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UN reports point to slow growth, rising unemployment

The prolonged slowdown besetting the world economy is highlighted in two recent UN publications. According to the *World Economic Situation and Prospects 2017* report, global growth in 2016 was the lowest since the Great Recession of 2009, held back by weak investment and slow growth in trade and productivity. The continued lacklustre economic performance is in turn expected to increase the level and rate of global unemployment this year, as projected by the UN's International Labour Organization in a 2017 outlook report.

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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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World economy remains trapped in period of slow growth

The world economy in 2016 recorded its lowest growth rate since the Great Recession of 2009, according to the UN, and a robust recovery is being hindered by weak investment levels and slow growth in trade and productivity.

by Kanaga Raja

GENEVA: The world economy expanded by just 2.2% in 2016, restrained by the feeble pace of global investment, dwindling world trade growth, flagging productivity growth and high levels of debt, the United Nations has said.

In its *World Economic Situation and Prospects 2017* report, released on 17 January, the UN has forecast world gross product (WGP) to expand by 2.7% in 2017 and 2.9% in 2018, with this modest recovery more an indication of economic stabilization than a signal of a robust and sustained revival of global demand.

In per capita terms, this equates to average global growth of just 1.5% per annum in 2016-18, compared to an average of 2.1% in 1998-2007.

At a media briefing here on 17 January, Alfredo Calcagno, Head of the Macroeconomic and Development Policies Branch, Division on Globalization and Development Strategies, at the UN Conference on Trade and Development (UNCTAD), said that some improvement is being experienced in the world economy, but without solving the main problems that led to the crisis and that have prolonged the exit from the crisis for almost 10 years now.

"We remain trapped in a slow-growth situation," he said. The recovery that is forecast for 2017 and 2018 will not be enough to recover the pre-crisis growth rates, he added.

Asked about the possible impact of US President Donald Trump's proposed tax reforms, Calcagno said that the potential reduction of taxation on firms and the wealthy would have an impact on capital movement. One thing that has been mentioned is the repatriation of cash held by US firms outside the country in order to avoid paying taxes on it. This could also have an impact on the US dollar, he said.

The tax reduction, if undertaken in parallel with increasing public investment, might also generate a fiscal deficit in the US in the short term, Calcagno said. "That could bring us towards a challenge for the global economy – what would happen with the US budget deficit going up again."

According to Calcagno, another element of tax reform that has been mentioned in the press but that has not been formally announced yet is its impact on imports; it is unclear if it would mean a kind of higher protection for US producers. This would incorporate a huge challenge for the multilateral system and the World Trade Organization (WTO), he said.

Sluggish global economy

According to the UN report, in 2016, the world economy expanded by just 2.2%, the slowest rate of growth since the Great Recession of 2009.

Underpinning the sluggish global economy are the feeble pace of global investment, dwindling world trade growth, flagging productivity growth and high levels of debt. Low commodity prices have exacerbated these factors in many commodity-exporting countries since mid-2014, while conflict and geopolitical tensions continue to weigh on economic prospects in several regions.

"The global economy remains trapped in a prolonged period of slow economic growth and dwindling international trade growth," said the report.

While some of the exceptional factors that restrained global growth in 2016 – such as the de-stocking cycle in the United States and adjustment to the sharp terms-of-trade shock faced by commodity exporters – can be expected to ease, the longer-term pressures restraining the global economy continue to prevent more robust growth.

"The relatively slow pace of economic growth will hamper progress towards achieving the Sustainable Development Goals (SDGs), as defined in the

2030 Agenda for Sustainable Development, which was adopted by the Member States of the United Nations in 2015."

If downside risks to the outlook were to materialize, this could push global growth rates down even further, with additional setbacks towards achieving the SDGs, particularly the goals of eradicating extreme poverty and creating decent work for all, the UN cautioned.

It noted that the factors underlying the protracted economic slowdown have a tendency to reinforce one another, through the close linkages between demand, investment, trade and productivity. Economic and political uncertainties have also weighed on investment demand in many countries, while the nexus between profits and investment has weakened in both developed and developing countries. The declining demand for capital goods associated with weak investment restrains global trade, which in turn curtails investment further.

"In the absence of concerted policy efforts to revive productive investment and foster a recovery in productivity, there is a risk that the protracted episode of weak global growth may linger for several more years."

The report said that in the developed economies, stable private consumption will remain the mainstay of growth.

The slight increase in gross domestic product (GDP) growth that is forecast for the developed economies in 2017 is driven primarily by the end of the destocking cycle in the United States and additional policy support in Japan, including an expansion of government investment spending.

Uncertainty related to the withdrawal of the United Kingdom from the European Union (EU) has led to downward revisions to growth forecasts for the UK and several other countries in Europe in 2017.

Meanwhile, the lack of clarity about the future direction of policy in the US, with potentially far-reaching spillover effects on both domestic and global economic prospects, has increased the margin of uncertainty around global baseline forecasts.

In developing countries, especially in East and South Asia, GDP growth is expected to remain driven by domestic consumption, said the UN report.

China's expansion is expected to remain stable, supported by the strong policy stance, but the rebalancing of the economy continues to weigh on global trade flows.

India is expected to remain the fastest-growing large developing economy, as the country benefits from strong private consumption and the gradual introduction of significant domestic reforms.

"Among the largest countries," the report says about trends in South Asia, "India has positioned itself as the most dynamic emerging economy. India's economy is projected to expand by 7.7% and 7.6% in 2017 and 2018, respectively, benefiting from strong private consumption. Investment demand is expected to slightly pick up, helped by monetary easing, government efforts towards infrastructure investments and public-private partnerships, and the implementation of domestic reforms such as the introduction of the Goods and Services Tax (GST) Bill."

"This reform constitutes a major change by establishing a new uniform tax rate, and it should promote investment in the medium term through lower transaction and logistic costs and efficiency gains. Importantly, an effective GST implementation also requires adequate capacity building of the tax administration. Nevertheless, low capacity utilization and stressed balance sheets of banks and businesses will prevent a strong investment revival in the short term."

(According to Indian media reports, the new GST regime in India will come into effect from 1 July 2017. There appears to be no mention in the UN report on the recent "demonetization" of high-value currency in the country and its likely immediate effects on GDP growth. – *SUNS*)

Meanwhile, growth in the least developed countries (LDCs) is expected to rise modestly from an estimated 4.5% in 2016 to 5.2% and 5.5% in 2017 and 2018, respectively.

The economies in transition suffered a sharp collapse in domestic demand in the Commonwealth of Independent States (CIS) region in 2016, while net trade made a positive contribution to GDP growth, reflecting the impact of lower imports as a result of steep exchange rate realignments in several countries. In 2017, the economy of the Russian Federation is expected to register its first year of growth since 2014, as the country has largely absorbed the sharp terms-of-trade shock suffered in 2014-15.

The UN said global economic prospects remain subject to significant downside risks with the potential to obstruct the modest acceleration in growth that is currently forecast for 2017-18.

"Considerable uncertainty shrouds both the path and impact of monetary policy actions in major developed economies."

The effects of introducing untested monetary policy instruments – such as the negative interest rate policies in Japan and Europe – remain unclear, with a risk of unintended consequences, such as a deterioration of bank balance sheets and tightening of credit conditions, which could destabilize fragile and under-capitalized banks.

While the path of policy interest rates in the US remains unclear, interest rate differentials relative to other developed economies are expected to widen, potentially triggering financial volatility, capital outflows from developing economies and abrupt adjustments in exchange rates.

"The future direction of certain international policy stances is uncertain. There is a lack of clarity over the shape and timing of future changes by the new Administration of the United States to crucial policies in international trade, immigration, and climate change."

The UN said the decision by the UK to leave the EU, or "Brexit", and its potential implications for the free movement of goods and workers in Europe, also poses considerable regional uncertainty.

Finally, risks facing developing countries include vulnerabilities associated with high levels of debt and rising default rates in a number of countries, with the potential to push up borrowing costs, raise de-leveraging pressures and increase banking sector stress.

Such risks are exacerbated by the volatility of international capital flows. "All of these uncertainties have the potential to undermine any projected recovery in business investment, impede international trade growth and prolong the self-propagating cycle of weak global growth," said the report.

Weak investment

According to the report, weak investment has been at the foundation of the mediocre global economy, through its

interplay with demand, productivity and international trade.

The contribution of investment to global growth has declined from an average of 1.4 percentage points per annum in 2003-07 to 0.7 percentage points per annum since 2012.

Both global and country-specific factors have contributed to the weakening of investment. Protracted weak global demand has reduced firms' incentive to invest, especially those in export-oriented industries.

Since the onset of the broad-based decline in commodity prices in late 2014, commodity sectors in particular have suffered from delays and cancellation of infrastructure investment and exploration activities. Global investment in energy sectors, for example, declined by 8% in 2015.

Policy uncertainty and in some cases social unrest have also held back investment in several countries, including Brazil, South Africa, Turkey, the UK and the US.

A lack of access to finance has also created barriers, especially in Europe where certain banks remain under-capitalized as well as in developing countries that are struggling with high interest rates or where financial markets are under-developed.

In developed economies, private non-residential investment growth has been exceptionally weak in the past two years, especially when compared to the pre-crisis years 2005-07. In the first half of 2016, most major developed economies experienced a contraction in private non-residential investment activity.

The sharp contractions in Australia and Canada largely reflect large cutbacks in mining-related capital expenditure, while the US has seen a significant decline in investment in the shale-oil sector.

The report said these declines have not been matched by a commensurate expansion of investment in renewable energy and are likely to prove temporary, rather than signal significant structural progress towards a less fossil fuel-intensive economy.

"In the United States, in particular, an expansion of investment in fossil fuel industries would be expected in 2017, should the new Administration lift certain environmental restrictions on production in the shale, oil, natural gas and clean coal sectors, risking setbacks to environmental targets in the SDGs and the Paris Agreement on climate change."

Despite record-low, often negative bond yields, governments in developed countries have been reluctant to increase public sector investments to fill the gap in private investment. Steep cuts in government investment largely reflect fiscal adjustment policies that have been implemented in many developed economies since 2010 in response to soaring levels of government debt.

"While the policy outlook for the United States remains highly uncertain, proposals to boost infrastructure spending would support a revival of investment in the fiscal year starting October 2017 if implemented," the UN said.

In major developing countries and economies in transition, investment growth has also slowed notably in recent years.

As in developed economies, a sharp decline in investment in the commodity sector has weighed on investment growth, particularly in Brazil, the Russian Federation and South Africa. In the Russian Federation, the decline also reflects the impact of international sanctions on access to capital and business sentiment.

In the case of China, weaker investment growth reflects large over-capacity in a number of industrial sectors, including iron and steel, cement and even the solar energy sector, as well as sluggish market demand and higher corporate financing costs.

Slower investment growth in major developing economies has been largely driven by the private sector. In line with their greater scope to exploit fiscal space, East Asian and South Asian economies have generally seen stronger growth in public investment, especially in infrastructure.

The slowdown in private sector investment growth in many developing economies raises some concerns, as it suggests that the significant increases in corporate debt burdens, particularly in East Asia, have failed to deliver a comparable increase in productive capital stock.

"Going forward, these high debt burdens may begin to restrain access to finance or prompt firm de-leveraging, perpetuating the slowdown in investment growth, and may also increase the risks of debt distress and financial instability in some developing countries."

According to the report, dwindling world trade growth is both a contributing factor and a symptom of the global economic slowdown.

The current weak investment trends in major developed and developing economies have constrained trade in capital goods, while at the same time, the weakness in trade is propagating and reinforcing the slump in investment, especially in other export-oriented sectors. There may also be spillovers from weak global trade to productivity, especially in developing countries.

The volume of world trade in goods and services is estimated to have expanded by just 1.2% in 2016, the slowest growth rate since the financial crisis, marking a significant downward revision of nearly 3 percentage points compared to projections in the *World Economic Situation and Prospects 2016* report, said the UN.

The estimated global trade growth of only 1.2% in 2016 will stand out as the third-lowest rate of growth in the past 30 years.

Financial fragilities

Looking ahead, said the UN, significant fragilities in the international financial system pose major risks to developed and developing economies.

The main underlying factor is the widening divergence between buoyant – and complacent – financial markets and persistently weak global economic growth resulting from the over-reliance on monetary policy to stimulate economic activity.

Years of expansionary monetary policy coupled with the lack of support on the fiscal side encouraged excessive risk-taking and considerable distortions, leading to very high equity and asset prices, without ensuring a robust growth trajectory.

"Significant uncertainties and risks persist in the financial market, which may suddenly alter the volume, destination, composition and pace of international capital flows."

As global divergences in policy rates and yields continue to widen, this may trigger disorderly adjustments in asset prices and change capital flows, with significant adverse effects on the real economy, especially in large developing countries with high openness to foreign capital, such as Mexico, South Africa and

Turkey.

"In the first days following the election in the United States, emerging market assets dropped noticeably, along with a sharp depreciation in several emerging market currencies. A further surge in risk aversion – driven, for example, by concerns related to the possible introduction of protectionist measures by the United States or the implementation of Brexit – could destabilize financial markets worldwide."

While the dispersion of global current-account deficits and surpluses has narrowed somewhat from the peaks leading up to the global financial crisis, a significant degree of imbalance still persists, posing a potential risk to global financial stability.

The US current-account deficit narrowed from 1.6% of WGP in 2006 to 0.5% in 2013, combined with a decline in China's current-account surplus from 0.5% of WGP to 0.2% over the same period.

However, the US current-account deficit has been widening since 2014 and is expected to widen further in 2017-18. The current-account surplus in East Asia, after widening slightly in 2014 and 2015, has narrowed again, and a return to the level of global imbalances in 2006 is unlikely.

The report noted that the US dollar has appreciated by more than 15% since mid-2014. The strong dollar has restrained US exports and has been an important factor underpinning the recent widening of the US current-account deficit. As interest rates in the US are expected to rise relative to other major developed economies in 2017-18, some upward pressure on the dollar is expected to continue, further unwinding some of the improvement in the US current-account deficit since 2006.

Major uncertainties and risks

The report said there is considerable uncertainty related to the evolution of international policy. For example, the new administration in the US has discussed far-reaching changes to the current direction and stance in policy related to macroeconomics, trade, immigration, foreign affairs and the environment, as well as the nature of its participation in multilateral organizations and institutions.

"Should some of these changes be implemented, the substantial economic impact would mostly manifest itself beyond the forecasting period of this report, but heightened uncertainty could weigh on investment decisions in the short term as well," said the UN.

This uncertainty may also trigger capital withdrawal from developing economies with open capital markets, such as Mexico, South Africa and Turkey, in a general "flight to safety".

Some measures recently proposed by the new US administration may have the potential to accelerate GDP growth in the short run, such as a large expansion of infrastructure investment coupled with significant cuts in taxation, although it is not clear whether the US Congress would agree to the rise in government debt levels that such a move would entail.

"The introduction of ad hoc tariff barriers to some important trade partners, such as China and Mexico, on the other hand, would be counterproductive and slow economic growth, especially if such actions trigger retaliatory measures that could potentially spread to other countries," the report cautioned.

It said the decision by the UK to leave the EU also raises questions regarding international policy, which can be broadly grouped into three different levels: uncertainties about the future trade, financial and migration arrangements between the UK and the EU and between the UK and other countries; the likelihood that similar actions will be taken by other EU members; and the extent to which this signals a change in the trend of global economic integration at large.

From a global perspective, the shifting direction of policy in the US and the UK partly reflects increasing discontent with the imbalanced distribution of the burdens and gains that deepening global economic integration has brought in the past few decades.

For example, more open international trade has indeed generated substantial economic gains for many countries through improved efficiency in allocating resources worldwide. At the same time, more open trade has been associated with widening income inequality in many countries, along with job losses and declining wages for certain categories of workers, although these developments also reflect factors such as technological progress. "These concerns have enhanced the appeal of protectionism and inward-looking policies in many countries."

More concerted international efforts to improve global governance, along with more effective domestic redistribution policies, are needed to ensure that the gains from global economic integration are more inclusive, said the UN.

"In the absence of such efforts, protectionist tendencies may escalate, which could prolong the slow growth in the world economy and lead to a less-efficient allocation of resources and slower pace of technological diffusion."

The report noted that developed economies continue to rely heavily on monetary policy to support their macroeconomic objectives.

As the scope for conventional monetary stimulus was to a large extent exhausted when interest rates were cut to near zero levels in the aftermath of the global financial crisis, central banks have made greater use of unconventional policy, such as quantitative and qualitative easing, negative interest rate policies and yield curve targeting. Proposals have also been made to explore new tools such as "helicopter money", which is essentially a fiscal expansion financed by a central bank.

"The longer-term impacts of these measures, which have limited historical precedence, remain unclear."

The UN also said the significant rise of corporate debt in emerging markets in recent years has emerged as an important risk to the global growth outlook. This trend has been largely driven by loose financing conditions in the post-crisis period, facilitated by capital inflow seeking higher-yield assets.

Government debt has also risen in many developing countries, reflecting the deterioration of fiscal positions related to slower growth, subdued commodity prices and higher financing costs, especially in countries that have suffered sharp currency depreciations.

According to the report, other risks and uncertainties in the world economic prospects include banking sector fragilities, especially in Europe but also in some developing and transition economies, which could trigger financial distress in response to a further squeeze on bank lending margins or rising defaults related to exchange rate shocks; the response to recovery in commodity prices, which could lead to a stronger pass-through to inflation than currently forecast; as well as the political, geopolitical and security risks which continue to weigh on regional prospects in many parts of the world. *(SUNS8384)* ❐

Global unemployment to rise by 3.4 million this year, says ILO

The global unemployment rate is projected by the International Labour Organization (ILO) to rise in 2017, amid a protracted economic slowdown which has set back progress in increasing both the quantity and quality of jobs.

by Kanaga Raja

GENEVA: The global unemployment rate is expected to rise modestly from 5.7% in 2016 to 5.8% in 2017, representing an increase in the number of unemployed globally of 3.4 million, the International Labour Organization (ILO) has said.

In its *World Employment and Social Outlook – Trends 2017* report released on 12 January, the ILO said that this will bring total unemployment to 201.1 million in 2017.

The ILO further said that the global unemployment rate is then expected to hold relatively steady in 2018, as the economic outlook improves, although the pace of labour force growth will still outstrip employment creation, resulting in an additional 2.7 million unemployed people.

"We are facing the twin challenge of repairing the damage caused by the global economic and social crisis and creating quality jobs for the tens of millions of new labour market entrants every year," said ILO Director-General Guy Ryder in an ILO news release.

"Economic growth continues to disappoint and under-perform – both in terms of levels and the degree of inclusion. This paints a worrisome picture for the global economy and its ability to generate enough jobs. Let alone quality jobs."

"Persistent high levels of vulnerable forms of employment combined with clear lack of progress in job quality – even in countries where aggregate figures are improving – are alarming. We need to ensure that the gains of growth are shared in an inclusive manner," Ryder said.

The ILO report said that the increases in the global unemployment level and rate in 2017 are driven by deteriorating labour market conditions in emerging countries, which are expected to see increases in unemployment in the order of 3.6 million between 2016 and 2017. Their overall unemployment rate is expected to climb to 5.7%, compared with 5.6% in 2016.

In contrast, in developed countries, unemployment is expected to fall in 2017 (by 670,000), bringing the rate down to 6.2%.

In developing countries, unemployment levels are expected to increase in 2017 (by 450,000), with unemployment rates hovering around 5.5% in 2017 (and 2018).

Global economic growth is expected to have remained relatively unchanged in 2016, at 3.1%, compared with 3.2% in 2015.

The protracted slowdown since 2008 is being driven by several factors, including continued global uncertainty regarding the economic outlook and a range of potential policy shifts (e.g., interest rate movements), which have dampened investment and trade and, in turn, aggregate demand.

However, said the ILO, economic growth is expected to pick up slightly in 2017 (to 3.4%) and 2018 (3.6%).

The upward trend is largely being driven by anticipated improvements in emerging countries, notably in Brazil and the Russian Federation, where major contractions in 2016 dragged down economic growth. Furthermore, the negative impact of the sharp terms-of-trade shock experienced by commodity exporters is likely to reverse and an increase in capital inflows should help to buttress economic improvements.

For developed countries, the outlook for economic growth is also expected to improve, although growth rates are projected to remain below 2%. Economic growth in these economies overall fell to 1.6% in 2016 (from 2.1% in 2015), but is expected to pick up to 1.8% in 2017. In comparison, between 2000 and 2007 economic growth averaged close to 3% in developed economies.

The slowdown in 2016 was in part driven by lower-than-expected performances in the United States and Europe. "In both these cases, there is some uncertainty regarding the anticipated improvements in their economic outlook going forward, which could have wider implications for the global outlook," said the ILO.

Vulnerable employment and working poverty

Given the disappointing global economic performance in 2016 and the below-trend outlook, progress on reducing decent work deficits has stalled, notably as concerns the ability (or inability) of the global economy to (i) generate a sufficient number of jobs, (ii) improve the quality of work for those with a job, and (iii) ensure that the gains of growth are shared in an inclusive manner.

The report underlined that vulnerable forms of employment, i.e., own-account work and contributing family employment, remain pervasive.

In particular, vulnerable employment as a share of total employment is expected to fall less than 0.2 percentage points per year over the next two years (compared with an average annual decline of 0.5 percentage points between 2000 and 2010). As a result, the share of vulnerable forms of employment is expected to remain above 42% over the coming years, accounting for over 1.4 billion people worldwide in 2017.

Significantly, almost half of all workers in emerging countries are still in vulnerable forms of employment, and almost four out of five workers in developing countries are in this employment category. As a result, the total number of workers in vulnerable employment is projected to grow by 11 million per year.

Working poverty is expected to continue its long-term decline, driven by reductions in both emerging and developing countries, decreasing from 29.4% of the employed in emerging and developing countries in 2016 to 28.7% in 2017 [at the extreme and moderately poor poverty threshold, i.e., those living on less than $3.10 per day in purchasing power parity (PPP) terms].

While working poverty rates have continued to decrease, the reduction in absolute numbers of working poor is slowing. In 2016, the emerging and developing economies were home to a total of 783 million working poor, a figure that is expected to fall to 776 million in 2017.

"While emerging countries are experiencing rapid reductions in both the rate and the number of working poor, progress in developing countries is too slow to keep up with population and employment growth." Consequently, said the report, the number of workers

earning less than $3.10 per day is expected to increase by close to 3 million per year in developing countries until 2018.

As a response to the ongoing global uncertainty and the persistence of major economic challenges, the risk of social unrest or discontent has heightened across almost all regions.

Based on the ILO's social unrest index, which measures expressed discontent with the socioeconomic situation in countries, the average global social unrest score increased by 0.7 points between 2015 and 2016, to 22.4 points. This level, while lower than the post-crisis peak, remained above the long-term average (since 1980) of 21.9 points.

In terms of regional developments, only three regions experienced declines in the index between 2015 and 2016, most notably Northern Africa. In contrast, eight regions experienced increases, with the largest rise taking place in the Arab States, followed by sub-Saharan Africa and Eastern Asia.

Discontent with the social situation and a lack of decent job opportunities are factors that play a role in a person's decision to migrate. Latest estimates suggest that there were more than 232 million international migrants in the world in 2013, of which some 207 million were of working age. Almost two-thirds of these, or 150 million, were migrant workers, accounting for some 4.4% of all workers.

According to the ILO report, the protracted slowdown in global economic activity has been a result of weaker-than-anticipated performance in key economic variables. Several drivers have continued to underpin slow economic growth. In particular, subdued private investment and trade flows have remained a major concern for both current economic conditions and the medium-term outlook.

The trend decline in investment and trade is creating a large gap in aggregate demand, which cannot be fully offset by public spending because of tight fiscal constraints and is unlikely to be filled by private consumption due to sluggish employment and labour income growth. Moreover, forgoing investment today results in lower productive capital stock and productivity growth in the future, thus lowering income growth.

However, since the onset of the global economic crisis, there has been an overarching level of uncertainty – often difficult to assess quantitatively – that has also played a central role.

The report pointed out that there are several factors that could explain the slowdown in potential growth. The first is that weak trade growth over recent years does not appear to be entirely cyclical. The intensification of global supply chains has slowed down significantly since 2009 compared with the period 2000-08, implying that trade volumes and global production could become increasingly disconnected from one another.

Consequently, developed countries see much smaller potential productivity gains due to global supply chain intensification, while the potential for developing countries to benefit from innovation and technological diffusion and access to quality imports is diminished.

In addition, developed countries have experienced low growth in conjunction with extremely low interest and inflation rates – as well as extremely loose monetary policy – for several years in a row.

The ILO said that if secular stagnation (i.e., lower consumption and investment demand) does indeed intensify, global unemployment would rise by an additional 0.3 million in 2017 and almost 1 million in 2018. Under such a scenario, developed economies would be affected the most, while emerging and developing countries would benefit initially from higher capital inflows, but would then also suffer due to negative spillover effects caused by lower trade and investment.

However, a coordinated fiscal loosening would provide an immediate jump-start to the global economy, which in the medium term might remove fears of low growth and thereby also raise investment demand.

The scenario assumes there is an increase in public investment outlays, but importantly it also takes into account each country's fiscal space. Under this scenario, global unemployment could be lowered, relative to baseline projections, by 0.7 million in 2017 and 1.9 million by 2018.

"Boosting economic growth in an equitable and inclusive manner requires a multi-faceted policy approach; one that addresses the root causes of secular stagnation, e.g. inequality, while also taking account of country specificities," said the ILO.

Regional trends

According to the report, the African economy is currently characterized by relatively weak economic growth in comparison with the average growth rate achieved in the continent over the past decade.

In the current context, the ILO said, the prevailing economic conditions are likely to correspond to only marginal improvements in the labour market. The unemployment rate for the continent as a whole is likely to remain unchanged from its 2016 rate of 8.0% going into 2017, which, when applied to a rapidly growing labour force, corresponds to an increase in total unemployment of 1.2 million.

A similar trend is observed with regard to vulnerable employment, with a slight decrease in the rate but an increase in the number of workers in this form of employment.

Meanwhile, despite marginal decreases in extreme working poverty (i.e., individuals who live on less than $1.90 per day), the region – driven by trends in sub-Saharan Africa – is performing poorly with regard to moderate working poverty (i.e., those living on between $1.90 and $3.10 per day).

At 1.6% in 2016, economic growth in sub-Saharan Africa is at its lowest level in over two decades – a sharp contrast to the annual average of nearly 5% over the past 10 years. This downturn has largely been due to the effects of low commodity prices on resource-intensive countries, such as Angola, Nigeria and South Africa (with oil-exporting countries faring particularly poorly). The reductions in commodity revenues have typically led to fiscal tightening, amidst inflationary pressures and weaker terms of trade.

For sub-Saharan Africa as a whole, a slight recovery to 2.9% is anticipated for 2017, the achievement of which will rely on recoveries among commodity exporters, alongside elevated growth rates in a number of non-resource-intensive economies.

Sub-Saharan Africa's unemployment rate is forecast to be 7.2% in 2017, unchanged from 2016. While the unemployment rate remains stable, the number of unemployed is expected to increase from 28 million in 2016 to 29 million in 2017 due to the region's strong labour force growth.

In the context of sub-Saharan Africa, however, poor-quality employment – rather than unemployment – remains the main labour market challenge. This problem is compounded by rapid population growth, specifically growth of the working-age population. For example, an additional 12.6 million youth in the re-

gion will enter the labour force over the next four years. As such, the region risks forgoing any gains from the potential "demographic dividend" unless sufficient productive opportunities are provided for young people.

Across most of sub-Saharan Africa, the lack of productive opportunities for youth and adults alike means that 247 million people were in vulnerable employment in 2016, equivalent to around 68% of all those with jobs. While a marginal decrease in the rate of vulnerable employment is anticipated over the next two years, due to growth in the working-age population, the number of people in vulnerable forms of employment is expected to increase by 14.6 million.

Inter-related with vulnerable employment is the issue of working poverty. Sub-Saharan Africa continues to be characterized by elevated rates of working poverty, with 33.6% of all employed people living in extreme poverty in 2016 – i.e., on less than $1.90 per day – and an additional 30.1% in moderate poverty – i.e., between $1.90 and $3.10 per day. This corresponds to over 230 million people in sub-Saharan Africa living in either extreme or moderate poverty.

Northern America recorded growth of 1.5% in 2016 – substantially lower than the 2.5% growth achieved in 2015. The slowdown in 2016 was driven principally by lower growth in the United States: GDP grew by 1.6% in 2016, compared with 2.6% in 2015. The slowdown in the US, combined with lower commodity prices, has also dampened growth in Canada (an estimated 1.2% in 2016, compared with 2.5% in 2015).

"Weaker than expected economic performance was accompanied by weak productivity gains, particularly in the first half of 2016 – placing further pressure to keep interest rates low. With investment growth still weak, due to lingering risk aversion associated with the global economic crisis and a climate of uncertainty, growth is likely to rely on domestic consumption and, to a lesser extent, on rebounding export growth."

Growth is anticipated to pick up in 2017, with growth of 2.2% projected for the region (2.2% in the US and 1.9% in Canada).

In both countries, the unemployment rate is expected to remain relatively stable as job creation rates keep pace with the number of people entering the labour force and seeking employment. In the case of Canada, unemployment is projected to remain stable throughout 2017 and 2018, at 7.1%. For the US, the rate is expected to remain at 4.9% in 2017, rising moderately to 5% in 2018.

The unemployment rate for the Latin America and Caribbean region is expected to rise by 0.3 percentage points in 2017, to 8.4%.

This significant increase in the region's unemployment rate is largely being driven by Brazil, where the deeper-than-anticipated recession of 2016 will be playing out in 2017. Brazil's unemployment rate is expected to reach 12.4% in 2017, almost 1 percentage point higher than the 2016 rate.

The number of unemployed people in the region in the coming years will be further increased as labour force growth exceeds job creation.

In Mexico, the region's second-largest economy, the unemployment rate is expected to remain comparatively low in 2017, at 4%, with a modest upturn anticipated in 2018, when job creation is expected to slow relative to labour force growth.

The report said that vulnerable forms of employment in the region steadily declined between 2009 and 2014.

However, since the onset of the slowdown in 2015, the share of workers in vulnerable employment has risen at a steady pace, climbing nearly a full percentage point between 2014 and 2016, from 31.0% to 31.9% (and anticipated to remain there through 2018). The number of people in vulnerable employment is expected to continue to increase, reaching over 93 million in 2018, up from 90.5 million in 2015.

Accounting for nearly 60% of the global workforce, the Asia and the Pacific region's net employment expanded by over 20 million in 2016, equivalent to growth of around 1.1%, with a similar expansion anticipated in 2017.

Southern Asia has created most of the new employment, with employment expanding by 13.4 million in 2016, underpinned by population-driven labour force growth. The majority of this new employment was created in India.

Total employment expanded by around 5 million in South-Eastern Asia and the Pacific, equivalent to growth of 1.6%, and is forecast to grow by another 4.5 million in 2017, with Indonesia and the Philippines accounting for the majority of employment growth in this subregion.

In Eastern Asia, employment is growing the least, at less than half a percentage point each year, largely as growth of China's workforce starts to shrink.

Vulnerable employment as a share of total employment in the region as a whole decreased from nearly 60% in 2000 to 50.1% in 2016. However, within the region, vulnerable employment is still stubbornly high. For example, Southern Asia had an estimated rate of 74.8% in 2016, compared with 30.9% in Eastern Asia and 50.8% in South-Eastern Asia and the Pacific.

Economic activity in the Northern, Southern and Western Europe region is expected to continue to slow, with GDP growth forecast to reach 1.5% in 2017, down from 1.7% in 2016 and 2.1% in 2015. The region's economic growth is set to pick up again in 2018, albeit only marginally.

Several global and interlinked forces are weighing negatively on the region's growth projections for 2017. Firstly, said the ILO, the benefit of low energy prices, which supported regional aggregate demand throughout 2016, is expected to wane in 2017, as oil prices are likely to rebound. Secondly, weaker aggregate demand by key trade partners, notably large emerging market economies, is weighing on export growth. In addition, the outcome of the United Kingdom's vote to leave the EU is likely to undermine investors' and financial markets' confidence in the medium term, both in the UK and in Europe.

These downside risks are only partially offset by expectations that expansionary monetary policy by the European Central Bank will continue and that EU countries will engage in more growth-oriented fiscal policy.

Within the region, said the report, the largest downside revision to GDP growth concerns the UK, where growth in 2017 is projected to be 1.1%, down from an average of 2.3% between 2013 and 2016.

The regional unemployment rate is projected to reach 9.1% in 2017, down by 0.2 percentage points with respect to values anticipated for 2016. Considering that the regional unemployment rate fell by almost 2 percentage points between 2013 and 2016, this represents an important slowing of the region's progress towards returning the unemployment rate to its pre-crisis level of 7.4% (in 2008).

Indeed, significant reductions in the unemployment rate are expected in only a few countries, including Croatia, Ireland, the Netherlands, Portugal and Spain. However, a small number of countries within the region, most notably the UK, are likely to see their unemployment rates edging upwards over the next couple of years, the ILO said. *(SUNS8385)* ❐

Developed countries want "payment" anew for unresolved Doha agri issues

In return for dealing with outstanding agriculture-related issues in the WTO, developed countries want the trade body to take up new items on its agenda.

by D. Ravi Kanth

GENEVA: Major developed and some developing countries appear to be pushing for "payment" for addressing the unresolved Doha agriculture issues in the run-up to the World Trade Organization's eleventh Ministerial Conference in Buenos Aires later this year, sources told the *South-North Development Monitor (SUNS)* on 21 January.

As a price for addressing these unresolved issues, the major developed countries, the developing countries and the least developed countries are to agree to negotiate new issues: disciplines for micro, small and medium enterprises (MSMEs) and electronic commerce.

(Developing countries have already "paid" a price at least twice over for bringing agricultural trade under trade discipline and seeking to end heavy subsidization and protection in developed-country agriculture. They paid a price when concluding the Uruguay Round negotiations, by agreeing to assume obligations on services trade and intellectual property rights in return for commitments by the developed countries to undertake a long-term programme of reforms to end subsidies and distortions in their agricultural trade. The developing countries again paid a price for continuing with the agricultural trade reform programme at Doha in the Single Undertaking, and in agreeing to several concessions to the developed countries at the Bali and Nairobi Ministerial Conferences, including the Trade Facilitation Agreement. – *SUNS*)

An early indication of the gameplan being pursued by the major developed countries and their allies in the developing world came at the informal ministerial meeting held in Davos on 20 January on the margins of the annual World Economic Forum meeting.

Trade ministers from China, India, South Africa, Indonesia (which represents the G33 farm coalition), the Philippines, Morocco (which is the coordinator of the African Group), Benin (which coordinates the least developed countries) and Nigeria, among others, demanded that outcomes on the permanent solution for public stockholding (PSH) programmes for food security and the Special Safeguard Mechanism (SSM) be reached at the Buenos Aires Ministerial Conference, said participants familiar with the Davos meeting.

The developing- and least-developed-country trade ministers along with Argentina, Brazil, Australia, New Zealand and Canada made a strong case for addressing trade-distorting domestic support.

Without acknowledging the demands made by many developing countries on PSH and SSM, trade ministers of the European Union, Switzerland, Norway, Canada, Australia, New Zealand, Korea, Singapore and Hong Kong, among others, said they want to see an outcome on new issues – disciplines for MSMEs and outcomes on e-commerce – at Buenos Aires, participants said.

After the Davos meeting, one participant from a developed country told *SUNS* that for any movement on Doha issues in agriculture, particularly PSH and SSM, there has to be reciprocal commitment to addressing new issues, implying that they would need a payment to address issues in agriculture.

Dealing with anti-trade sentiment

The Davos ministerial meeting was convened to address two issues – the state of the global trading system and the threat posed by an enveloping anti-trade and protectionist sentiment, and what needs to be done in the run-up to the eleventh Ministerial Conference.

During the three-hour meeting, trade ministers and senior officials from over two dozen countries – Argentina, Australia, Benin, Brazil, Canada, China, Costa Rica, Egypt, the European Union, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Mexico, Morocco, New Zealand, Nigeria, Norway, Pakistan, the Philippines, Russia, Singapore, South Africa, Switzerland, Thailand and Turkey – did not enter into any substantive discussions. They merely reiterated their priorities in the face of the worsening anti-trade and protectionist sentiment and vowed not to give up negotiations, said several participants familiar with the meeting.

The US was represented by charge d'affaires Christopher Wilson, who did not speak during the meeting.

The WTO's Director-General Roberto Azevedo merely spoke about supporting the system and the conclusions arrived at in the last informal ministerial meeting in Oslo in October, said a participant from a developing country.

Without directly referring to the new administration in the US led by Donald Trump, trade ministers discussed the threat posed by anti-trade sentiment to the WTO dispute settlement system and the challenges posed to the Appellate Body if countries refuse to abide by its rulings, the participant said.

Many ministers emphasized "preserving" the multilateral trading system and what is being negotiated at the WTO.

"Ministers highlighted the key role of the rules-based multilateral trading system in ensuring a stable and predictable framework for world trade ... they stressed the importance of safeguarding the integrity and the benefits of this system and of further strengthening the WTO," the chair of the meeting, Johann Schneider-Ammann, Head of the Swiss Federal Department of Economic Affairs, Education and Research, said in the concluding remarks.

"Ministers noted that protectionism was not the right answer to anti-trade sentiments and to concerns about technological change ... Instead, trade should be made more inclusive and its benefits spread more widely," Schneider-Ammann said.

Trade ministers of many developing countries – China, India, Indonesia, the Philippines, South Africa, Nigeria, Morocco, Egypt and Benin, among others – stressed the importance of concluding the permanent solution for public stockholding programmes and SSM at the Buenos Aires meeting, said a developing-country minister who asked not to be quoted.

"Everybody agreed there has to be an outcome on permanent solution for public stockholding programmes for food security but it has to be along with other results in agriculture," the minister said.

India emphasized the need for tackling the distortions caused by trade-distorting domestic support.

On new issues – disciplines for MSMEs and e-commerce – there was a broad divide among the participants.

Many ministers – from Hong Kong, Australia, Canada, the EU, Costa Rica, China, Japan, Korea, Malaysia, New Zealand, Nigeria, Pakistan, Switzerland and Norway, among others – called for an outcome on new issues, particularly e-commerce.

However, South Africa said new issues must await an outcome on agriculture, while India along with African countries except Nigeria said work on e-commerce must proceed in accordance with the existing mandate of 1998.

"On a scale of 1 to 10, the support for e-commerce at this juncture is 5, while [that for] agriculture-related issues is between 8 and 9, fish subsidies 9, services domestic regulation between 6 and 7, non-tariff barriers between 5 and 6, and trade facilitation in services between 4 and 5," said one participant who asked not to be quoted. *(SUNS8386)* ❐

New OECD measure for aid highly problematic, says study

A study questions the need for and potential effectiveness of a new gauge of development aid being formulated by the OECD grouping of rich-country donors.

by Kanaga Raja

GENEVA: The proposed Total Official Support for Sustainable Development (TOSSD), a new statistic being developed by the Organization for Economic Cooperation and Development (OECD) club of donors to measure their contribution towards the Sustainable Development Goals (SDGs), comes with no commitments, no responsibility and no expectations attached, a new study has charged.

Putting attention into creating, calculating and reporting TOSSD could easily distract donor countries from existing Official Development Assistance (ODA) commitments and their historical responsibilities, the study stressed.

The study, in the form of a working paper titled "New Development Finance Measure Should Be TOSSD Out the Window!", was authored by Neissan Besharati, the African coordinator of the Network of Southern Think-Tanks (NeST) and a senior researcher at the South African Institute of International Affairs.

According to the study, TOSSD, although still a work-in-progress, endeavours to count all financial flows (public and private, concessional and non-concessional) from traditional and emerging donors aimed at supporting global public goods and sustainable development.

"TOSSD stretches the boundaries of its predecessor, Official Development Assistance (ODA), the long-standing statistical term for foreign aid," it said.

"The problem with the new measure is that, once again, it is being created without consulting the main beneficiaries. In fact, developing countries didn't even ask for this new statistic," said Besharati.

The study pointed out that the concept of TOSSD originated from and was driven by discussions within the OECD Development Assistance Committee (DAC). But in June 2015 at the third UN Conference on Financing for Development in Ethiopia, TOSSD crept into the text of the Addis Ababa Action Agenda, when countries agreed "to hold open, inclusive and transparent discussions on the modernization of the ODA measurement and on the proposed measure of total official support for sustainable development".

Unfortunately, said the study, the process has not been open, inclusive or transparent.

The details of TOSSD have been written up by OECD technocrats, while most of the consultations between 2015 and 2016 were held among a small circle of wealthy countries, with token representation from the rest of the (developing) world, where 80% of the population of the planet actually reside.

It seems that Northern donors have still not learnt from their past mistakes with ODA, Besharati underlined.

"The old measurement contains many flaws, such as counting in-donor costs like administrative and marketing expenditures, refugee and student support, and aid tied to products, services and institutions from the provider country. Nonetheless, ODA remains a useful indicator of rich countries' generosity towards poor countries."

"TOSSD is a sexy new measure, but it comes with no commitments, no responsibility and no expectations attached. This makes the global South very suspicious. Putting attention into creating, calculating and reporting TOSSD could easily distract donor countries from existing ODA commitments and their historical responsibilities," the study warned.

New spending items

The architects of TOSSD have stated that the new measure is about cross-border flows and will not include in-donor costs. However, said Besharati, the recent debates around TOSSD have seen many OECD donors pushing for new spending items which they would like to report in the new measure, so they can say that they are giving more towards sustainable development than they currently are.

In 1988 the DAC decided that the first year of in-country refugee support could be counted as ODA, and since then this has become common practice in aid reporting. With the new wave of Syrian and African refugees flooding Europe, EU governments are strongly advocating for support to refugees beyond the first year to also be included in TOSSD.

ODA was the main development finance measure for industrialized countries' contribution to the Millennium Development Goals (MDGs), and now TOSSD is seen as the new measure to be used for the SDG framework.

The study noted that in contrast to the MDGs, the SDGs do not apply only to developing countries but to all countries, regardless of economic status. Thus, to qualify as TOSSD, an expenditure needs to be either "for the benefit of developing countries" or "for global public goods".

"This however opens a can of worms on what to count and what not to count as TOSSD," it said.

Donor countries in fact have argued that many domestic expenditures such as scientific and health research, education and capacity-building programmes, national efforts to reduce greenhouse gas emissions, assistance to political and economic migrants, or anything else which indirectly contributes to global development may potentially be counted as

TOSSD.

By the same token, asked Besharati, should points be subtracted from TOSSD when domestic policies of OECD countries hurt developing countries, such as high carbon emissions, agricultural subsidies and illicit financial flows?

According to the study, another concern with TOSSD is that the OECD wants to also include all non-concessional loans in the new measure.

"If a financial institution from a Northern country is providing a loan on commercial terms and making profits from the misfortunes of poor beneficiaries, how can this be considered 'support to sustainable development'?"

The study also said that including publicly-mobilized private financing in the new statistic is very ambiguous as it opens the possibility for blended finance, public-private partnerships, private capital raised by state-owned enterprises, and financing where the state has minimal involvement (such as reducing interest rates, providing guarantees even though they are never used), to be included as TOSSD.

"This opens the door for governments to take credit for investments made by private financiers, and for donor countries to count as TOSSD the support they provide to their own profit-making private sector," it cautioned.

"Mutual benefit"

Another dangerous trend observed in the initial TOSSD proposals is the use of the rhetoric of "mutual benefit" which has traditionally been part of the discourse of South-South cooperation. The principle behind mutual benefit in cooperation between developing countries legitimizes domestic interests of Southern partners, as both countries endeavour to reduce poverty in their respective territories through the development cooperation arrangement.

"This modus operandi, however, is utterly inappropriate to apply to North-South cooperation, which comes from a different tradition and carries a different set of historical responsibilities that developed countries have towards the global South."

According to Besharati, while it may be acceptable for a lower-middle-income country like India (with 60% of its population living under the international poverty line) to provide non-concessional lines of credit to other developing countries – tied to its companies, products and technical experts in the name of "mutual benefit" – it would be unacceptable (and almost ridiculous) if the United States or Germany acted under the same paradigm.

The study further noted that although traditional donors would very much like the providers of South-South cooperation to also be part of the new TOSSD reporting effort, the BRICS and other emerging economies have not shown any appetite for this new statistic and have made it clear that they do not want to be part of yet another DAC-led initiative.

"Instead of succeeding in bringing emerging donors into the narrative of traditional donors, TOSSD is rather an illustration of the 'Southernization of the DAC'," the study said.

"TOSSD is opening up debate not only on commercial flows, but also on political, cultural and religious cooperation. Should we start counting the language classes of Alliance Francaise or the mosques that Turkey builds in developing countries as TOSSD as well?"

Under the old regime, only 7% of non-military contribution to UN peacekeeping operations was counted as ODA. But in Agenda 2063 – Africa's 50-year development vision – the continent has made clear the central role that peace and stability play in its long-term development. From an African perspective, therefore, humanitarian, safety and capacity-building operations conducted by security forces of a provider country upon request of a recipient country should be also counted as "support to sustainable development".

Nonetheless, said Besharati, many gray areas still remain, such as the fight against international crime and trafficking, intelligence gathering and counter-terrorism activities.

Are these really global public goods and who defines them as such, he asked.

External interventions in the arena of security, governance and human rights are always politically sensitive, as they often imply infringement on national sovereignty and can therefore be questioned in terms of legitimacy.

This is why financing of these activities should be counted as TOSSD only if the interventions have been mandated by the UN or other regional bodies, such as the African Union, the Arab League or the Organization of American States.

According to the study, accounting for the "inputs" towards sustainable development is certainly important, but most people and countries are more concerned with the "outcomes" of development efforts.

"However, these are not well captured by the TOSSD framework. The excessive focus on financial inputs overshadows other non-financial contributions that are equally important, such as technology transfer, knowledge exchange and technical assistance."

The problem with comparing technical cooperation from different countries is that its value varies depending on the salaries and prices in each economy. "One million dollars of goods and services in China gets you a lot more than a million dollars of goods and services from Switzerland."

This is why the proposal to use purchasing power parity (PPP) when calculating TOSSD from different countries is a welcome new feature of the proposed metric, said Besharati.

The study also pointed out that one big flaw of ODA statistics is that data are gathered primarily from the donors' own reporting systems, which are easily susceptible to the inflation of figures.

The draft TOSSD compendium document put out by the OECD for public consultation in June 2016 suggests that data are collected from both provider as well as recipient perspectives.

But some have argued that this might place an unnecessary burden on already weak statistical systems of developing countries.

"What is clear is that if accounting is done by both providers and recipients, the figures are unlikely to match, as donors are typically incentivized to report more than what they actually give (so they can look better). For this reason, one should give primacy to data supplied from the beneficiaries of TOSSD transfers, rather than the providers," the study emphasized.

Need for TOSSD?

Overall, said Besharati, it is still unclear what the difference is between TOSSD, ODA and Other Official Flows or indeed if there is a need at all for a new development finance statistic.

"Without a clear target, it is hard to see how the new measure of TOSSD can incentivize the mobilization of more resources in support of the sustainable development agenda, as it claims to do."

The stated purpose of TOSSD is "to promote greater transparency of the full array of external officially-supported resources available to developing countries".

(continued on page 14)

Eight men as wealthy as half the world

A report by anti-poverty group Oxfam highlights how a "broken economic model" is creating a yawning gulf between rich and poor.

by Baher Kamal

ROME: Just eight men (see box) own as much wealth as the 3.6 billion people who make up the poorest half of humanity, according to a major new report by an international confederation of 19 organizations working in more than 90 countries.

Oxfam International's report, "An economy for the 99 per cent", which was released on 16 January, shows that the gap between rich and poor is "far greater than had been feared."

"The richest are accumulating wealth at such an astonishing rate that the world could see its first trillionaire in just 25 years. To put this figure in perspective – you would need to spend 1 million dollars every day for 2738 years to spend 1 trillion dollars."

The report details how big business and the super-rich are fuelling the inequality crisis by dodging taxes, driving down wages and using their power to influence politics.

"New and better data on the distribution of global wealth – particularly in India and China – indicates that the poorest half of the world has less wealth than had been previously thought." Had this new data been available in 2016, the report adds, it would have shown that nine billionaires owned the same wealth as the poorest half of the planet, and not 62 as Oxfam calculated at the time.

On this, Winnie Byanyima, Executive Director of Oxfam International, said: "It is obscene for so much wealth to be held in the hands of so few when 1 in 10 people survive on less than 2 dollars a day. Inequality is trapping hundreds of millions in poverty; it is fracturing our societies and undermining democracy.

"Across the world, people are being left behind. Their wages are stagnating yet corporate bosses take home million dollar bonuses; their health and education services are cut while corporations and the super-rich dodge their taxes; their voices are ignored as governments sing to the tune of big business and a wealthy elite."

Oxfam's report shows "how our broken economies are funnelling wealth to a rich elite at the expense of the poorest in society, the majority of whom are women."

The report also tackles the critical issue of tax dodging. Corporate tax dodging, it says, costs poor countries at least $100 billion every year. "This is enough money to provide an education for the 124 million children who aren't in school and fund healthcare interventions that could prevent the deaths of at least six million children every year."

The report outlines how the super-rich use a network of tax havens to avoid paying their fair share of tax and an army of wealth managers to secure returns on their investments that would not be available to ordinary savers.

Contrary to popular belief, many of the super-rich are not "self-made". Oxfam analysis shows over half the world's billionaires either inherited their wealth or accumulated it through industries which are prone to corruption and cronyism.

It also demonstrates how big business and the super-rich use their money and connections to ensure government policy works for them.

A more human economy

"Governments are not helpless in the face of technological change and market forces. If politicians stop obsessing with GDP [Gross Domestic Product], and focus on delivering for all their citizens and not just a wealthy few, a better future is possible for everyone."

Oxfam's blueprint for a more human economy includes a series of measures that it recommends for adoption by governments to end the extreme concentration of wealth and end poverty.

These include increasing taxes on both wealth and high incomes to ensure a more level playing field, and to generate funds needed to invest in healthcare, education and job creation; working together to ensure workers are paid a decent wage; and putting a stop to tax dodging and the race to the bottom on

The gilded eight

These are the world's eight richest people, according to the Oxfam report:

1. Bill Gates: American founder of Microsoft (net worth $75 billion).

2. Amancio Ortega: Spanish founder of Inditex which owns the Zara fashion chain (net worth $67 billion).

3. Warren Buffett: American CEO and largest shareholder in Berkshire Hathaway (net worth $60.8 billion).

4. Carlos Slim Helu: Mexican owner of Grupo Carso (net worth $50 billion).

5. Jeff Bezos: American founder, chairman and chief executive of Amazon (net worth $45.2 billion).

6. Mark Zuckerberg: American chairman, chief executive officer and co-founder of Facebook (net worth $44.6 billion).

7. Larry Ellison: American co-founder and CEO of Oracle (net worth $43.6 billion).

8. Michael Bloomberg: American founder, owner and CEO of Bloomberg LP (net worth $40 billion).

Oxfam's calculations are based on global wealth distribution data provided by the Credit Suisse *Global Wealth Databook 2016*.

The wealth of the world's richest people was calculated using *Forbes*' billionaires list last published in March 2016.

corporate tax.

These steps also include supporting companies that benefit their workers and society rather than just their shareholders.

As well, governments should ensure economies work for women, and must help to dismantle the barriers to women's economic progress such as access to education and the unfair burden of unpaid care work.

Here, a key question arises: national governments, the UN, the EU, and major civil society and human rights organizations all know about the ongoing, "obscene" inequality. How is it that nothing effective has been done so far to prevent or at least reduce it?

On this, Anna Ratcliff, media officer with Oxfam International's Inequality and Even It Up campaign, comments to Inter Press Service (IPS) that "tackling inequality properly will mean breaking with the economic model we have been following for thirty years."

"It will also mean taking on and overcoming the powerful interests of the super-rich and corporations who are benefiting from the status quo. So it is not surprising that despite global outcry at the inequality crisis, very little has changed."

Nevertheless, says Ratcliff, some governments are bucking the trend and managing to reduce inequality, listening to the demands of the majority, not the minority.

Asked for specific examples, Ratcliff says that some governments, like Namibia's, have managed to decrease inequality by taxing the rich more and spending the tax revenue on things such as free secondary education that help reduce the gap between rich and poor.

"These countries show that another world is possible, if we can reject this broken economic model and stop the undue influence of the rich." *(IPS)* ❐

Exposing the wealth defence industry

A new book sheds light on the world of the professional wealth managers helping the ultra-rich dodge taxes and regulation.

by Chuck Collins

When Donald Trump boasts that he hasn't paid taxes in years – and that makes him "smart" – he is actually revealing that he deploys a cadre of "wealth defence" advisors.

These accountants, lawyers and wealth managers specialize in using trusts, tax loopholes, offshore corporations and foundations to help not only reduce taxes but enable the wealthy to avoid paying their debts, elude regulation and duck obligations to ex-spouses and disgruntled heirs.

In recent decades a whole class of "stateless rich" have emerged, delinking their wealth from national loyalties. Alongside the growth of the system of offshore tax havens, exposed in the "Panama Papers", trillions of wealth are now beyond the reach of national accountability. How is this possible? And who are these "wealth escape artists" that enable the planet's most wealthy residents to dodge taxes, creditors, regulation and transparency?

Many studies of inequality focus on the various policy drivers, such as low wages and tax policies, that have fuelled the rise of income and wealth inequality. Sociologist Brooke Harrington writes this is important, "but there remains an irreducible element of agency in these developments that has not been explored: we still lack a coherent account of the key actors involved, as well as their methods and motives."

Agents of inequality

In a new book, Harrington shines a light onto one set of key actors: professional wealth managers. She spent several years and considerable resources (provided by several European foundations) to be trained as a wealth manager in order to gain first-hand insight into the cautious and secretive profession. By getting professional certification, Harrington built trust and access to interview over 65 wealth advisors around the world. To conduct interviews, she travelled to 18 countries, including exotic and notorious offshore centres such as the Cook Islands and the Seychelles.

Her book, *Capital Without Borders: Wealth Management and the One Percent*, is a "must read" to understand how wealth managers are agents of inequality. A shorter version of her insights, "Inside the Secretive World of Tax-Avoidance Experts", was published in *The Atlantic* in 2015.

The expansion and formalization of wealth management has corresponded with the rapid acceleration of wealth inequality since the 1980s. While the practice of establishing "fiduciary trusts" and "trustees" dates back to feudal times, the first professional association, the London-based Society of Trust and Estate Practitioners (STEP), was only founded in 1990. Reflecting the globalization of wealth, STEP has 22,000 members in 95 countries. They consider themselves "wealth managers", though others have labelled them "wealth defence providers", "transaction planners" and "financial alchemists."

The primary task of wealth managers, Harrington explains, is to "detach assets from states that wish to tax and regulate them, creating a form of capital that is, like its owners, 'transnational' and 'hypermobile'." By artificially manipulating transactions of money across borders, wealth managers create not only asset-holding and tax avoidance structures but a new body of transnational institutions that are expanding outside of any democratic accountability and oversight. The rise of "offshore centres" would not happen without the lubrication provided by these wealth defence actors.

As a profession, STEP members assist families to provide for family members with disabilities and special needs, a legitimate use of trusts. They justify the tax avoidance aspect of their work with a hazy set of pronouncements about defending virtuous capitalists against the depredations of confiscatory states. In practice, many of them serve as accomplices in the legalized theft of treasure out of nation states across the globe, including the pillaging of Africa and other nations of the Global South.

Wealth accumulation and dissipation, left on their own, have their own life-cycles. Most cultures have their equivalent to the saying, "Shirtsleeves to shirtsleeves in three generations." The Chinese version is "Sandals to sandals", and the more poetic Italian version, "From the stables to the stars and back in three generations."

The role of the wealth manager is, in Harrington's words, to "arrest this process." Through techniques such as trusts and offshore corporations, they "seek to slow or halt the dissipation of family fortunes. Ultimately, this means

shoring up a larger system of inequality: by keeping private wealth intact within families and thwarting the usual processes through which assets get redistributed, wealth managers contribute to enduring patterns of stratification. Using legal and financial tools, they can turn one generation's surplus into dynastic privilege."

As we move towards, in the words of Thomas Piketty, a "hereditary aristocracy of wealth and power", it is time to take note of the agents that make this concentration possible. These wealth managers are the engineers on the inequality express train. Without the offshore tax havens, unbreakable trusts in foreign lands and self-dealing foundations, wealthy individuals would be accountable to national authorities for their taxes, debts and familial obligations, such as divorce decrees. ❐

Chuck Collins is a senior scholar at the Washington-based Institute for Policy Studies and a co-editor of Inequality.org, from which this article is reproduced under a Creative Commons 3.0 licence. He is the author of the recent book Born on Third Base.

(continued from page 11)

While there certainly should be better information available on different development finance flows, is a new "composite measure" needed, for rich countries to inflate their numbers and have a false beauty contest on how much they are each contributing to the SDGs, Besharati asked.

If the discussions around TOSSD are going to continue in any legitimate manner, these have to take place in a forum more inclusive of developing-world views, but also of private funders who are expected to participate in the new reporting scheme, he said.

Before investing more energy into TOSSD, he added, the OECD needs to go back to improving Country Programmable Aid (CPA, a 2010 initiative of the OECD) and ensure that all DAC countries reach their historical commitment of allocating 0.7% of gross national income to ODA.

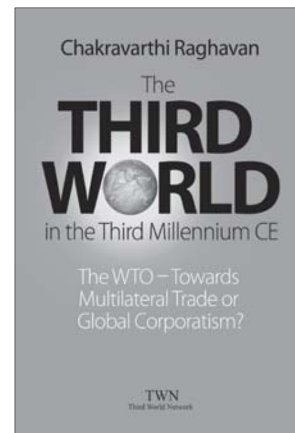
In addition, a far better use of the time and resources of OECD experts would be to improve national systems and statistical capacities directly within the developing countries themselves, he suggested.

"These two lines of action would certainly be a better contribution the OECD could offer to the 2030 global development campaign," Besharati underlined. *(SUNS8382)* ❐

The Third World in the Third Millennium CE

The WTO – Towards Multilateral Trade or Global Corporatism?

By Chakravarthi Raghavan



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THE second volume of *The Third World in the Third Millennium CE* looks at how the countries of the South have fared amidst the evolution of the multilateral trading system over the years. Even at the General Agreement on Tariffs and Trade (GATT) gave way to the World Trade Organization (WTO) as the institution governing international trade, this book reveals, the Third World nations have continued to see their developmental concerns sidelined in favour of the commercial interests of the industrial countries.

From the landmark Uruguay Round of talks which resulted in the WTO's establishment to the ongoing Doha Round and its tortuous progress, the scenario facing the developing countries on the multilateral trade front has been one of broken promises, onerous obligations and manipulative manoeuvrings. In such a context, the need is for the countries of the Third World to push back by working together to bring about a more equitable trade order. All this is painstakingly documented by *Chakravarthi Raghavan* in the articles collected in this volume, which capture the complex and contentious dynamics of the trading system as seen through the eyes of a leading international affairs commentator.

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Trump trade strategy unclear

With the mercurial Donald Trump now at the helm of the world's largest economy, *Jomo Kwame Sundaram* and *Anis Chowdhury* consider how international trade dynamics may be altered as a result.

President Donald Trump has taken the US out of the Trans-Pacific Partnership (TPP) Agreement. Now, it is widely expected that Trump's presidency will increase US trade protectionism, and consequently protectionism by others in retaliation, possibly triggering serious trade conflicts with difficult-to-predict consequences.

After decades of denial by "free trade" advocates, it is now widely agreed that many manufacturing jobs in the US have been lost to both automation and offshore relocation by US corporations. Free trade agreements (FTAs) are also being blamed for the US' large trade deficits.

With the global economic slowdown of the last eight years associated by many with the slowdown of trade expansion, the surprise election of Trump has generated much speculation and some dire predictions.

Many are concerned that Trump has made various contrarian pronouncements on FTAs, while his appointments to trade-related portfolios seem to contradict his trade rhetoric. In early December, the *Wall Street Journal* noted the unexpectedly high number of TPP advocates joining the Trump administration to serve in trade-related capacities.

While the TPP in its current form is dead in the water, there is no indication that some amended version, perhaps with a different name, will not eventually emerge in its place.

If Trump lives up to his campaign rhetoric, other plurilateral free trade agreements will also be affected. Trump has referred to the TPP and the North American Free Trade Agreement (NAFTA) as disasters for the US, and has vowed to renegotiate NAFTA.

His announced preference for negotiating "fair" bilateral trade deals favourable to the US has not given much comfort to prospective negotiating partners.

And while Trump's main preoccupations have been with US manufacturing jobs and the related international trade in goods, he is also expected to promote US corporate interests more generally, e.g., on intellectual property, financial liberalization, investor rights and dispute settlement.

Already, most US FTAs include "non-trade issues", many of which have raised costs to consumers, e.g., by further strengthening intellectual property monopolies typically held by powerful transnational corporations, whose chief executives seem likely to be very influential in the new administration.

Punitive trade measures

During the presidential election campaign, both Hillary Clinton and Trump accused China of being a "currency manipulator", despite market consensus that the Chinese renminbi has been reasonably aligned for some time.

Under US law, evidence of currency manipulation could be grounds to impose additional tariffs on imports from a country. Aware that such a move could exacerbate trade conflicts, Trump's predecessor, Barack Obama, avoided pressure to do so from many Congress members, lobbyists and economists.

However, Trump can easily revise this position on some pretext or another, by taking trade or other retaliatory actions against China on the ostensible grounds of alleged currency manipulation. This would contravene World Trade Organization (WTO) rules, allowing China to successfully take a case against the US to the WTO for such an illegal action.

Trump has also threatened to impose tariffs of as much as 45% on imports from China and Mexico. But while an across-the-board tariff hike is unlikely, as it is prohibited by the WTO, the new administration is likely to consider invoking WTO trade-remedy actions on certain products from China, Mexico and other countries by claiming they are being dumped or subsidized.

Such measures are not new, as they have previously been imposed, for example, on solar panels and wind turbines from China, raising the costs of renewable energy and thus undermining the global warming mitigation effort.

To be sure, WTO trade-remedy rules have long been widely abused for protectionist purposes. A country can impose high tariffs on an imported item from another country by claiming its price has been artificially depressed or subsidized by the government in order to export – or "dump" – the product at a price lower than the domestic price.

Even if a WTO dispute settlement panel eventually rules that the ostensibly anti-dumping tariff-raising action was wrongly taken, no deterrent is imposed against the offending country, even though the exporting country may have lost considerable export earnings in the interim. Furthermore, similar actions can be repeated with impunity with no threat of penalty.

Such ostensible trade-remedy actions are more likely than blatant tariff walls. These may, in turn, trigger retaliatory counter-actions by aggrieved governments, potentially leading to a spiral of trade protectionism, i.e., trade warfare.

Fair trade?

It is unclear how the new US administration views FTAs more generally. Trump's objection to the TPP and NAFTA focuses on goods trade and the loss of manufacturing jobs due to cheaper imports, often brought in by the same companies which have chosen to relocate production capacities abroad and which are already mobilizing to resist actions that may jeopardize their profits.

This view does not seem to recognize that technological change, particularly with automation, has been the major source of job losses. Many jobs remaining in the US have higher skill requirements, with fewer employees producing more goods with less labour-intensive techniques.

"Fair trade" will be subject to self-serving interpretations by the governments concerned, arguably further undermining trade multilateralism.

While freer trade has undoubtedly improved consumer welfare with cheaper imports, it has seen some de-industrialization in the North and industrialization in the South in recent decades, with important employment consequences which have been a major source of the current discontent over globalization.

To be sure, the trade growth slow-

down following the 2008 financial crisis suggests that the U-turn has already taken place after an extraordinary period of trade expansion due to much greater international specialization with the popularization of international value chains.

In December 2015, Obama's United States Trade Representative (USTR) Michael Froman threatened the already difficult Doha Round of WTO trade negotiations by trying to introduce TPP issues which had been kept off the agenda of the Round from the outset after the debacle at the WTO's 1999 ministerial meeting in Seattle.

Perhaps most worryingly, there has been no indication so far that the new US administration will not undermine multilateral trade negotiations held under the auspices of the WTO. Trump's much-trumpeted preference for bilateral deals favourable to the US is likely to test trade multilateralism as never before.

But Trump also has a penchant for the unpredictable, and may yet surprise the world with a new commitment to trade multilateralism to advance consumer, producer and development interests for all. *(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. Anis Chowdhury, a former professor of economics at the University of Western Sydney, held senior United Nations positions during 2008-15 in New York and Bangkok.

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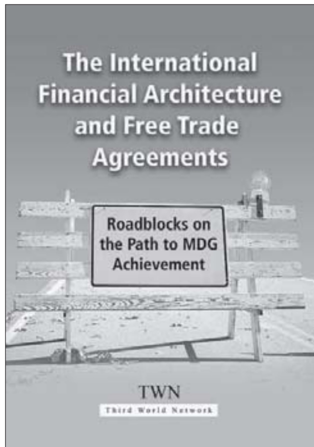
The International Financial Architecture and Free Trade Agreements

Developing countries' efforts to meet the Millennium Development Goals (MDGs), a set of development and anti-poverty targets adopted by the international community, are confronted with a host of challenges, not least those posed by an unfavourable international economic setting.

This book puts together two Third World Network papers which look at how the global financial and trade systems may impede realization of the MDGs. The first paper considers how key elements in the international financial architecture – IMF loan conditionalities, the debt burden and capital account liberalization – can hinder the implementation of national MDG strategies. The second paper examines the potential adverse impacts of trade liberalization and other provisions in international trade treaties on developing-country prospects for achieving the MDGs.



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The analysis in these papers underlines the urgent need to address the financial and trade constraints on progress towards attaining the MDGs in the developing world.

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