the Palestinian people.

In May 2002, the Israeli government agreed to negotiate an agreement for an annual supply of 0.05 trillion cubic feet of Palestinian gas for a period of 10 to 15 years. Yet in 2003, it reversed its position, stating that funds flowing to the PNA could be used to support terrorism.

However, in April 2007, the government of Israel approved a proposal to renew discussions with BGG, whereby Israel would purchase 0.05 trillion cubic feet of Palestinian natural gas for $4 billion annually, starting in 2009, with profits in the order of $2 billion, of which $1 billion was to go to the Palestinians. It was argued that this would generate mutual benefits deemed to foster a good atmosphere for peace.

The government of Israel, however, had different plans for sharing revenues with Palestinians, according to the UNCTAD report.

An Israeli team of negotiators was set up to formulate a deal with BGG, bypassing the Palestinians. It appeared that the team wanted the Palestinians to be paid in goods and services and insisted that no money should go to the Hamas-controlled government in Gaza. The effect was essentially to nullify the contract signed in 1999 between the PNA and BGG.

In November 2008, the Ministry of Finance and the Ministry of National Infrastructures, Energy and Water Resources of Israel instructed the Israel Electric Corporation to enter into negotiations with BGG on the purchase of natural gas from the BGG offshore concession in Gaza.

However, a new territorial arrangement emerged subsequent to the Israeli military operation in Gaza in December 2008, featuring the militarization and control of the entire Gaza coastline and maritime areas and the de facto confiscation of Palestinian natural gas fields and their integration into Israel's contiguous offshore installations.

Nineteen years have passed since the drilling of Marine 1 and Marine 2. Since the PNA has not been able to exploit these fields, the accumulated losses are in the billions of dollars and the Palestinian people have been denied the benefits of using this natural resource to finance socioeconomic development and meet their fiscal and energy needs, said UNCTAD.

The losses borne by the Palestinian people under occupation are not restricted to Marine 1 and 2. There are also other losses emanating from the Israeli control of the Meged oil and natural gas field, located inside the occupied West Bank in Area C.

Meged was discovered in the 1980s and began production in 2010. Its reserves are estimated at about 1.53 billion barrels of oil, as well as some natural gas. The potential of the contested oil field ranges between 375 and 534 barrels per day.

UNCTAD cited a generally accepted figure for the proven natural gas reserves in Marine 1 and Marine 2, off the coast of Gaza and under the control of the occupying power, at 1.4 trillion cubic feet. Based on the average price of $3.85 per 1,000 cubic feet in the period 2012-17, the total value of these reserves could exceed $5.39 billion. If the $800 million value of investment to develop the field is deducted, this gives a net value of $4.59 billion.

The proven oil reserves of the Meged field are estimated at 1.53 billion barrels. At the price of $65 per barrel, the total value of these reserves would be estimated at $99.1 billion. Noting that current 2018 prices are used as proxies for a rough approximation of the valuation of these reserves, UNCTAD said based on the regional average cost of production of $23.5 per barrel, the net valuation drops to $63.29 billion.

The total Palestinian reserves losses are therefore estimated at $67.9 billion ($4.6 billion plus $63.3 billion).

UNCTAD also said the new oil and natural gas discoveries in the Eastern Mediterranean, resources typically shared among neighbouring countries, are critical.

The United States Geological Survey has estimated a mean of 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas in the Levant Basin Province. The net value of these resources is $453 billion for natural gas and about $71 billion for oil, for a total of $524 billion.

These resources in the Levant Basin Province exist in common pools that do not coincide with political borders. This makes them shared common resources, and the Palestinian people therefore have stakes in them, said UNCTAD. *(SUNS8975)* ❐

(continued from page 5)

challenges to external debt sustainability will have to be resolved quickly and smoothly through increased official development assistance and the restructuring of debts, if the international community is serious about meeting the SDGs on time.

Given their procyclical nature, the inherent volatility of financial markets and the predatory behaviour of financial institutions, private capital flows can just as readily extract resources from as add resources to the productive economy. Developing countries are more vulnerable than developed countries to such outcomes, but the threat is a ubiquitous one.

To mitigate such risks, many developing countries have accumulated large foreign-exchange reserves. This strategy has high opportunity costs, causing a resource transfer from developing to developed countries and widening rather than bridging the finance gap.

Governments have, moreover, lost sizeable fiscal revenue from so-called "tax-motivated illicit financial flows" as a result of multinational enterprises reducing the payment of corporate income tax (CIT) through a shift of their profits to affiliates in tax havens or by exploiting tax loopholes in domestic legislation or international tax treaties.

Such leakages have been further augmented by digitalized economic transactions that make the current CIT norms less and less apt to determine where taxable value is created and how to measure and allocate it between countries.

A radical overhaul of these norms could significantly improve countries' capacity for domestic resource mobilization, said UNCTAD.

An ambitious programme of financial reform is required to shift the focus away from financial speculation and towards the financing of productive investment. Within a more stable financial framework, the state can manage credit in a variety of ways.

Direct credit controls became unfashionable in the era of "efficient markets". Yet incentives (e.g., placing government deposits) and disincentives (e.g., portfolio restrictions) can be effective in steering credit to the most productive investment opportunities. Governments can achieve this even more directly by setting up their own development banks, which would have a greater capacity than retail banks for "patient lending".

At the same time, governments can actively promote a variety of alternatives to traditional banking to tap new development opportunities, simultaneously promoting more equitable development, said UNCTAD.

Coordination is key

According to the report, strategies towards sustainable development and economic growth can take a variety of paths, depending on the structural conditions and constraints of each country.

If policymakers succeed in raising the shares of labour income towards the levels of a not-so-distant past, growth will increase between 0.25% and 0.75% per year depending on the country.

International coordination is key to ensure buy-in by all countries as well to facilitate transmission of demand and productivity effects by enhancing trade and financial networks.

A similar observation can be made about assessing the impact of a combined fiscal reflation financed by progressive tax increases and credit creation. Government spending multipliers for individual countries range from 1.3 to 1.8. In a globally or regionally coordinated agenda, these effects are amplified.

Significant public investment in clean transport and energy systems is imperative to establish low-carbon growth paths and to transform food production for the growing global population, as well as to address problems of pollution and environmental degradation more generally. This will need to be supported by effective industrial policies, using a mix of general and targeted subsidies, tax incentives, loans and guarantees, as well as accelerated investments in research, development and technology adaptation, and a new generation of intellectual property and licensing laws. Specific measures and support will be required in developing countries to help them leapfrog the old and dirty development path followed by today's advanced economies.

Considering the estimates reviewed, and assuming an effective degree of international policy coordination (including South-South cooperation), it seems realistic to envisage that a policy package consisting of redistribution, fiscal expansion and state-led investment push will yield sustained growth rates of GDP in developed economies at 1-1.5% above what can be experienced under current patterns.

For developing economies, excluding China, the growth rate increases above the projection of current patterns may be between 1.5% and 2% per annum. Growth above the baseline in China may be more moderate, close to an increase of about 1% per annum.

Based on current trends in employment creation, a successful global growth strategy of this kind will increase employment by approximately 26 million jobs in developed countries and 146 million jobs in developing countries (40 million of which would be in China) by 2030, said UNCTAD. *(SUNS8986)* ❐

E-com duties moratorium "asymmetrical" for South

South Africa and India have argued in the WTO against maintaining the current halt to customs duties on electronic transmissions, saying that the freeze is eroding public revenues in developing countries and hurting their digital industrialization prospects.

by D. Ravi Kanth

GENEVA: South Africa and India have said that the current WTO moratorium on levying customs duties on electronic transmissions is "asymmetrical" for developing countries due to its negative consequences on fiscal space and on digital industrialization.

At an informal WTO General Council meeting on 1 October, South Africa and India argued that the United Nations Conference on Trade and Development (UNCTAD) in its *Trade and Development Report 2019* had endorsed the view that developing countries suffer huge revenue losses and face "severe negative impact" in their efforts to protect their domestic industries, said trade envoys who preferred not to be identified.

In response to their case against continuing with the moratorium, major developed countries, particularly the United States and the European Union, resorted to stonewalling tactics, refusing to engage in any serious debate over the implications arising from the moratorium, said the trade envoys.

The current moratorium, which came into existence in 1998, will end in December 2019 unless WTO members extend it.

In contrast to the UNCTAD study, the Brussels-based European Centre for International Political Economy (ECIPE) and the Paris-based International Chamber of Commerce (ICC) have called for a permanent moratorium on customs levies on electronic transmissions.

While the developed countries, especially the US, said they would embrace the findings of the ECIPE study, they fiercely opposed the UNCTAD study, said several trade envoys who asked not to be quoted.

In an attempt to deepen the discussion on the three studies by calling the leading researchers and experts from these three organizations for an open debate about the implications arising from the moratorium, India urged the WTO secretariat to organize a workshop on the moratorium before it comes to an end in December.

The US, however, opposed India's call, saying there is no need to hold another workshop at this juncture, said a trade envoy who asked not to be quoted.

Further, the US along with other developed and several developing countries which are all members of the informal plurilateral Joint Statement Initiative (JSI) group on electronic commerce, are privately lobbying for a permanent moratorium to be announced at the General Council later in October, said a trade envoy.

At the 1 October General Council meeting, South African Ambassador to the WTO Xolelwa Mlumbi-Peter said South Africa and India's July 2018 and June 2019 submissions tabled at the WTO, which called for examining the implications of the moratorium, suggested that there are both fiscal and digital-industrialization effects.

With the rapidly evolving e-commerce trade, particularly the advent of Industry 4.0 and 3D printing technologies, she said, "the moratorium will erode the existing GATT bound rates which are typically higher in developing countries."

According to the South African trade envoy, all the existing literature and research point out that "developing countries would be bearing the brunt of losses of revenue due to the moratorium."

She said that "while some [WTO] members express doubts regarding the methodology and findings of the UNCTAD 2019 study, it cannot be disputed that there are negative consequences of the moratorium and loss of policy space for developing countries."

"Data and software are key in digitalization, [and] finding the right balance between innovation and regulation is crucial in harnessing the benefits of digital trade," Mlumbi-Peter maintained.

She cited the UNCTAD report as confirming "a loss in fiscal revenue of more than $10 billion globally as a result of the moratorium ... 95% of which was borne by developing countries." Further, she said, the UNCTAD study is based on only a small number of products, arguing that "digitalization is rapidly affecting an increasing number of products", which could multiply the forgone fiscal revenue due to the moratorium.

Moreover, the UNCTAD study has provided realistic estimates of "electronic transmission" or "online trade" in digitizable products and not just physical trade in digitizable products, the South African envoy said.

She added that study "is also conservative in the estimation of revenue loss as it has only taken a growth rate of 8% for import of digitizable products against the average growth rate of global revenue of around 30% for services like Netflix and video games during the reference period from 2011-17."

Referring to the ECIPE paper that looks at the implications of imposing customs duties for developing countries, with focus on China, India, Indonesia and South Africa, Mlumbi-Peter said "the assumptions and basis for its conclusions raise concerns", including the definition of electronic transmissions. As regards the ICC paper on "The business case for a permanent prohibition on customs duties on electronic transmissions", she said the ICC made six recommendations for extending the moratorium based on the ECIPE study.

She cited another publication, released jointly by the UN Economic Commission for Africa, the Office of the UN High Commissioner for Human Rights and Friedrich Ebert Stiftung on digital trade in Africa, which categorically states that "developing countries are the worst affected by corporate malpractice estimated at $114 billion in lost annual tax revenues."

Given the limited structural capacity to build an efficient tax base, the South

African envoy said "tariffs have been a significant source for public investment needs." The digital trade policy proposals that call for a permanent ban on customs duties on electronic transmissions fail to acknowledge the reality that developing countries cannot alter their existing tariff-dependent fiscal strategies overnight, she said.

Mlumbi-Peter said agreeing to a permanent ban would "foreclose a future source of public revenue for economies of the Global South as the share of electronically transmitted additive manufacturing products in global trade increases over time".

As regards the technical feasibility of imposing customs duties on electronic transmissions, she said many WTO members, including France, have started successfully levying taxes on intangible imports.

"Some WTO members are exploring mechanisms of imposing customs duties, including preserving policy space to do so in the context of a digital industrial policy," she said.

In short, "the decision on desirability of imposing customs duties should therefore rest with sovereign governments as a policy tool for their own development", emphasized the South African envoy.

She said "while there are benefits to digital trade, its gains are not automatic and the digital economy also presents immense challenges for developing countries in the context of the digital divide."

"Owing to the concentration of digital technologies mainly in developed countries and the skills-biased nature of digitalization, digital trade, if not consciously pursued in an inclusive manner, risks increasing inequality and further marginalization of developing countries in global trade," she warned.

"Furthermore, the digital divide is rooted in structural and historical imbalances in the global economy which must be addressed to ensure no one is left behind," she maintained.

Major developed countries, including the US and the EU, rejected the views advanced by the South African trade envoy.

The US said that it would go by the findings of the ECIPE study, while the EU rejected the UNCTAD findings without offering any convincing evidence or arguments, said a trade envoy who asked not to be quoted. The US, the EU and other developed countries seemed ready to treat the ECIPE study as the "holy grail" for making the moratorium permanent, but were not ready to engage in a serious debate on all three studies, the envoy said.

Diverging studies

In his intervention at the General Council meeting, India's Ambassador to the WTO J.S. Deepak said the UNCTAD study is "unique in so far as capturing the revenue implications of the moratorium is concerned, as it is the first study which estimates 'electronic transmission' or 'online trade' in digitizable products." All previous studies, including one by the WTO in 2016, estimated the impact of the moratorium on the basis of "physical trade" in digitizable products, he said.

Deepak said the UNCTAD study is also "a very timely reminder to the developing countries that if they agree to the moratorium, then with increased digitization of goods due to technologies like digital printing, their tariff schedules under the GATT will erode and they will not be able to protect their domestic industry as they will no longer be able to impose customs duties even up to their bound rates."

He said this could effectively constitute "unbridled duty-free access for all imported products that can be digitized and traded" as electronic transmissions.

Deepak said the ECIPE study is "flawed" in its conceptual understanding of electronic transmissions as well as the methodology. It is based on a "specific type of Computable General Equilibrium (CGE) model", while "the analysis applies [to] 'imaginary' and 'arbitrary' tariffs on four broad services sectors and presents the results as economic impact of removal of the moratorium."

"I say 'imaginary' and 'arbitrary' tariffs as the application of tariffs on service sectors [was] so far never ever conceptualized in the world of services or under the GATS [WTO's General Agreement on Trade in Services]!" the Indian trade envoy emphasized.

"We believe it is very dangerous to identify services as ET [electronic transmissions] because that will take away the GATS flexibilities associated with services," he said. "Moratorium on customs duties on ET may encourage developed countries to identify more and more services as ET, which will take away the right of developing countries to regulate the imports of these services."

Moreover, "taking some services sectors, at random, as a proxy for 'electronic transmissions', which the ECIPE study does, is highly misleading for policymakers," he warned.

The ECIPE study turns the meaning of ET upside down and its findings are contrary to the study by the WTO in 2016, said Deepak.

"ET has been understood as 'online' deliveries of 'digitizable products' where digitizable products are defined as those products which, because of technological advancement, can be traded across borders both in physical form as well as online," Deepak said, suggesting that such products would include music and film CDs, e-books, software, video games, etc.

Referring to the UNCTAD 2019 study, the Indian envoy said it "identifies 49 HS-6-digit products as ET and includes only those products under ET which have corresponding physical analogs and HS codes."

"It is important to note that none of these 49 identified digitizable products in the UNCTAD study are services," Deepak pointed out.

While computer software is included as ET in the UNCTAD study, software services are excluded from the list of ET as these are covered under GATS in the WTO, he said.

He said the ECIPE study is replete with "methodological flaws" due to the CGE modelling technique and it includes "unrealistic assumptions such as: (i) perfect competition, whereas the digital world is driven by monopolistic giants such as the GAFAM; (ii) absence of perfect substitutes or that imported services cannot be substituted by like domestic services, implying thereby that any tariffs would lead to a decline in the use of the services which in turn will lead to decline in GDP, employment, welfare etc."

Due to its unrealistic assumptions, the ECIPE study "def[ies] economic logic", he said.

Deepak said "it is a time-tested finding that tariffs applied to protect domestic industries do increase domestic production and tariffs have been effectively used by many developed countries in the past and even now to stimulate domestic production."

"In short, we believe the ECIPE study is based on a completely incorrect understanding of ET, use of unrealistic assumptions of a CGE model and flawed simulations in the absence of disaggregated data set," he said.

"The ICC brief, to which some members have alluded, putting forth the case of a permanent moratorium, is based on the ECIPE study", and it "doesn't appear to have strong legs to stand upon". *(SUNS8989)* ❐

Appointment of Jamaican envoy as rules chair blocked

WTO member states have failed to agree on a new chairperson for the negotiating body handling the fisheries subsidies talks, which are currently hamstrung by divisions over, among other issues, differential treatment for developing countries.

by D. Ravi Kanth

GENEVA: The United States and several other countries are understood to have blocked the appointment of Ambassador Cheryl K. Spencer of Jamaica as the new chair for the Doha rules negotiating body that is currently overseeing the fisheries subsidies negotiations at the WTO, a trade envoy told the *South-North Development Monitor (SUNS)*.

At an informal WTO General Council meeting on 30 September specifically convened to adopt Spencer as the chair of the rules negotiating body, the General Council chair, Ambassador Sunanta Kangvalkulkij of Thailand, informed members that there was no consensus among the membership on the appointment of the rules chair.

Kangvalkulkij, however, did not indicate which member or group had opposed Spencer's appointment, said a trade envoy who asked not to be quoted.

Apparently, the US was angered that Brazil's Ambassador Alexandre Guido Lopes Parola had not been allowed to become the chair of the rules negotiating body, said a trade envoy who asked not to be quoted.

In an email sent to members on 30 September evening, a WTO official informed them that "in the absence of a Chair for the Negotiating Group on Rules, and subject to the appointment of a new Chair", he had been asked by the General Council chair and the chair of the Trade Negotiations Committee to communicate an outline of the organization of the next scheduled cluster of meetings, which were to be held during the week beginning 7 October.

The official informed members that bilateral meetings would be held for three days beginning on 7 October, followed by open-ended consultations by the facilitators on 10-11 October.

The facilitators overseeing the fisheries subsidies negotiations are Katherine Dellar of Australia (on the issue of overfishing and overcapacity), Gustavo Cunha Machala of Brazil (overfished stocks), Benedict Fleischer from Norway (illegal, unreported and unregulated fishing) and Faisal Saud Sulaiman Al-Nabhani from Oman (cross-cutting issues).

Candidates opposed

Earlier, the Group of Latin American and Caribbean (GRULAC) countries had informed the General Council chair about their decision to present Spencer's candidature for the chair of the rules negotiating body.

The GRULAC countries had initially nominated Brazil's Lopes Parola as their candidate. However, this met with fierce opposition from the Asian Group of Developing Countries (AGDC) because of Brazil's evolving position on special and differential treatment (S&DT) for developing countries, said a trade envoy who asked not to be quoted.

Brazilian President Jair Bolsonaro has publicly announced in the presence of his US counterpart Donald Trump that Brasilia would forego S&DT flexibilities in the current and future trade negotiations at the WTO.

In light of this, several members of the AGDC expressed grave doubts over Lopes Parola chairing the rules negotiating body and whether he would be able to safeguard the interests of developing countries, the envoy said.

In the ongoing fisheries subsidies negotiations, the US has repeatedly said that it will not accept the extension of S&DT to all developing countries.

As part of the discussions on WTO reform, the US has demanded differentiation/graduation among developing countries in terms of S&DT, seeking to deny the likes of China, India, Indonesia and South Africa from availing of such treatment. The US stand is also shared by several other developed countries, said a trade envoy who asked not to be quoted.

In opposition to Lopes Parola, the AGDC had nominated Ambassador Gothami Silva of Sri Lanka as their candidate to chair the rules negotiating body, the envoy said. However, Silva's candidature was not acceptable to the GRULAC countries, which insisted that the body must be chaired by a GRULAC representative as per the past practice, said a South American trade envoy who asked not to be quoted.

Subsequently, the GRULAC countries had proposed Spencer as a compromise candidate, which was acceptable to the members of the AGDC, the South American envoy said.

But the US, according to a trade envoy who asked not to be quoted, informed the General Council chair that it could not agree to Spencer's appointment.

The US action, seen as a tit-for-tat response to the AGDC's opposition to appointing the Brazilian representative, has created an adverse situation in that there might not be an outcome in the fisheries subsidies negotiations by the end of the year, the envoy said. *(SUNS8988)* ❐

End the United Nations-World Economic Forum partnership agreement

In an open letter to the UN Secretary-General, over 250 national and international civil society groups have denounced the UN's "strategic partnership" with the World Economic Forum, calling it a form of "corporate capture" that undermines the independence and effectiveness of the multilateral body. The text of the September open letter is reproduced below.

We the undersigned call on you to terminate the recently signed United Nations-World Economic Forum strategic partnership agreement.

We are very concerned that this WEF-UN partnership agreement will delegitimize the United Nations and provide transnational corporations preferential and deferential access to the UN system. The UN system is already under a big threat from the US Government and those who question a democratic multilateral world. However, this corporatization of the UN poses a much deeper long-term threat, as it will reduce public support for the UN system in the South and the North.

It is our strong belief that this agreement is fundamentally at odds with the UN Charter and with intergovernmental decisions on sustainable development, the climate emergency, and the eradication of poverty and hunger. This public-private partnership will permanently associate the UN with transnational corporations, some of whose core essential activities have caused or worsened the social and environmental crises that the planet faces. This is a form of corporate capture. We know that agribusiness destroys biodiversity and sustainable and just food systems, oil and gas corporations endanger the world's climate, Big Pharma weakens access to essential medications, extractive corporations leave lasting damage to countries' ecologies and peoples, and arms manufacturers profit from local and regional wars as well as repression of social movements. All these sectors are significant actors within the World Economic Forum.

The provisions of the strategic partnership effectively provide that corporate leaders will become 'whisper advisors' to the heads of UN system departments, using their private access to advocate market-based profit-making 'solutions' to global problems while undermining real solutions embedded in public interest and transparent democratic procedures. The WEF agreement with the UN, and all other forms of corporate capture, seriously undermines the mandate of the UN as well as the independence, impartiality and effectiveness of this multilateral body, particularly in relation to the protection and promotion of human rights. For example, in the current discussions on a Treaty to regulate business activities, corporate capture of the UN – or undue interference by corporations on the UN – is weakening and compromising its ability as a multilateral body of government to hold businesses to account. Similarly, companies are increasingly making financial threats on governments and the UN when mandates are working on corporate accountability, the OHCHR mandate of the UN database on business in/with Israeli settlements is one example.

The UN's acceptance of this partnership agreement moves the world toward WEF's aspirations for multistakeholderism becoming the effective replacement of multilateralism. WEF in their 2010 Global Redesign Initiative argued that the first step toward their global governance vision is "to redefine the international system as constituting a wider, multifaceted system of global cooperation in which intergovernmental legal frameworks and institutions are embedded as a core, but not the sole and sometimes not the most crucial, component." The goal was to weaken the role of states in global decision-making and to elevate the role of a new set of "stakeholders", turning our multilateral system into a multistakeholder system, in which companies are part of the governing mechanisms. This would bring transnational corporations, selected civil society representatives, states and other non-state actors together to make global decisions, discarding or ignoring critical concerns around conflicts of interest, accountability and democracy.

We call instead for strengthening peoples' sovereignty, deepening democratic multilateralism and countering the further expansion of multistakeholderism. Public interest civil society organizations and social movements have played crucial roles in upholding human rights and environmental agreement and in the development of intergovernmental positions on a wide range of global crises over the past 75 years. To strengthen public support for the UN system for its next 75 years, we believe that your office as well the executive offices of the specialized agencies should host public consultations on the future institutional role and engagement mechanism with the most affected communities and organizations of the people, including among others women, workers, peasants, fisherfolk, indigenous peoples, LGBTQ, human rights defenders, educators, youth, and scholars. These communities which are human rights holders and are committed to preserving the common wellbeing of people and the environment, as well as to building a stronger, independent, and democratic international governance system, must be treated differently from "stakeholders" who only have profit at stake.

UN should adopt effective mechanisms that can prevent cases of conflict of interest consistently throughout the entire system. Any policy in this regard should bear in mind the different roles of private interest and of rights-holders that look after common goods and benefits. Those private interests whose activities are in conflict with UN goals and objectives should not be involved with intergovernmental bodies or the Secretariat, whose focus should always be on protecting common goods and providing global public benefits.

Mr Secretary-General, electing to build an alliance between the Secretariat and transnational corporations to save the UN system from those hostile to multilateralism and decreasing public funding, will destroy the UN system, not save it. ❐

Counter-cyclical fiscal policy needed to counter economic downturn

In light of the declining economic outlook, developing-country governments should turn to counter-cyclical expansionary fiscal policy, spending not only to buffer the downswing but also to lay the foundations for longer-term development.

by Jomo Kwame Sundaram

A conjuncture of developments, short- and medium-term, have conspired to further slow the world economy. In recent months, the International Monetary Fund (IMF), among others, has acknowledged that global economic prospects are worsening, forcing it to make not one but at least five consecutive growth forecast revisions, all downwards.

With most developing economies more open and unequal than ever before, due to past government policies supporting a decade of economic liberalization, globalization and strengthened property rights, near-term economic prospects are bleaker than ever.

In such circumstances, it would be prudent, even necessary, and certainly not profligate, to turn to counter-cyclical, expansionary fiscal policy. To do otherwise would be like rearranging the deckchairs on the Titanic as it was about to crash into the iceberg.

Conservative or neoliberal lobbyists, including those who have "infiltrated" most government administrations, and their favourite "consultants" are still chanting old mantras while their own gurus, e.g., in *The Economist* and the *Wall Street Journal*, have become more pragmatic by necessity.

While some gurus have revised their old dogmas to accommodate reactionary ethno-populist challenges, their typically blindly loyal followers in emerging market economies continue to insist on tired if not thoroughly discredited old slogans, such as the analytically bogus "fiscal consolidation", in the face of the looming slowdown.

All over the world, however, more realistic and pragmatic economists, forced to deal with real-world problems, now publicly recognize that fiscal positions can be improved in the medium term with appropriate short-term deficit spending.

Such fiscal spending should seek to not only buffer the economic downturn in the short term, but also lay the foundations for medium-term economic development, which most developing countries have desperately needed, especially since the 2008-09 Great Recession.

Instead of simply creating yet more public sector jobs, or building infrastructure "white elephants" which would burden future generations for a long time to come, developing-country governments should make fiscal commitments to improve human resources and yield sustainable development dividends in the medium and long term.

Progressive income redistribution is more likely to raise aggregate demand through increased spending, while regressive transfers will achieve the converse.

Social protection should be consolidated and disbursed more effectively, efficiently and equitably, thus strengthening aggregate demand while improving human welfare.

Appropriate investments to improve health, nutrition, education, training and needed infrastructure will pay significant development dividends in the medium and long term. Meanwhile, universal health care should be financed by tax and other revenue as insurance options are more costly and encourage "perverse" behaviours.

Of course, what governments can do is constrained by fiscal circumstances, but these should not be exaggerated or seen as immutable. All governments face choices in terms of what they opt to spend on, and most parameters can be changed over the medium term, if not immediately.

A relatively upper-middle-income country should boldly consider previously unthinkable options, some of which may still be beyond the means of other developing countries.

In this connection, well-coordinated "all of government" efforts can yield huge dividends.

For example, transformative, Japanese-style universal school lunch programmes were first introduced early in the last century when the island nation still had little in terms of foreign exchange earnings. The programme has successfully enhanced nutrition and health, but also the appreciation for science and civilization of all engaged. School food procurement has also been used to promote safer and healthier food production.

Similarly, the development of generic medicines, especially for neglected tropical diseases, will be important for many if not most developing countries, while bio-fortified healthy food has tremendous potential for overcoming hunger, micronutrient deficiencies and diet-related non-communicable diseases.

Finally, selective investment and technology promotion is desperately needed after years of chimera-chasing and ersatz techno-sloganeering.

As the world struggles to mitigate global warming, developing countries deserve considerable financial and technical support to modernize their economies with renewable energy, bypassing fossil fuel options.

Preventing abuse

The urgently needed turn to counter-cyclical public spending must be mindful of the waste and abuse of the past hiding behind noble-sounding rhetoric. Abuse of or even poorly conceived government spending will not only discredit public policies generally, but also further set back these economies, their prospects and people.

Simply buying over existing privately held assets will not enhance economic capacities, capabilities and output. Similarly, pouring good money after bad money, including the corrupt or fraudulent investments of previous governments, will not improve them.

As multilateral institutions and arrangements are increasingly being deliberately undermined, developing-country governments have little choice but to fend for themselves and their people, while avoiding the temptations of jingoist nationalism, especially "beggar thy neighbour" and selfish ecologically destructive policies. *(IPS)* ❐

Jomo Kwame Sundaram, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

How multinationals continue to avoid paying hundreds of billions of dollars in tax

***Miroslav Palanský* explains how multinational firms dodge taxes, depriving countries of much-needed revenue, and how to put an end to this practice.**

Tax havens have become a defining feature of the global financial system. Multinational companies can use various schemes to avoid paying taxes in countries where they make vast revenues. In new research, my colleague Petr Janský and I estimate that around $420 billion in corporate profits is shifted out of 79 countries every year.

This equates to about $125 billion in lost tax revenue for these countries. As a result, their state services are either underfunded or must be funded by other, often lower-income taxpayers. It contributes to rising inequality both within countries and across the world.

Given the nature of the issue, it is intrinsically difficult to detect tax avoidance or evasion. To get round this, we use data on foreign direct investment (FDI) collected by the International Monetary Fund to examine whether companies owned from tax havens report lower profits in high-tax countries compared with other companies.

We found that countries with a higher share of FDI from tax havens report profits that are systematically and significantly lower, suggesting these profits have been shifted to tax havens before being reported in high-tax countries. The strength of this relationship enables us to estimate how much more profit would be reported in each country if companies owned from tax havens reported similar profits to other companies.

We found that lower-income countries on average lose at least as much as developed countries (relative to the size of their economies). At the same time, they are less able to implement effective tools to reduce the amount of profit shifted out of their countries.

Three channels of profit shifting

There are three main channels that multinationals can use to shift profits out of high-tax countries: debt shifting, registering intangible assets such as copyright or trademarks in tax havens, and a technique known as "strategic transfer pricing".

To see how these channels work, imagine that a multinational is composed of two companies, one located in a high-tax jurisdiction like Australia (company A) and one located in a low-tax jurisdiction like Bermuda (company B). Company B is a holding company and fully owns company A.

While both companies should pay tax on the profit they make in their respective countries, one of the three channels is used to shift profits from the high-tax country (Australia in our case, with a corporate income tax rate of 30%) to the low-tax country (Bermuda, with a corporate income tax rate of 0%). For every dollar shifted in this way, the multinational avoids paying 30 cents of tax.

Debt shifting is when company A borrows money (although it does not need to) from company B and pays interest on this loan to company B. The interest payments are a cost to company A and are tax-deductible in Australia. So they effectively reduce the profit that company A reports in Australia, while increasing the profit reported in Bermuda.

In the second channel, the multinational transfers its intangible assets (such as trademarks or copyright) to company B, and company A then pays royalties to company B to use these assets. Royalties are a cost to company A and artificially lower its profit, increasing the less-taxed profit of company B.

Strategic transfer pricing, the third channel, can be used when company A trades with company B. To set prices for their trade, most countries currently use what's called the "arm's-length principle". This means that prices should be set the same as they would be if two non-associated entities traded with each other.

But, in practice, it is often difficult to determine the arm's-length price and there is considerable space for multinationals to set the price in a way that minimizes their overall tax liabilities. Imagine company A manufactures jeans and sells them to company B, which then sells them in shops. If the cost of manufacturing a pair of jeans is $80 and company A would be willing to sell them to unrelated company C for $100, they would make $20 in profit and pay $6 in tax (at 30%) in Australia.

But if company A sells the jeans to its affiliated company B for just $81, it makes only $1 in profit and so pays $0.30 in tax in Australia. Company B then sells the jeans to unrelated company C for $100, making $19 in profit, but not paying any tax, since there is no corporate income tax in Bermuda. Using this scheme, the multinational evades paying $5.70 in tax in Australia for every pair of jeans sold.

How to stop it

The root of the problem is the way international corporate income is taxed. The current system is based on an approach devised almost a century ago, when large multinationals as we know them today did not exist. Today, individual entities that make up a multinational run separate accounts as if they were independent companies. But the multinational optimizes its tax liabilities as a whole.

Instead, we should switch to what's called a unitary model of taxation. The idea is to tax the profit where the economic activity which generates it actually takes place – not where profits are reported. The multinational would report on its overall global profit and also on its activity in each country in which it operates. The governments of these countries would then be allowed to tax the multinational according to the activity in their country.

In practice, defining what exactly constitutes "economic activity which generates profit" is the tricky bit. For a multinational that manufactures phones, for example, it is not clear what part of its profit is generated by, say, the managers in California, designers in Texas, programmers in Munich, an assembly factory in China, a Singapore-based logistics company that ships the phone to Paris, the retail store in Paris that sells the phone, or the French consumer.

Different proposals for unitary taxation schemes define this tax base in various ways. The five factors most often taken into account are: location of headquarters, sales, payroll, employee headcount and assets. Different proposals give different weight to these factors.

Ultimately, introducing unitary taxation would require a global consensus on the formula used to apportion profits. And, admittedly, this would be difficult to do. As the Organization for Economic Cooperation and Development (OECD) says: "It present[s] enormous political and administrative complexity and require[s] a level of international cooperation that is unrealistic to expect in the field of international taxation."

But, seeing as the current system costs governments around the world around $125 billion annually, is global cooperation really more expensive than that? ❐

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Billionaires are a sign of economic failure

***Max Lawson* questions the economic and social utility of extreme wealth.**

The New York Times published an editorial comment on its front page in January 2019 provocatively entitled "Abolish billionaires." The editorial raised a serious question: What if, instead of being a sign of economic success, billionaires are a sign of economic failure? In what ways can the boom in billionaires, and the dramatic increase in extreme wealth generally, be harmful?

To answer this question, we need to understand the origins of billionaire wealth, and to understand how that wealth is used once it is gained. The answer to both these questions, I think, rightly casts doubt on the value of the super-rich in our society.

Approximately a third of billionaire wealth comes from inheritance. It is very hard to make the case for the economic utility of inherited wealth, and instead there is a strong case for the fact that it undermines social mobility and economic progress. It creates instead a new aristocracy who are rich simply because their parents were rich, which is hard to see as a good thing.

Whether inherited or secured in other ways, extreme wealth takes on a momentum of its own. The super-rich have the money to spend on the best investment advice, and billionaire wealth has increased since 2009 by an average of 11% a year, far higher than rates ordinary savers can obtain.

Bill Gates is worth nearly $100 billion in 2019, almost twice what he was worth when he stepped down as head of Microsoft. This is despite his admirable commitment to giving his money away. As Thomas Piketty said in his book *Capital in the Twenty-First Century*, "No matter how justified inequalities of wealth may be initially, fortunes can grow beyond any rational justification in terms of social utility."

My Oxfam colleague Didier Jacobs calculated a few years ago that another third of billionaire wealth comes from crony connections to government and monopoly. This could be, for example, when billionaires secure concessions to provide services exclusively from government, using crony connections and corruption. *The Economist* has developed a similar measure of crony capitalism with similar findings. What is clear, it seems to me, is that corruption and crony connections to governments are behind a significant proportion of billionaire wealth.

Almost all sectors of our global economy are also now characterized by monopoly power, as is detailed by Nick Shaxson in his great new book *The Finance Curse*. Whether food, pharmaceuticals, media, finance or technology, each sector is characterized by a handful of huge corporations.

Decades of largely unquestioned mergers and acquisitions, where corporations have bought up competitors, have led to this. Historically, and especially in the United States in the early part of the 20th century, monopoly power was rightly viewed as a serious threat to the economy and to society, and steps were taken to break up monopolies. It was President Franklin Roosevelt who famously said that "government by organized money is just as dangerous as government by organized mob."

However, in recent decades, neoliberal economics has led a much more benign view of monopoly power, and very little action is now taken to dismantle them. I think this is a key distinction between neoliberalism and classical liberal economics. These monopolies impose hidden monopoly taxes on every consumer, as it enables these companies, and their wealthy shareholders, to extract excessive profits from the market, directly fuelling the growth in extreme wealth at the expense of ordinary citizens.

The actions of corporations, including the move towards monopoly, are driven by a relentless focus on ever-increasing returns to shareholders — shareholders who are primarily the very same extremely wealthy people. Our new Oxfam paper on the "Seven Deadly Sins" of the G7, released in August, shows how returns to shareholders have increased dramatically whilst real wages have barely increased.

Behind corporate power and corporate actions is increasingly the power of super-rich shareholders.

Use of wealth

Once billionaire wealth is accumulated, the way it is used also casts doubt on how useful it is to have billionaires. The super-rich use their wealth to pay as little tax as possible, making active use of a secretive global network of tax havens, as revealed by the Panama Papers and other exposes.

One groundbreaking study that made use of this leaked information showed that the super-rich are paying as much as 30% less tax than they should, denying governments billions in lost tax revenue that could have been spent on schools or on hospitals. The super-rich are supported in this by the Society of Trust and Estate Practitioners (STEP), a secretive organization of over 20,000 wealth managers that actively pressures governments to reduce taxes on the richest.

Billions are not just used to ensure lower taxes. They can also be used to buy impunity from justice, to buy politicians or to buy a pliant media. The use of "dark money" to influence elections and public policy is a growing problem all over the world. The Koch brothers — Charles and the recently deceased David — two of the richest men in the world, have had a huge influence over conservative politics in the United States.

Another recent Oxfam study showed the many ways in which politics has been captured by the very rich in Latin America. Many of today's new breed of nationalist, racist leaders have substantial financial backing.

This active political influencing by the super-rich directly drives greater inequality, by constructing reinforcing feedback loops, in which the winners of the game get even more resources to win even bigger next time.

For all these reasons, I think there is a strong case to be made that rather than being celebrated, as one US commentator recently said, "every billionaire is a policy failure", and that in particular, if we are to end poverty and build fairer societies, we need to bring an end to extreme wealth. ❐

Max Lawson is Head of Inequality Policy at Oxfam International. This article is reproduced from Inequality.org.