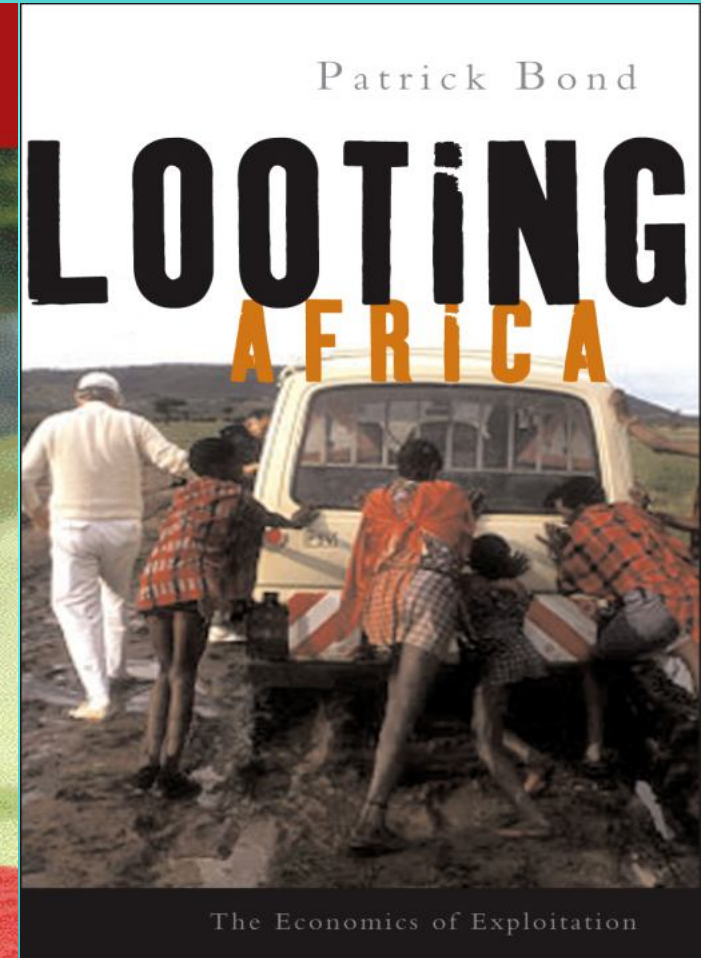
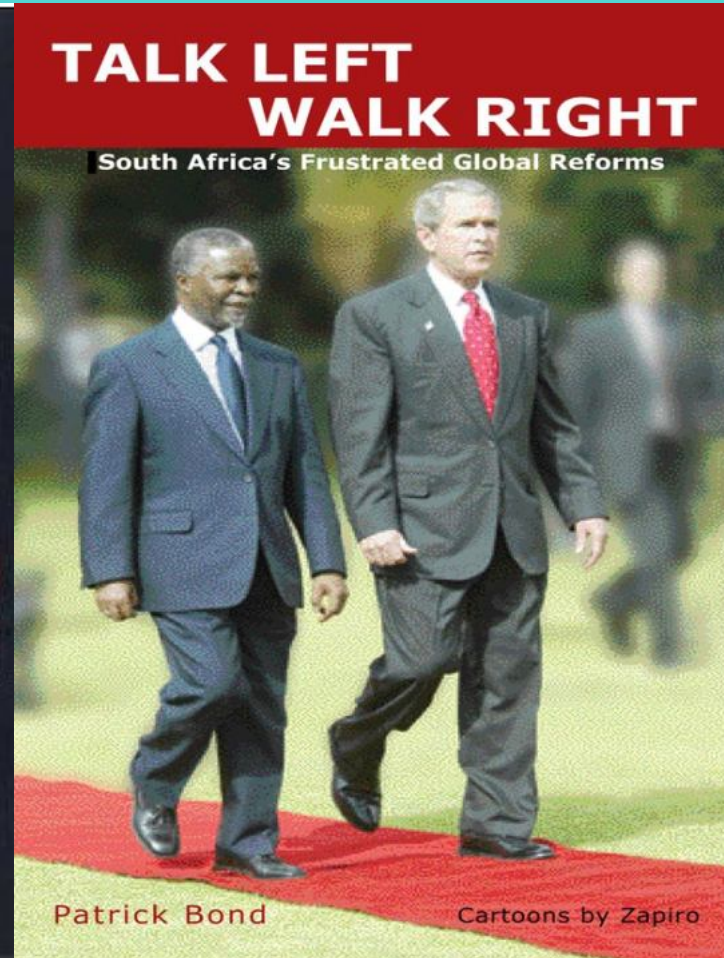
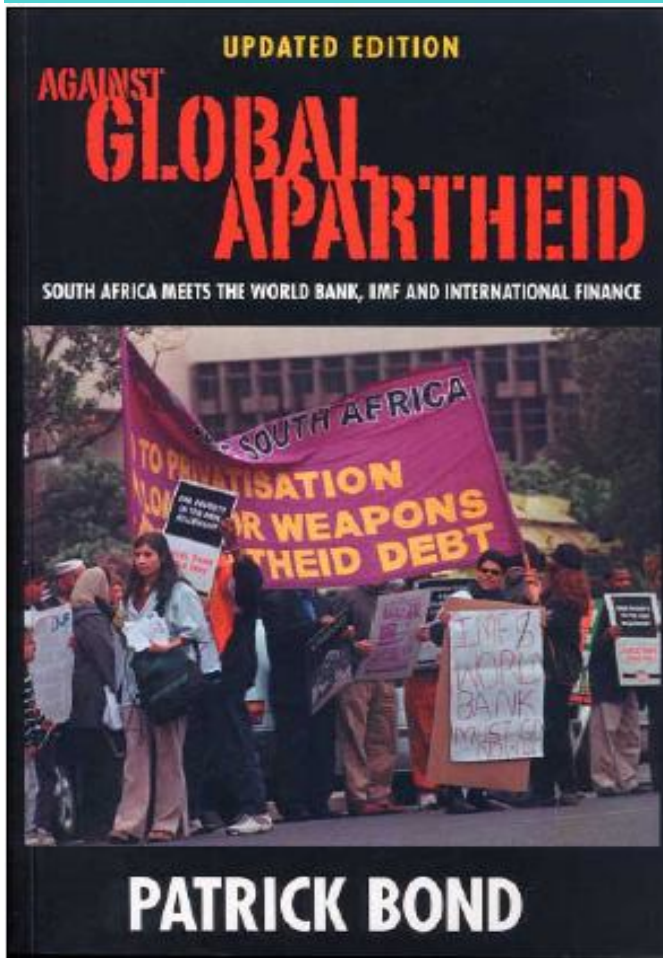


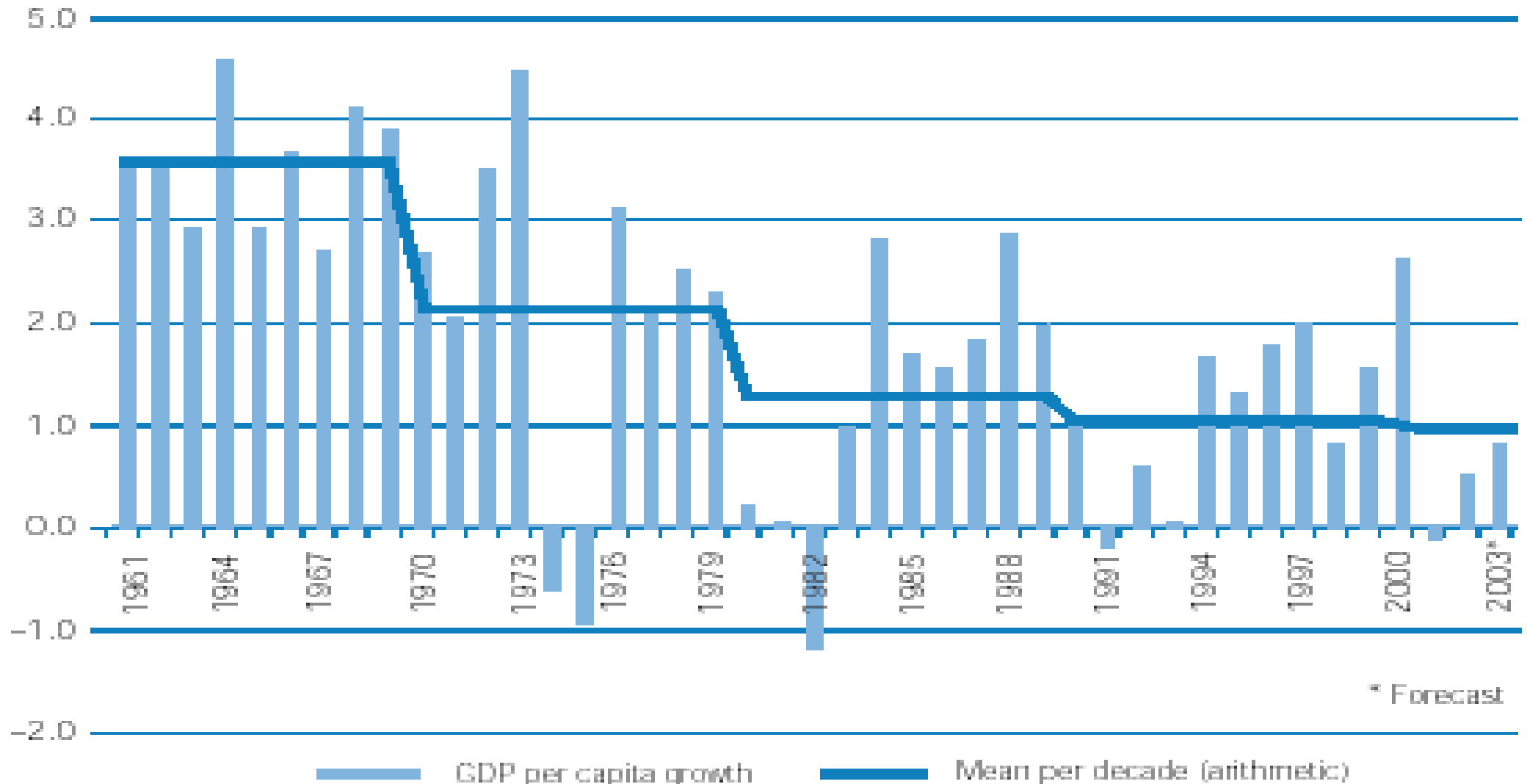
Presentation by Patrick Bond
University of KwaZulu-Natal School of Development Studies
to the African Tax Administration Forum, Umhlanga, 29 April



What are the global influences on African resource flows?

Slowdown in world GDP growth

World GDP per capita growth, 1961-2003 (annual change in per cent)



* Forecast

Sources: World Bank, *World Development Indicators 2003* (online version) and World Bank, *Global Economic Prospects 2004*.

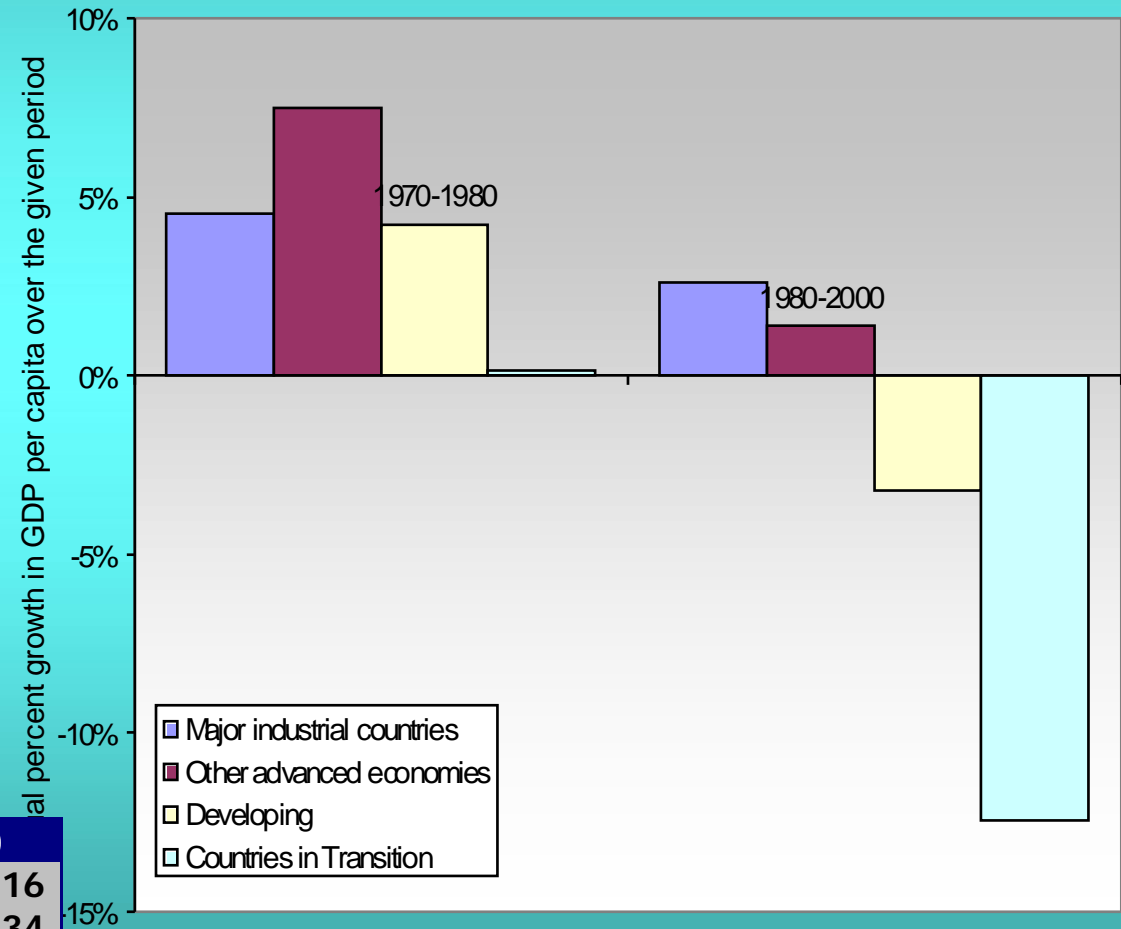
Especially low growth since 1980, and extremely *uneven* development

- **Dramatic differences in annual % change of per capita GDP** (note: constant 1995\$, not PPP values)

Source: Alan Freeman

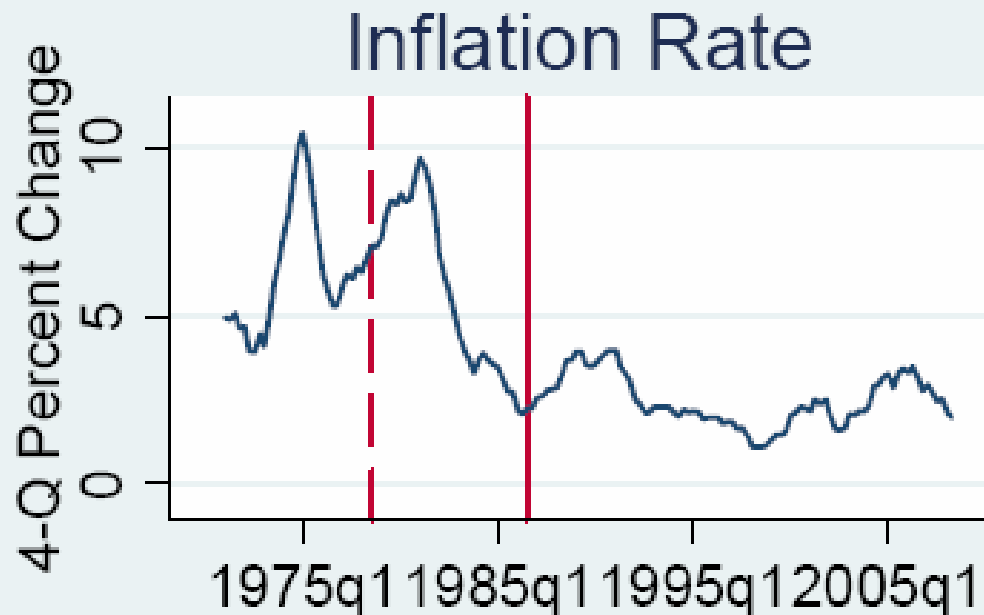
GDP per capita in 1995 dollars, 1982-2000

	1982	2000
Rest of the World	1,457	1,116
Advanced or Advancing Countries	15,383	26,134



How US economy fooled economists and investors for 20 years

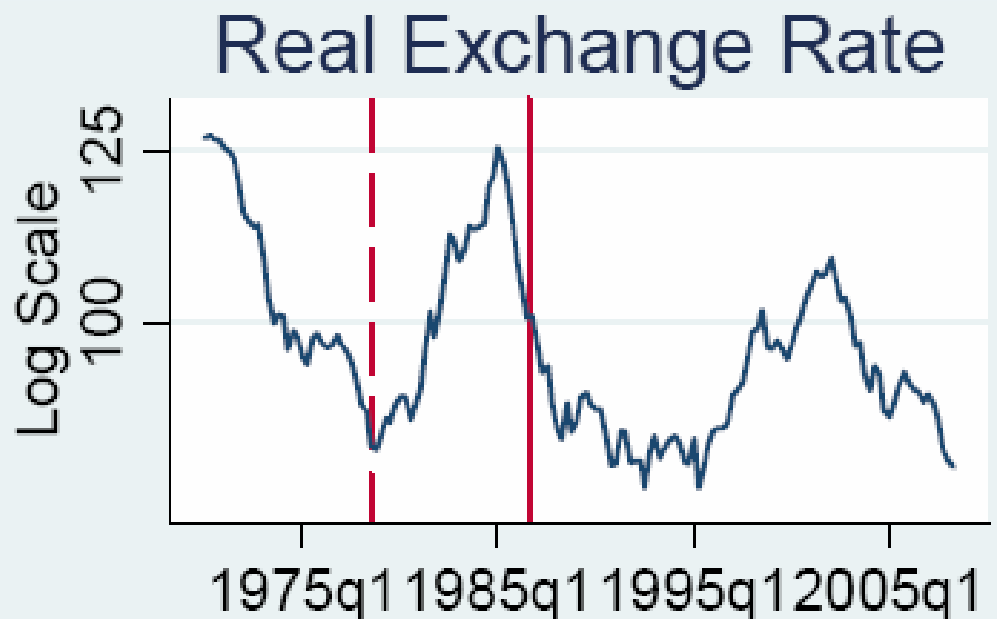
- **Low interest rate**
- **Low inflation rate**
- **Low unemployment**



source: US Fed, Gagnon, 2009

How US economy fooled economists and investors

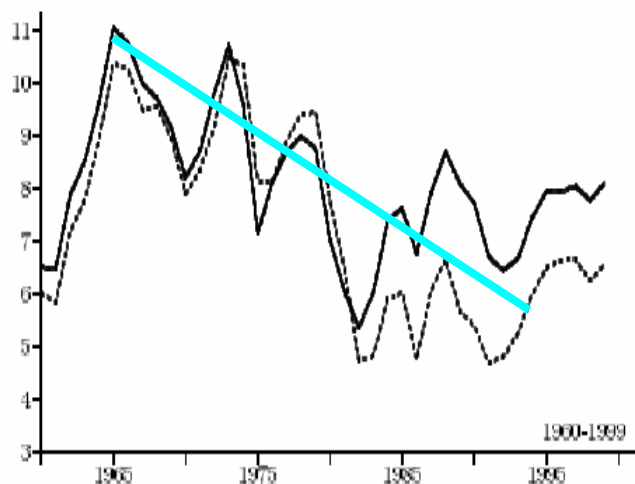
- **steady GDP**
- **rising stock market**
- **recovery from currency volatility**



source: US Fed, Gagnon, 2009

Root crisis process: source of declining US profits during globalisation era

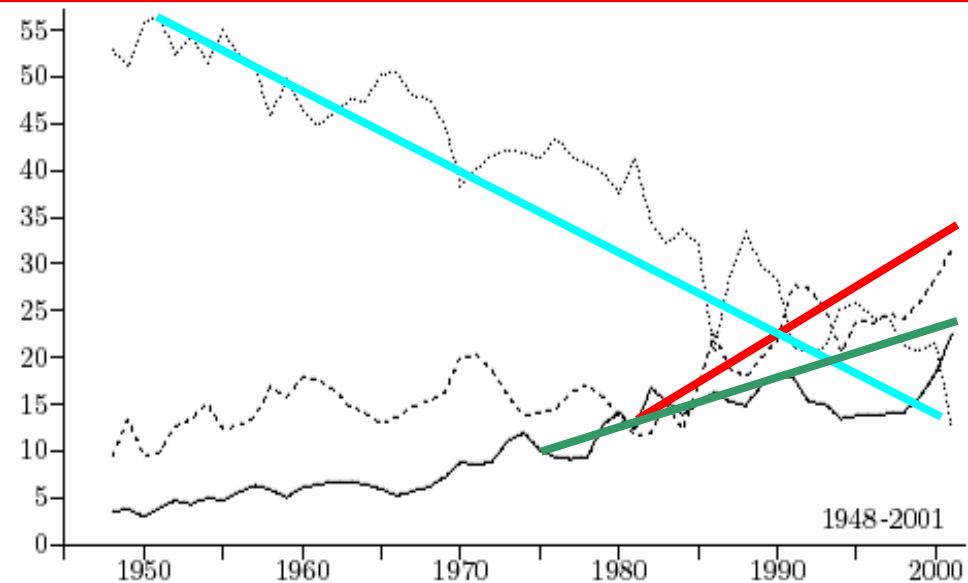
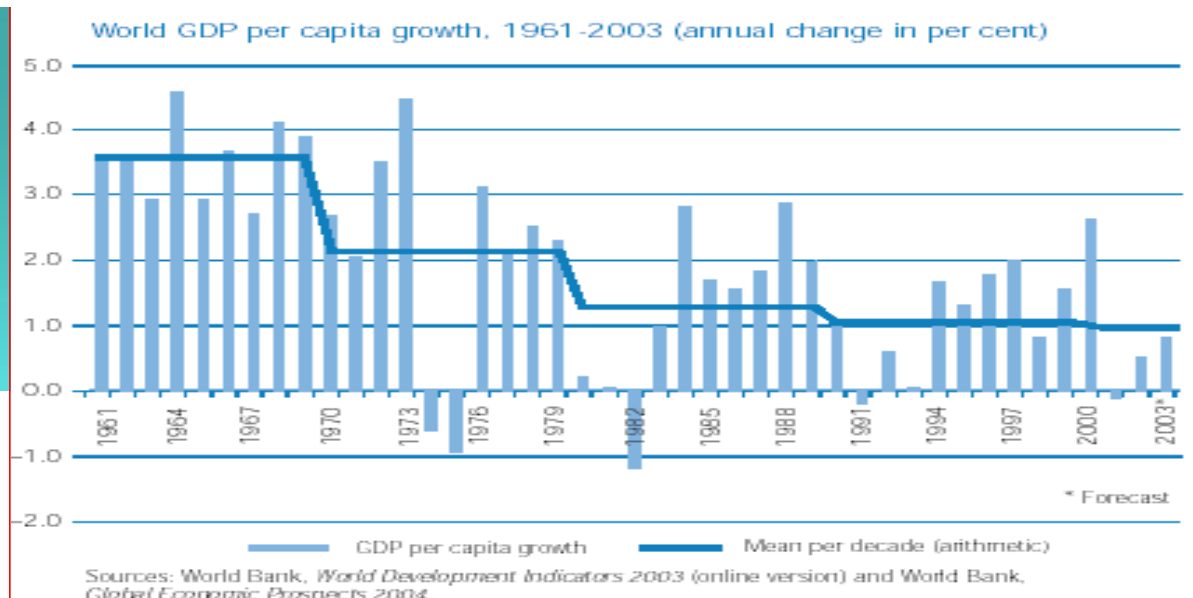
Figure 3 US, nonfinancial corporations: Profit rates prior to the payment of real interest (—) and after (-----), %



In the first series, profits are equal to the net product minus the cost of labor, and business and profit taxes. They are divided by the net worth (total assets minus debt). For the second series, real interest is subtracted from profits, i.e., interest minus a correction for the depreciation of debt resulting from inflation.

US corporate profits derived much less from manufacturing products; much greater sources of profits came from abroad; profits also came more from returns on financial assets.

Source: Gerard Dumenil and Dominique Lévy



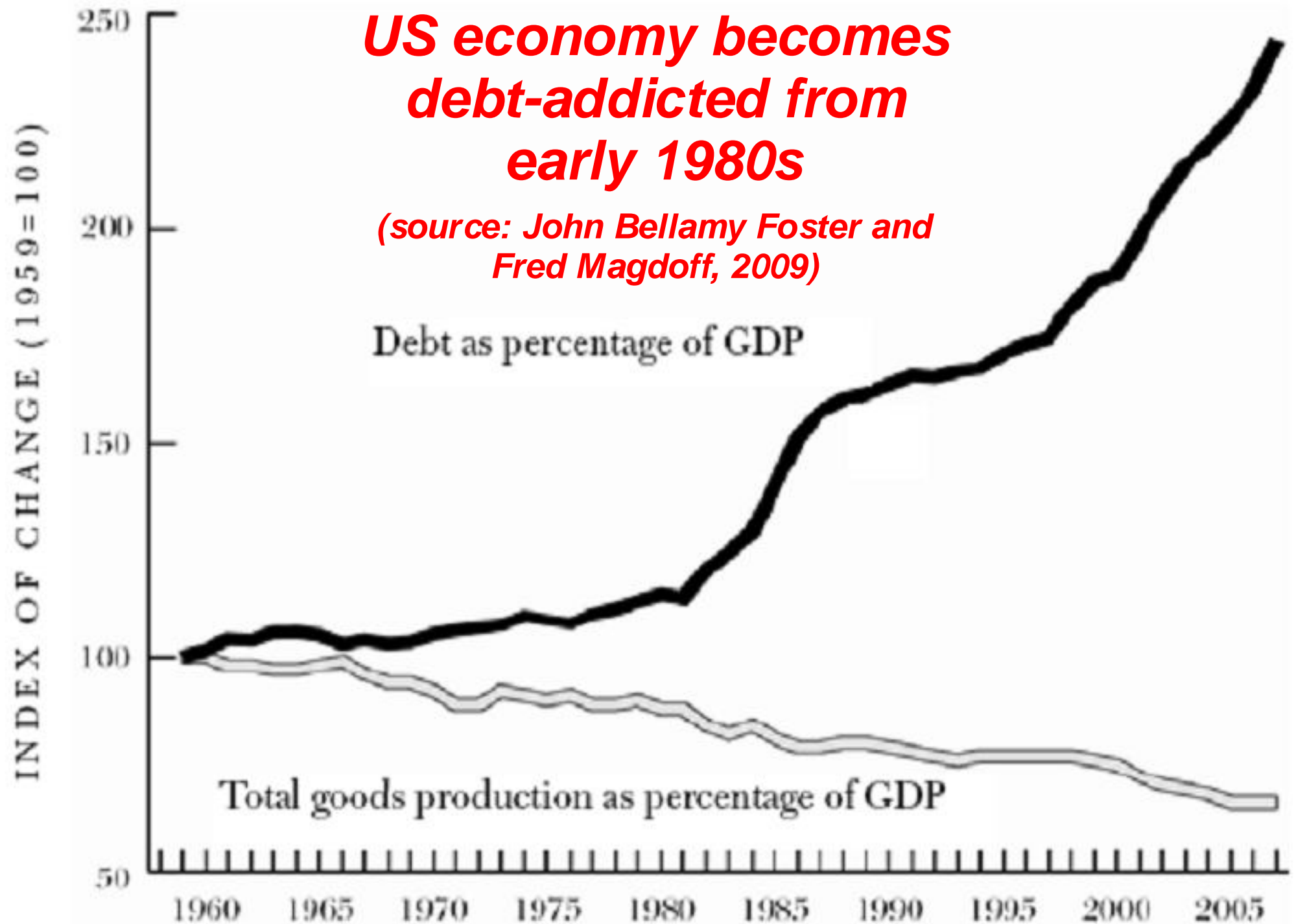
Rest of the world: (—); Financial sector: (-----); Manufacturing: (.....)

Profits are measured before profit taxes. The *rest of the world* corresponds to the excess of profits made on US investments abroad over the profits made by the rest of the world on foreign direct investment in the US. (These profits may remain in the country where the investment is made.) Trade, Construction, Public Utilities, Transportation and Communications, and services are not represented.

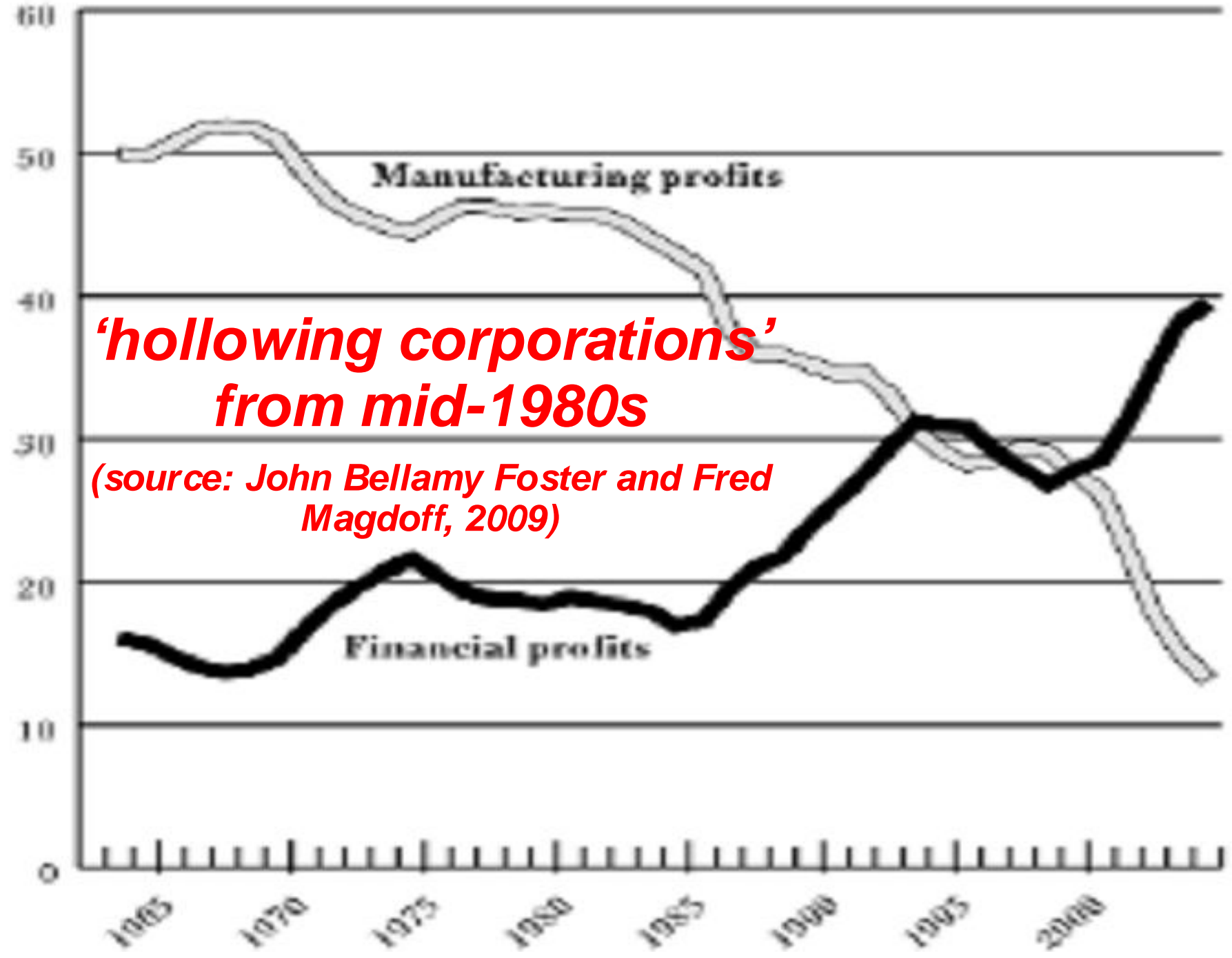
Source: NIPA (BEA).

***US economy becomes
debt-addicted from
early 1980s***

***(source: John Bellamy Foster and
Fred Magdoff, 2009)***



PERCENT OF TOTAL DOMESTIC PROFITS

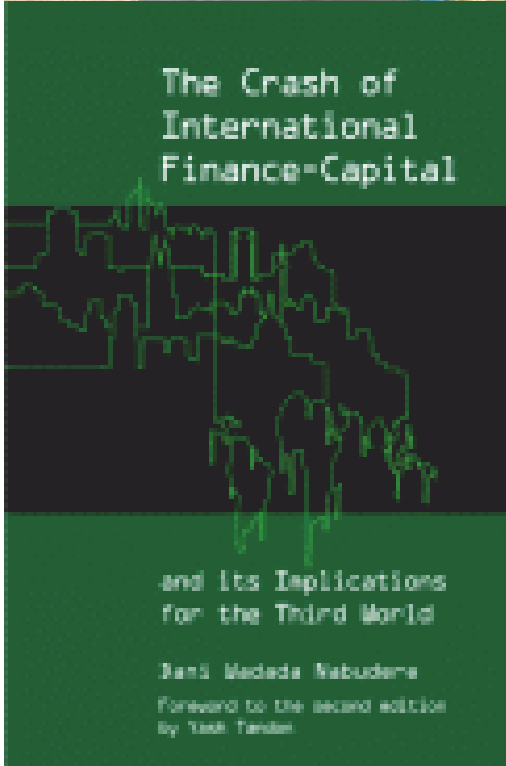


***'hollowing corporations'
from mid-1980s***
*(source: John Bellamy Foster and Fred
Magdoff, 2009)*

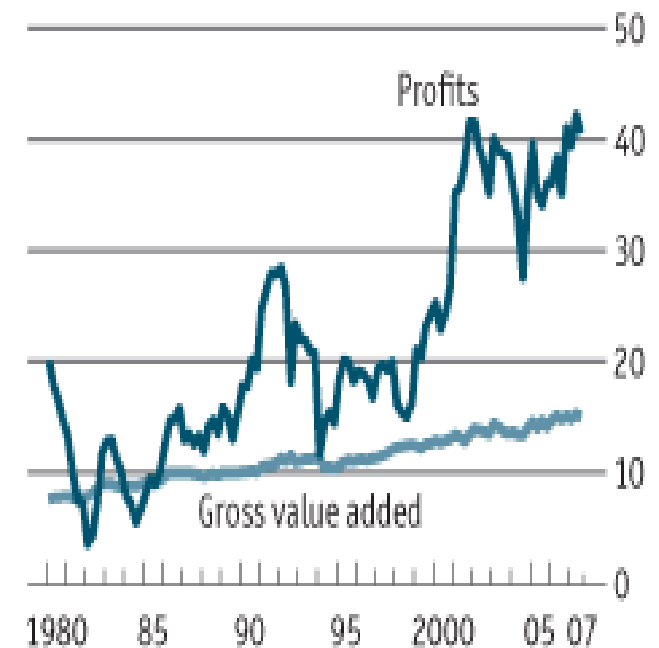


Ugandan political economist
Dani Nabudere's thesis vindicated

The Crash of International Finance Capital and The Rise and Fall of Money Capital

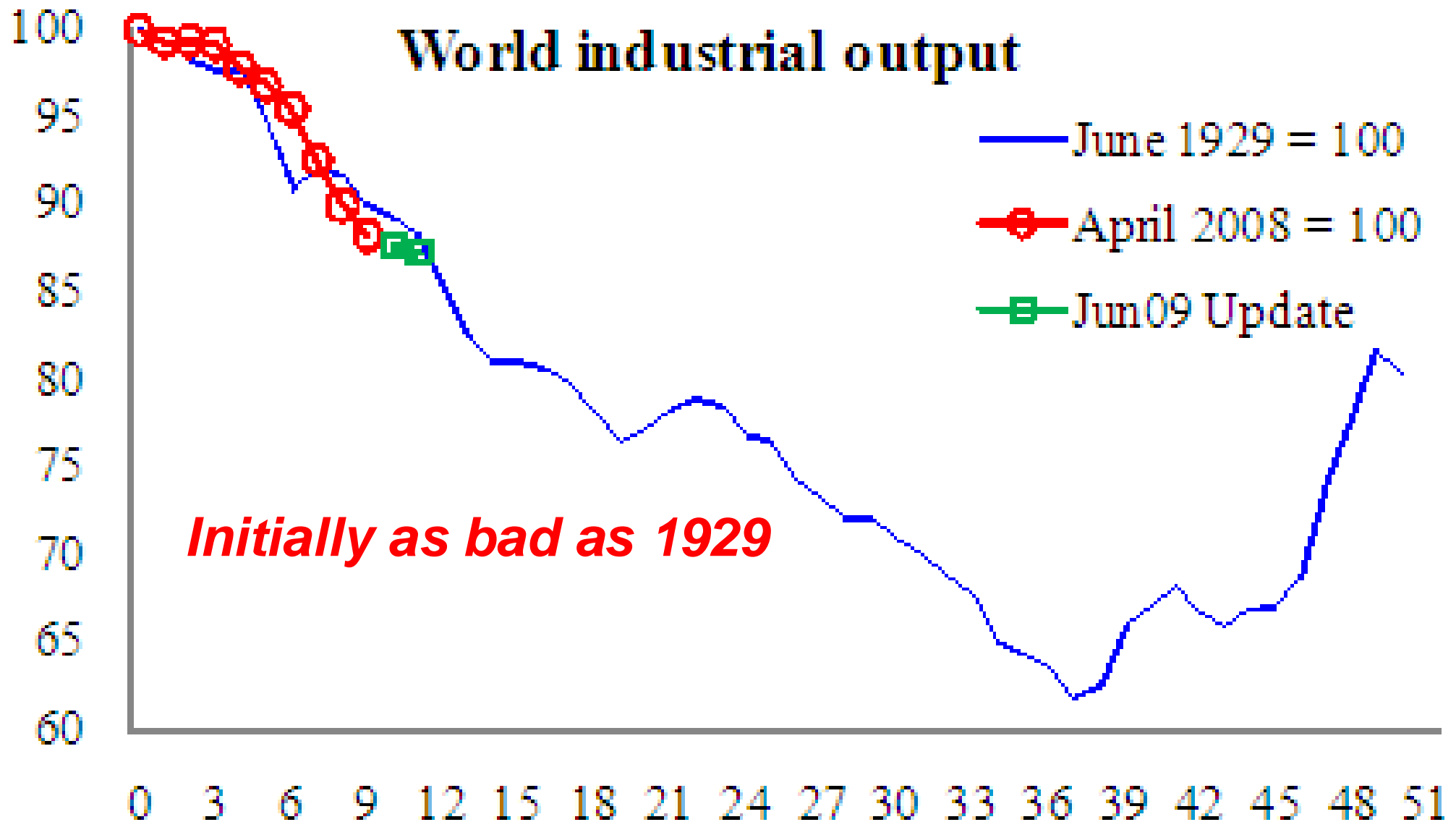


Finance industry profits and gross value added
As % of US corporate total



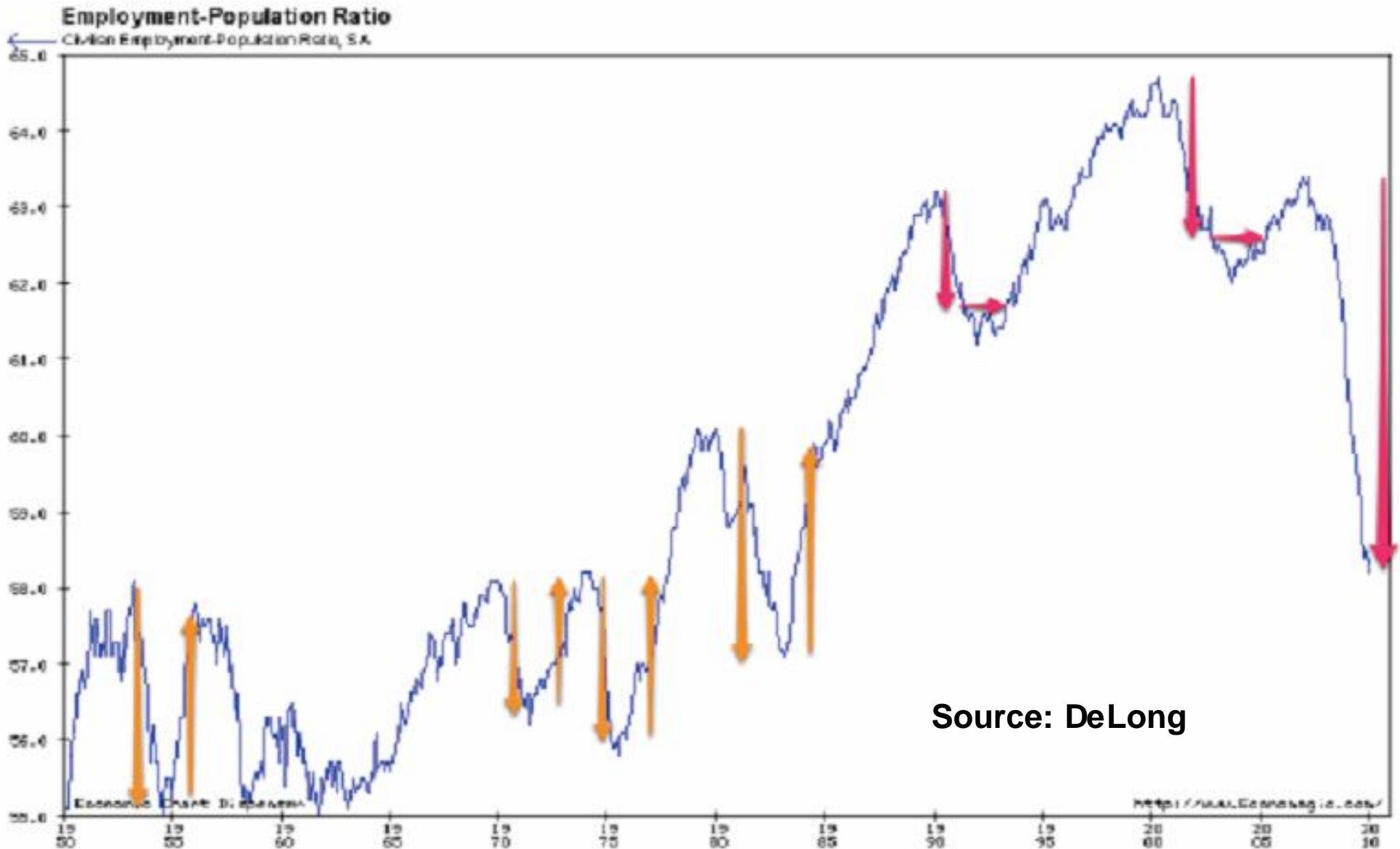
Source: BCA Research

Production crash in historical terms



Source: Eichengreen and O'Rourke *Months into the crisis*

Crash in US employment



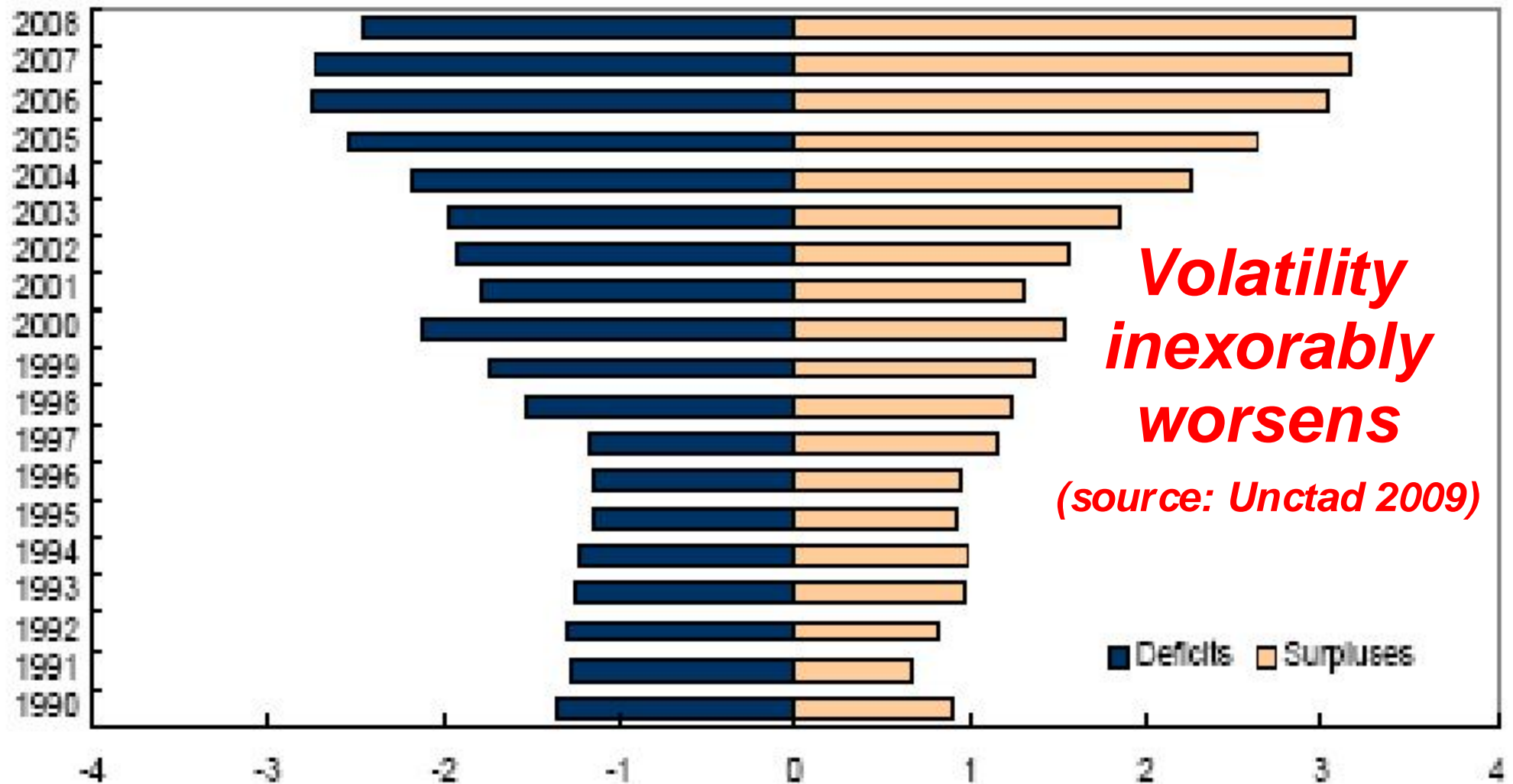
Trade crash in historical terms



Source: Eichengreen and O'Rourke *Months into the crisis*

GLOBAL CURRENT-ACCOUNT BALANCE, 1990-2008

(Per cent of GDP)



Source: UCTAD secretariat calculations, based on data from Thomson DataStream.
Note: Data refer to 122 countries.

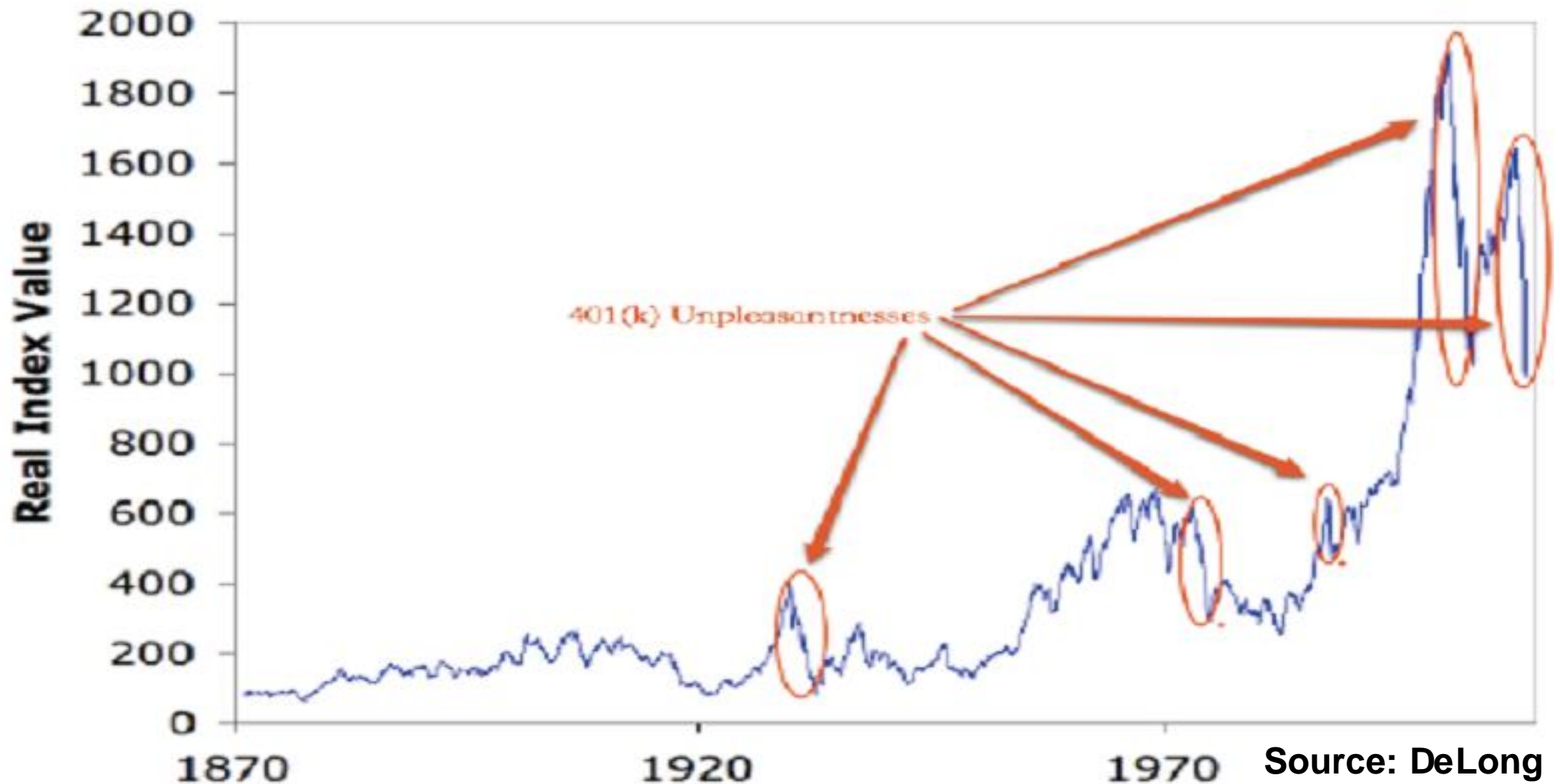
Stock market crash in historical terms



Source: Eichengreen and O'Rourke *Months into the crisis*

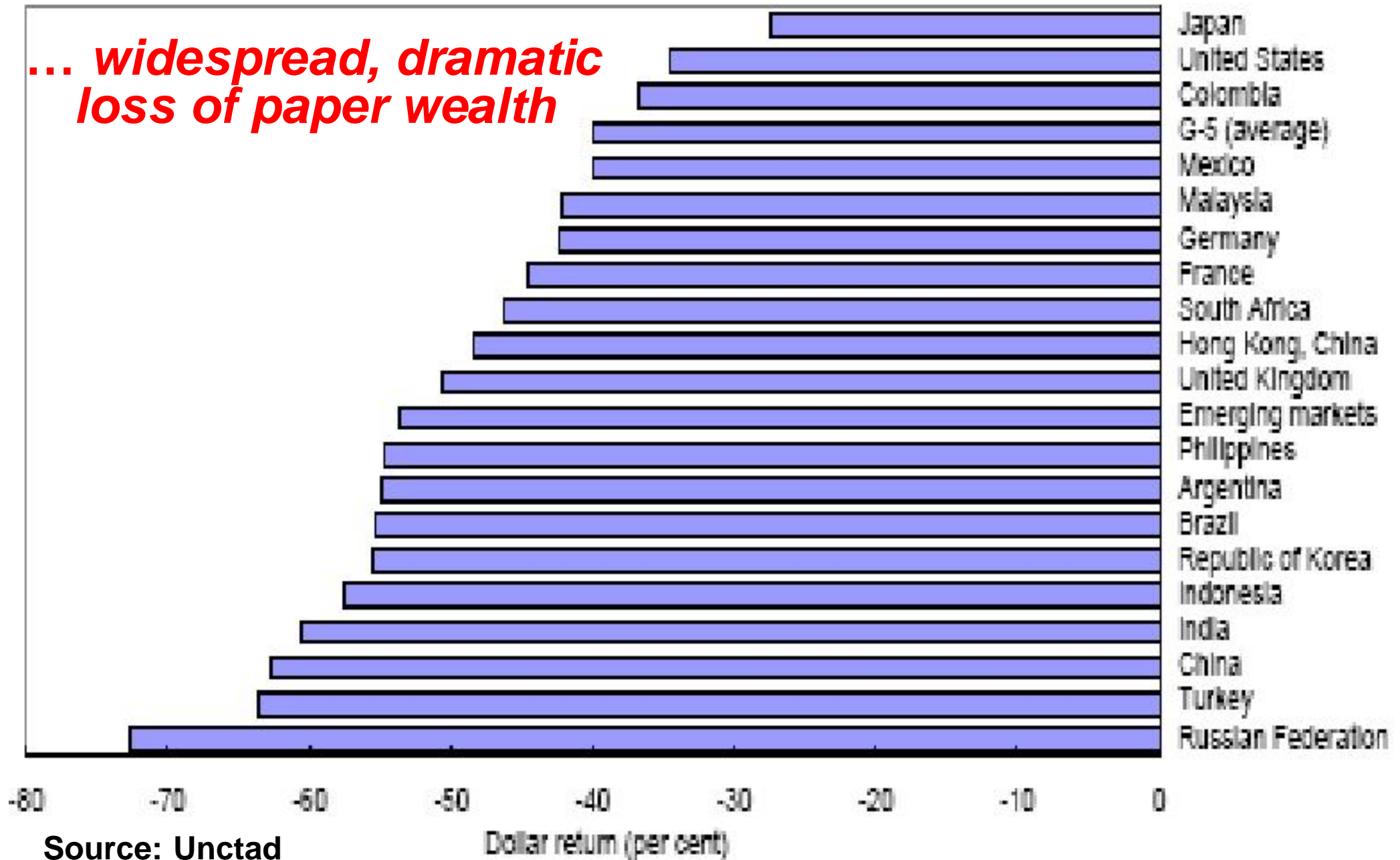
US stock market crash

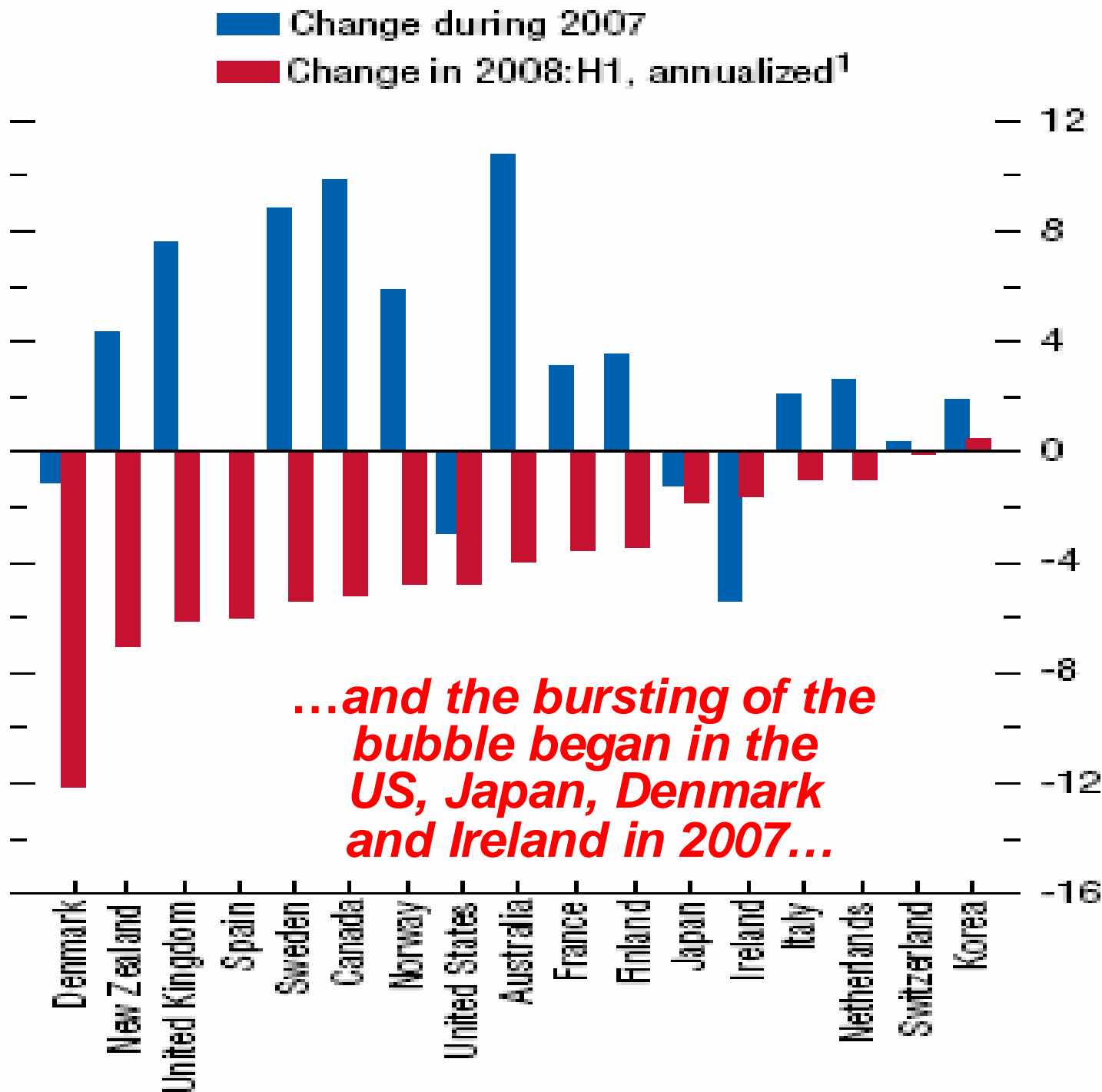
The Stock Market, 1871-Present: Real Prices



Stock market volatility: all markets in '08

... widespread, dramatic loss of paper wealth



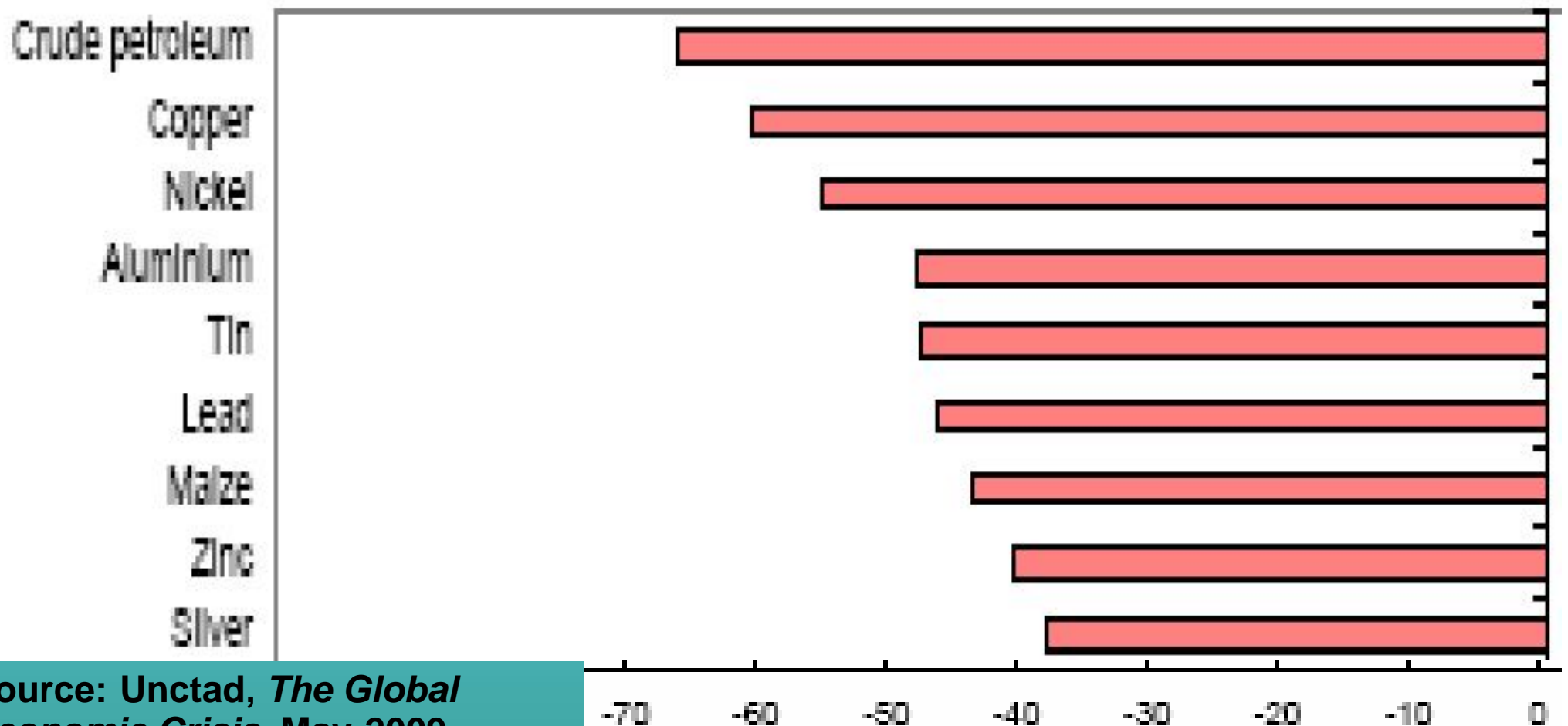


Housing devaluations: Change in prices, Jan 2007- July 2008

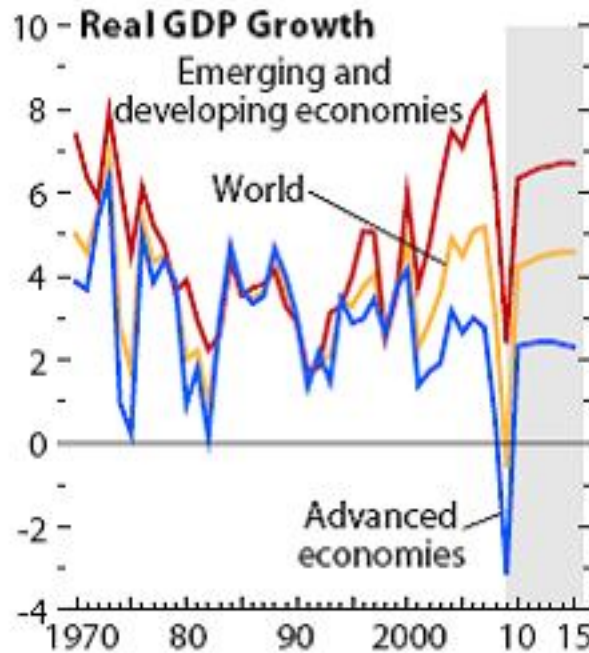
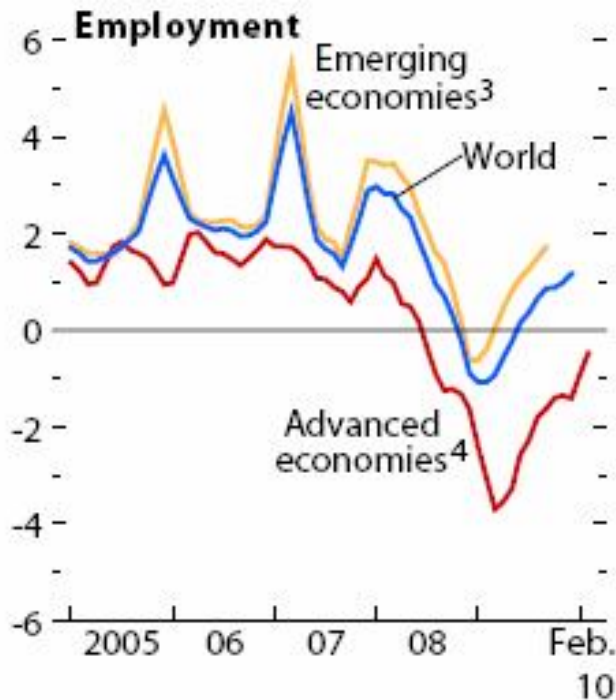
Source: IMF, *World Economic Outlook*, October 2008

Commodity devaluations: Change in prices, July – December 2008

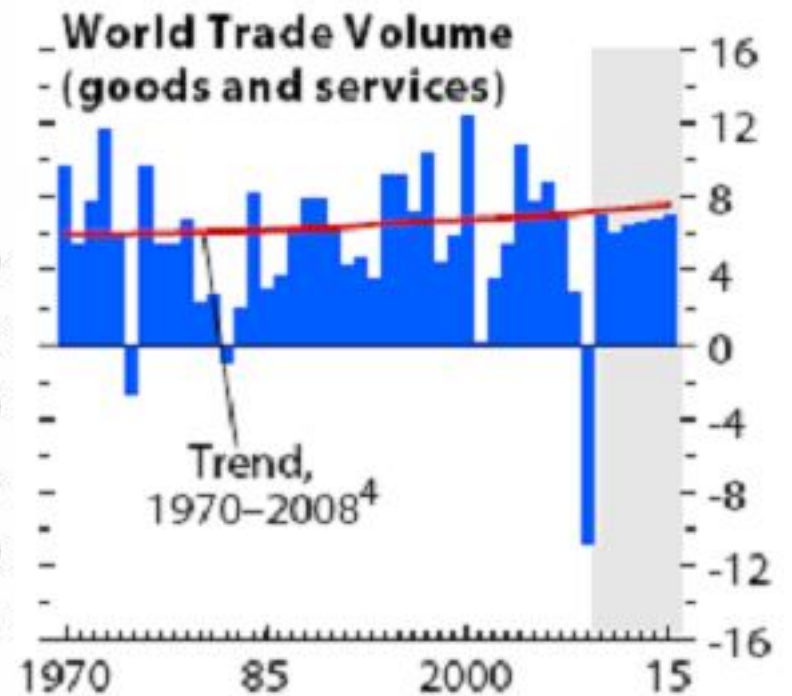
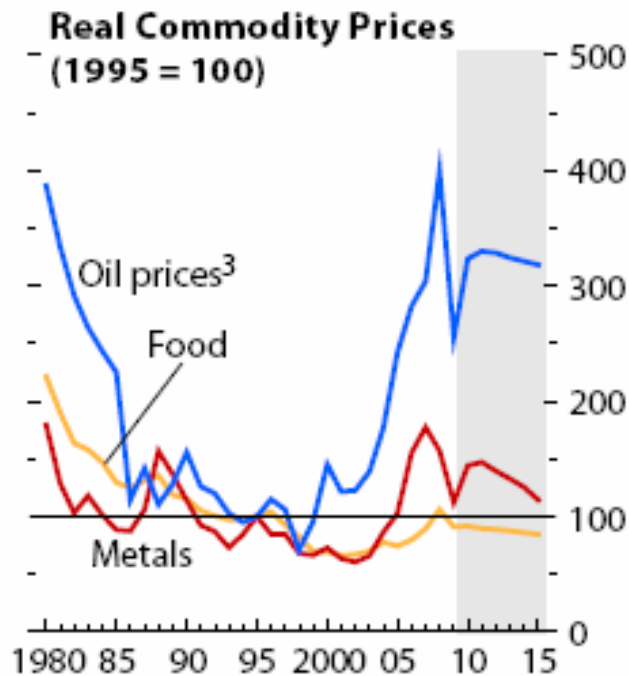
...particularly devastating for African countries addicted to export-led extractive-industry 'growth'...



Source: Unctad, *The Global Economic Crisis*, May 2009

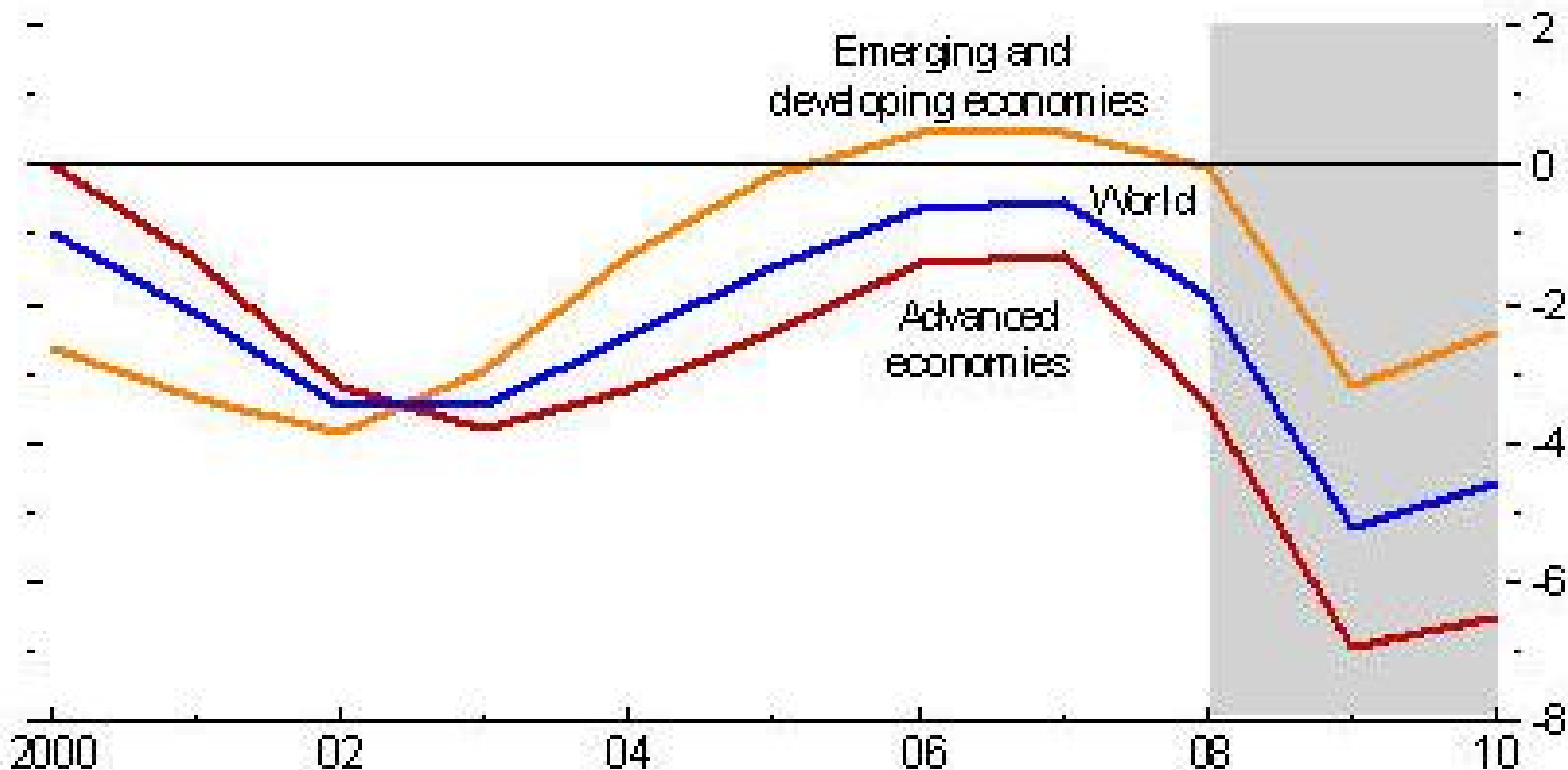


2008-09 crisis killed employment, commodity prices and consumer confidence (though Keynesian policies restored GDP and trade may have partly recovered)



(Percent of GDP)

Keynes, PLEASE HELP!

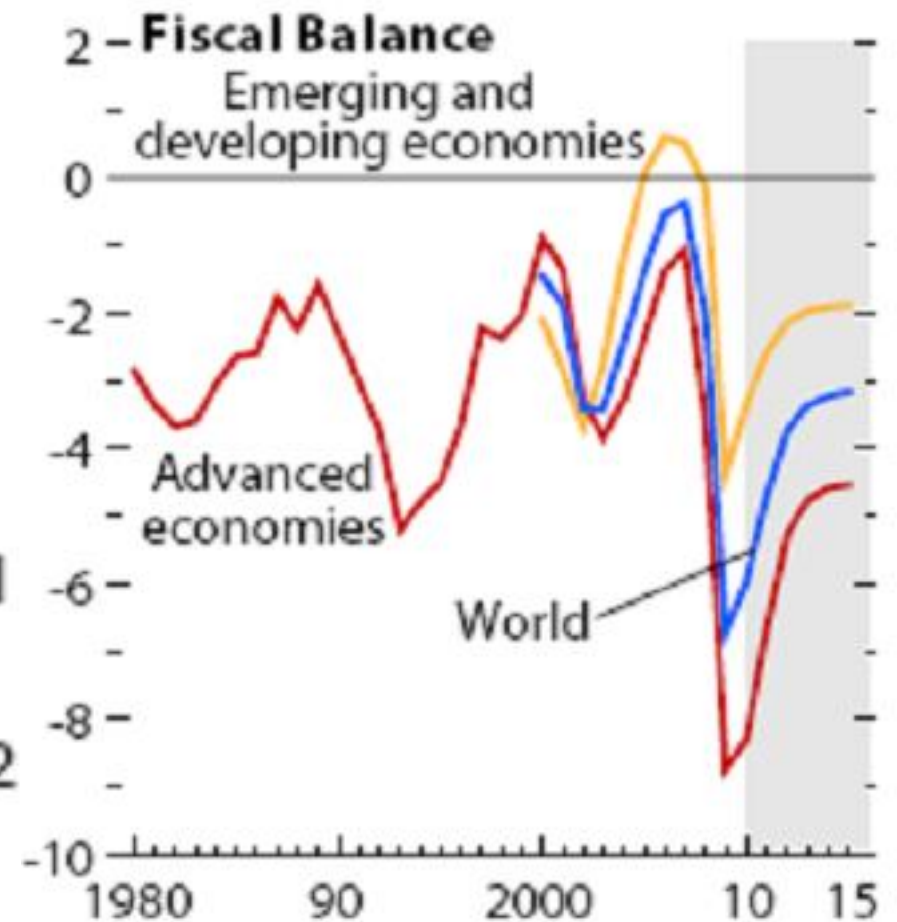


... note that North is allowed to do deficits, but South is discouraged...

Source IMF staff estimates.



Much lower interest rates, much higher deficits

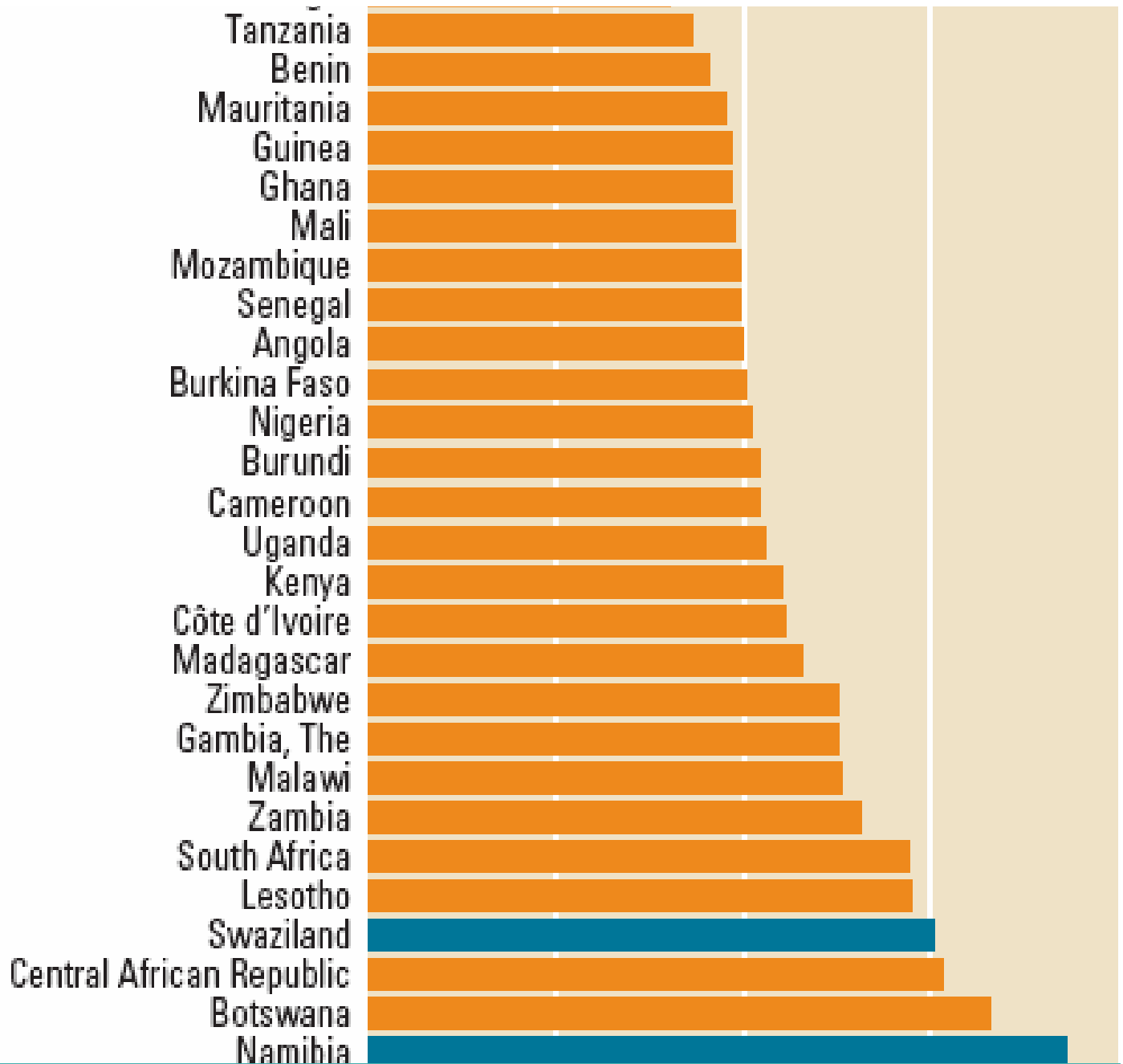


Crisis and bailout

(Calculations from Brad DeLong, April 2010)

- \$80 trillion of global financial assets three years ago.
- \$60 trillion of global financial assets today.
- Default, duration, risk, and information discounts.
- Default discounts:
 - A \$3 trillion increase from mortgages.
 - A \$6 trillion increase from other forecast recession losses.
- Duration discounts:
 - A -\$4 trillion move by central banks.

African inequality: Gini coefficients the highest in the world



Source: World Bank WDR 2006

Gini coefficient: 0 .2 .4 .6

**World Bank
method for
adjusting
savings to
account for a
country's
tangible wealth
and resource
depletion:
The case of Ghana,
2000
(per capita US\$ measure)**

Tangible wealth		Adjusted net saving	
Subsoil assets	65	Gross National Saving	40
Timber resources	290	Education expenditure	7
NTR	78	Consumption fixed capital	19
Protected areas	7	Energy depletion	0
Cropland	855	Mineral depletion	4
Pastureland	43	Net forest depletion	8
Produced capital	686		
<hr/>			
Total tangible wealth	2022	Adjusted net saving	16
Population growth	1.7%	Δ Wealth per capita	-18

Note: Data for 2000. NTR: nontimber forest resources.

	GNI per capita	Population growth rate (%)	Adjusted net saving per capita	Change in wealth per capita	Saving gap % GNI
Benin	360	2.6	14	-42	11.5
Botswana	2925	1.7	1021	814	
Burkina Faso	230	2.5	15	-36	15.8
Burundi	97	1.9	-10	-37	37.7
Cameroon	546	2.2	-8	-152	27.7
Cape Verde	1195	2.7	43	-81	6.8
Chad	174	3.1	-8	-74	42.6
Comoros	367	2.5	-17	-73	19.9
Congo, Rep. of	660	3.2	-227	-727	110.2
Côte d'Ivoire	625	2.3	-5	-100	16.0
Ethiopia	101	2.4	-4	-27	27.1
Gabon	3370	2.3	-1183	-2241	66.5
Gambia, The	305	3.4	-5	-45	14.6
Ghana	255	1.7	16	-18	7.2
Kenya	343	2.3	40	-11	3.2
Madagascar	245	3.1	9	-56	22.7
Malawi	162	2.1	-2	-29	18.2
Mali	221	2.4	20	-47	21.2
Mauritania	382	2.9	-30	-147	38.4
Mauritius	3697	1.1	645	514	
Mozambique	195	2.2	15	-20	10.0
Namibia	1820	3.2	392	140	
Niger	166	3.3	-10	-83	50.3
Nigeria	297	2.4	-97	-210	70.6
Rwanda	233	2.9	14	-60	26.0
Senegal	449	2.6	31	-27	6.1
Seychelles	7089	0.9	1162	904	
South Africa	2837	2.5	246	-2	0.1
Swaziland	1375	2.5	129	8	
Togo	285	4.0	-20	-88	30.8
Zambia	312	2.0	-13	-63	20.4
Zimbabwe	550	2.0	53	-4	0.7

Note: All dollars at nominal exchange rates.

Where is
Africa's
wealth?
World Bank
recording of
African
countries'
adjusted
national
wealth and
'savings gaps',
2000

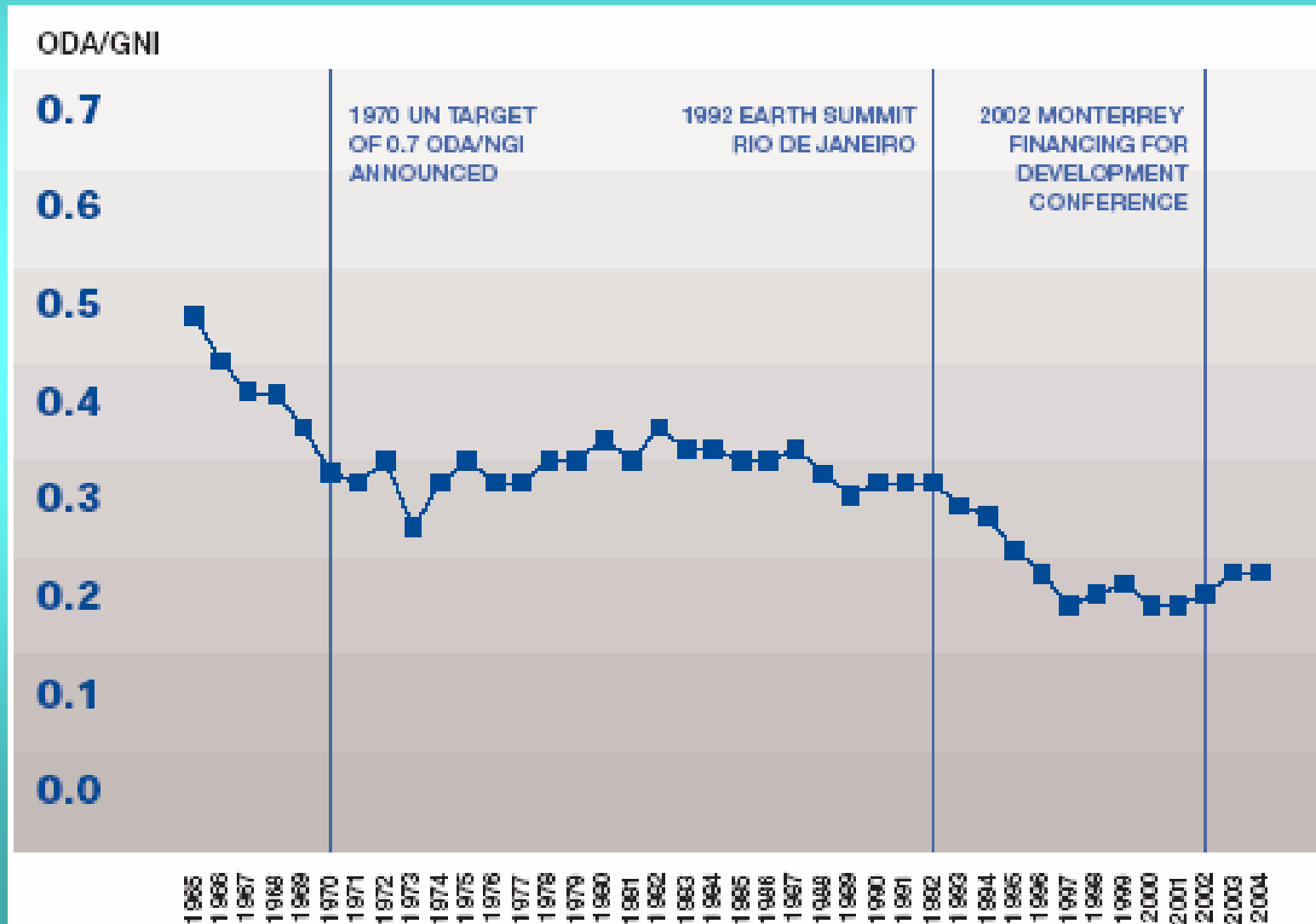
Scenario A: The parent TNC in the example is domiciled in a relatively high-tax (34 per cent) country, and it has a foreign affiliate in a lower-tax (10 per cent) host country. A component is produced by the affiliate in the host country at a cost of \$400, and sold to the parent in the home country at the (transfer) price of \$550, which becomes part of the parent TNC's cost of goods sold. The home country parent firm incurs an additional \$300 to complete the product which contains the transferred component. The product is sold at \$2000. Tax liabilities are calculated using the host affiliates's and parent firm's pre-tax income, resulting in total tax liabilities of \$226.

Transfers to income statement	Affiliate in low-tax country (10 per cent tax rate)	Parent in high-tax country (34 per cent tax rate)	Total TNC income
Revenue	\$550	\$2,000	\$2,000
Less costs of goods sold	\$400	(\$550* + \$300)	\$700
Gross margin =	\$150	\$1,150	\$1,300
Less operating expenses	\$100	\$500	\$600
Income before taxes =	\$50	\$650	\$700
Less tax expense	\$5	\$221	\$226
Net income	\$45	\$429	\$474

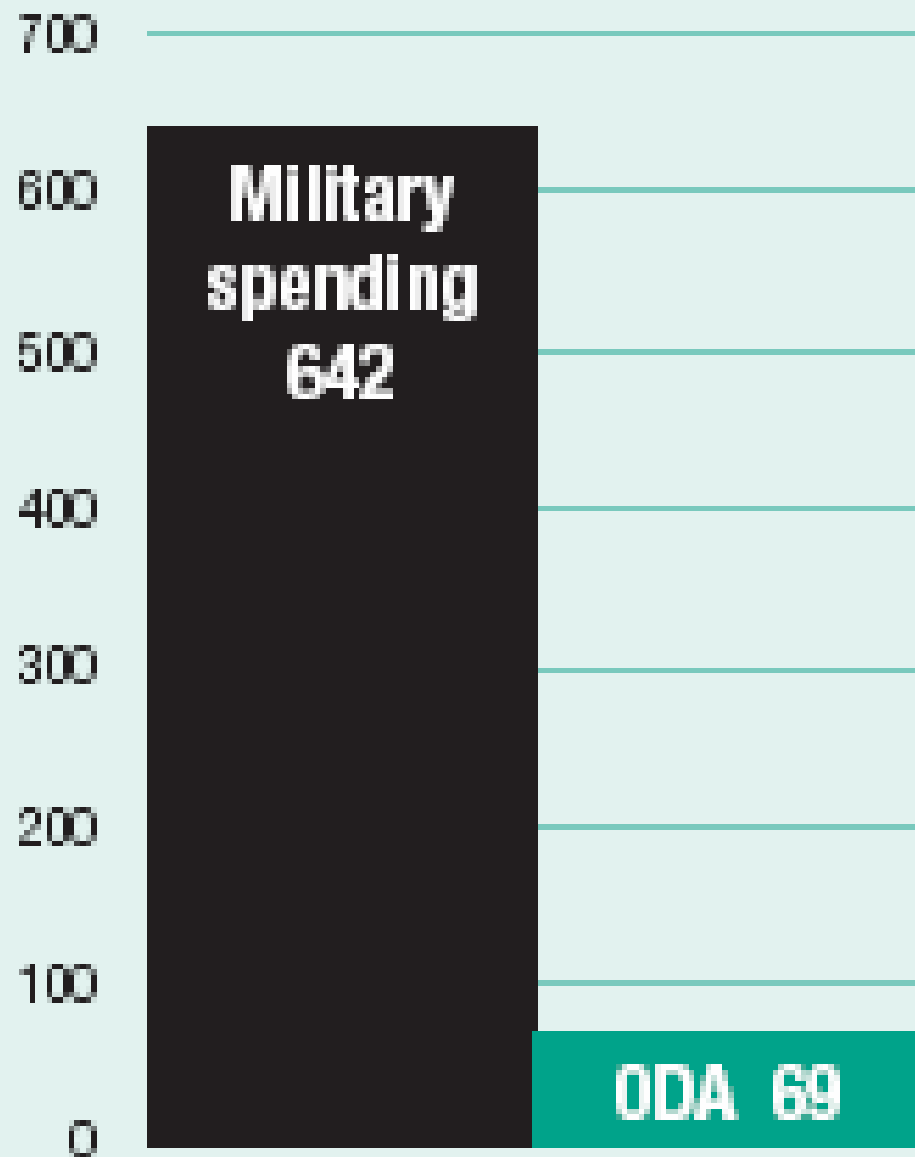
**UNCTAD
explains
transfer
pricing:
on \$2000
sale, tax =
\$226**

AID: Declining commitments

Source: World Development Movement



Spending by OECD donors, 2003
(US\$ billions)

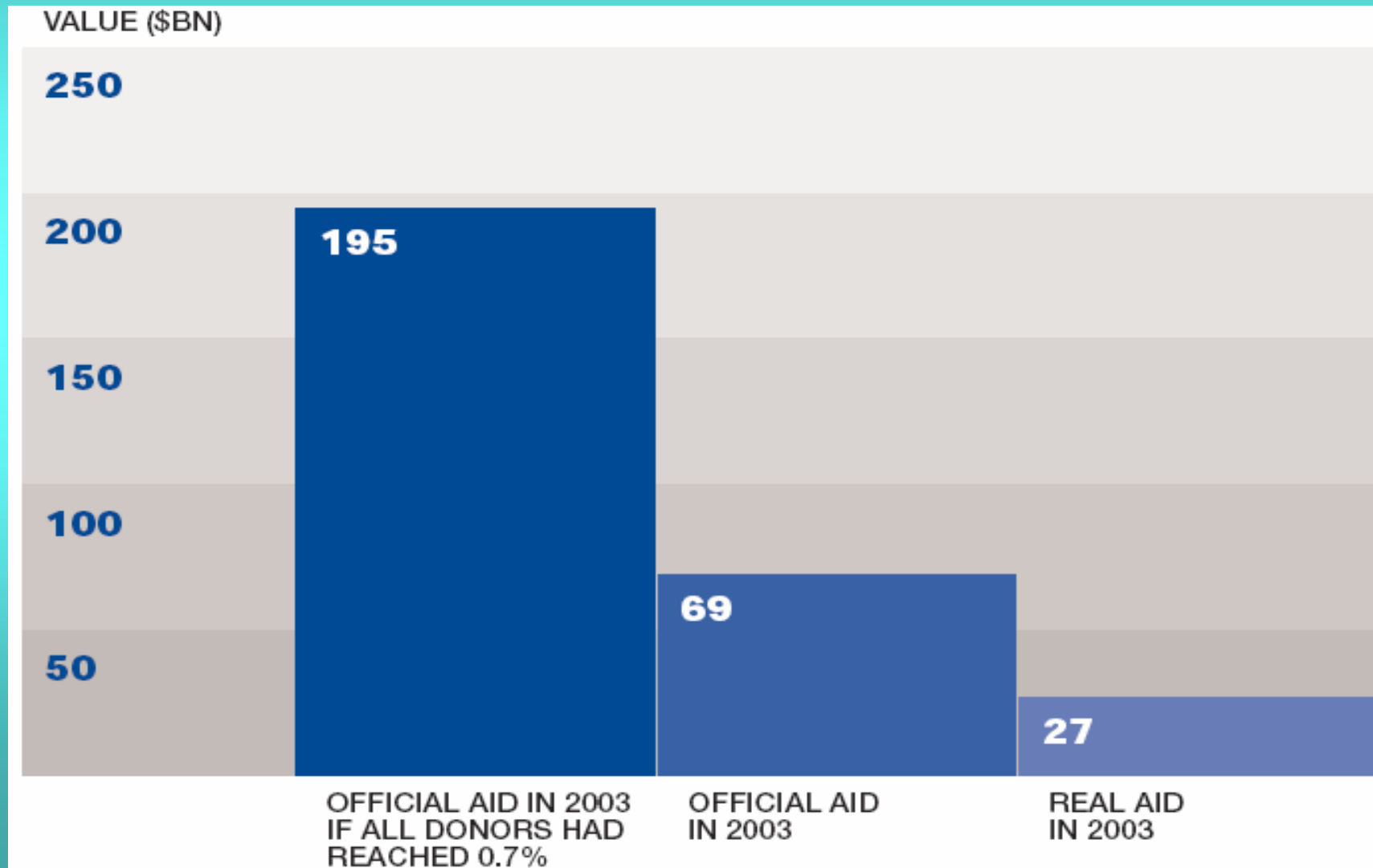


**Aid in context:
Far less than
military spending**

Source: UNDP HDR 2005

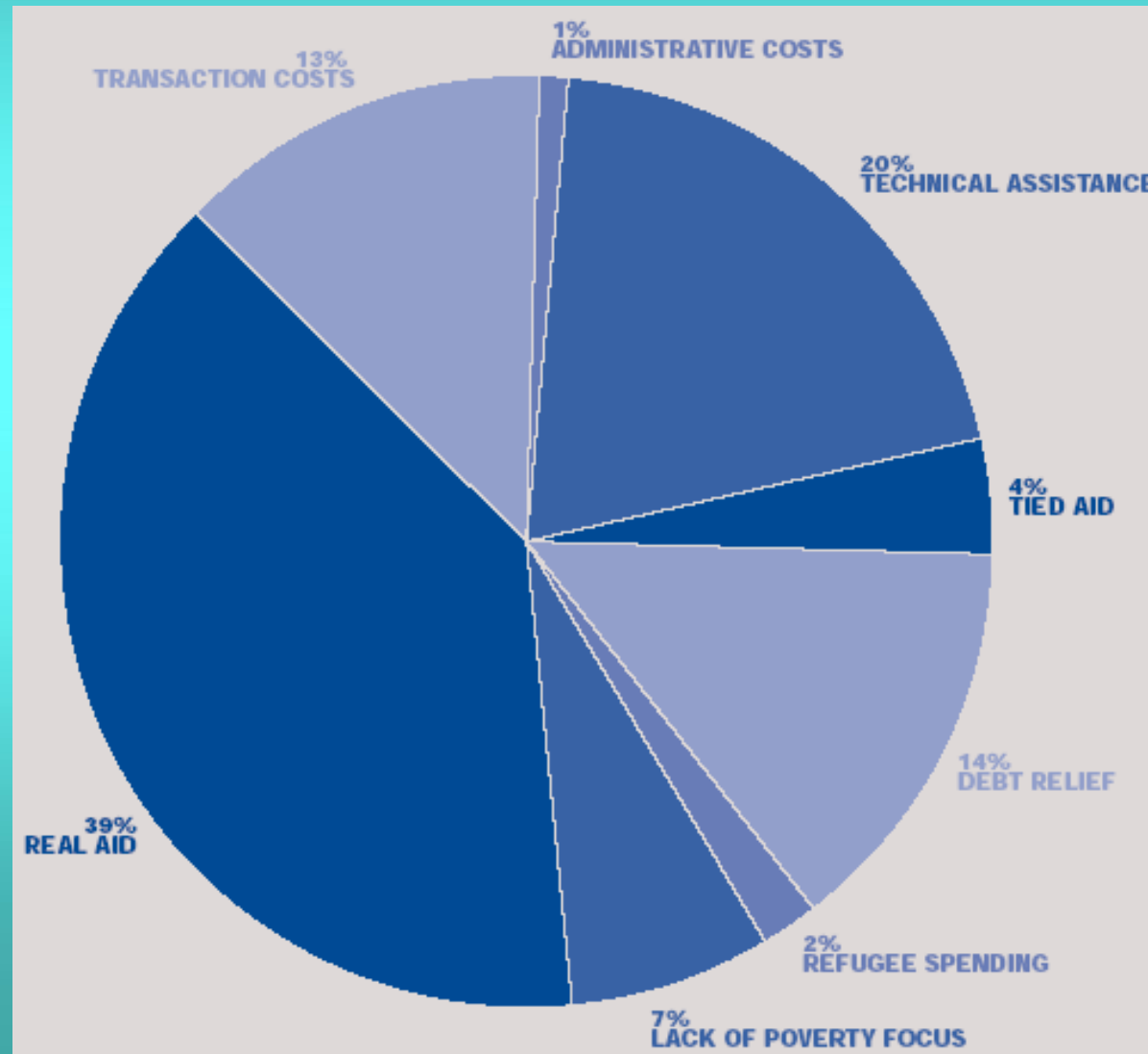
Aid: Rhetoric and reality

Source: World Development Movement



Phantom aid

Source: World Development Movement



Capital flight from Africa

1970-2004, Source: Leonce Ndikumana and James Boyce, Univ of Mass.

Total capital flight from selected African countries, 1970-2004
(million 2004 US \$ and as % of external debt)

Country	Cumulative capital flight (\$ million)	Capital flight stock with imputed intra-national summing	Capital flight stock as % of external debt
Angola	42179	50951	535.2
Burundi	3074	2567	185.3
Cameroon	18379	27288	287.4
Chad	1338	2346	137.9
Congo, Dem. Rep.	19572	36738	310.3
Cote d'Ivoire	34349	54001	460.0
Ethiopia	17031	22526	242.6
Kenya	2665	6369	93.3
Nigeria	165697	240781	670.9
South Africa	18266	17492	176.0
Uganda	4982	6854	142.1
Zimbabwe	16162	24556	511.9

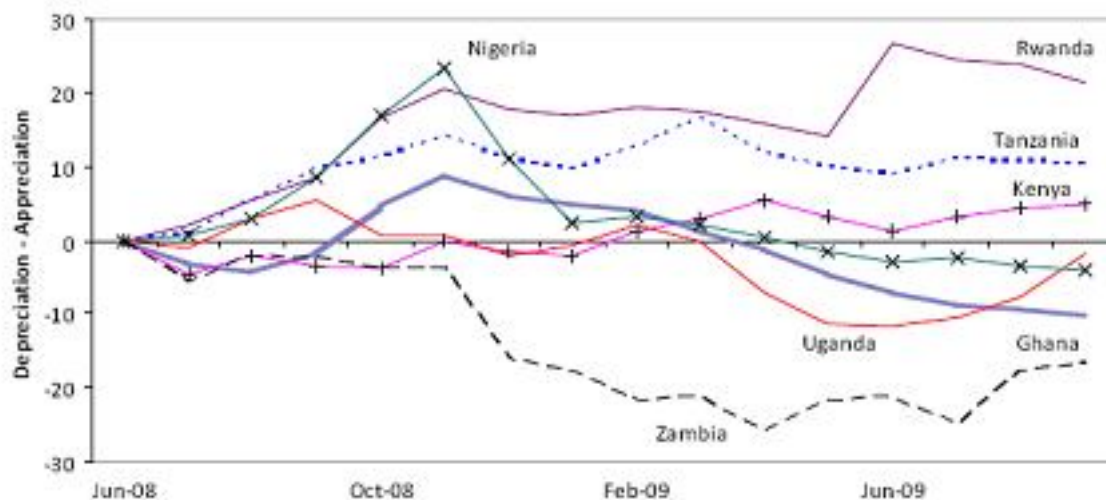
Exchange controls needed Tanzania, Rwanda and Kenya were far less dependent, volatile

	Ghana	Kenya	Nigeria	Rwanda	Tanzania	Uganda	Zambia
Controls on:							
Capital market securities	•	•	•	•	•		
Money market instruments	•	•	•	•	•		
Collective investment securities	•	•	•	•	•		
Derivatives and other instruments	•	•		•	•		
Commercial credits			•	•	•		
Financial credits				•	•		
Guarantees, credits, and other financial backup facilities				•	•		
Direct investment	•			•	•		
Liquidation of direct investment			•	•	•		
Real estate transactions		•			•	•	
Personal capital movements			•	•	•		
Provisions specific to:							
Commercial banks and other credit institutions	•	•	•	•	•	•	•
Institutional investors	•	•	—	▲	•	•	—

Key:

- Indicates that the specified practice is a feature of the exchange system
- Indicates that data were not available at time of publication
- ▲ Indicates that the specified practice is not regulated

Source: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions (2008), p. 18-19.



Source: IMF Information Notice System

Figure 7. Net Portfolio Investment
(Percent of GDP)

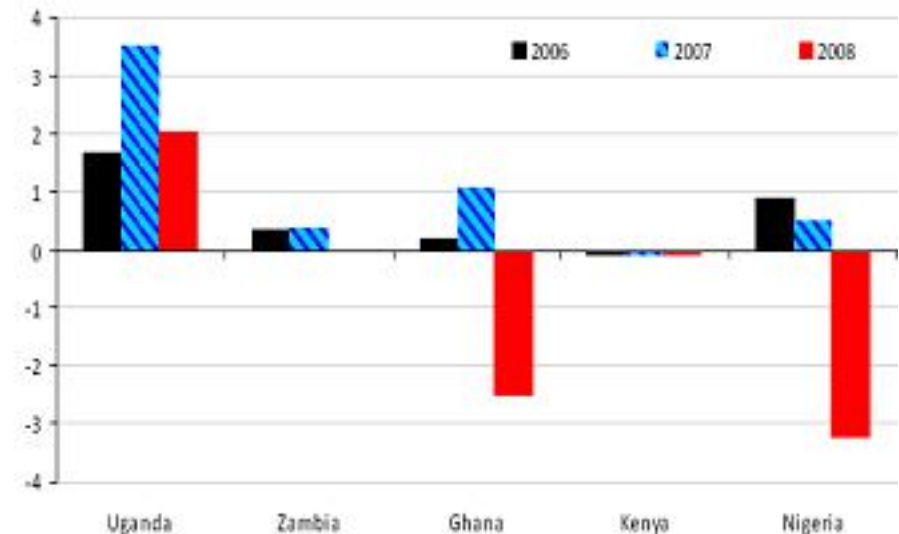
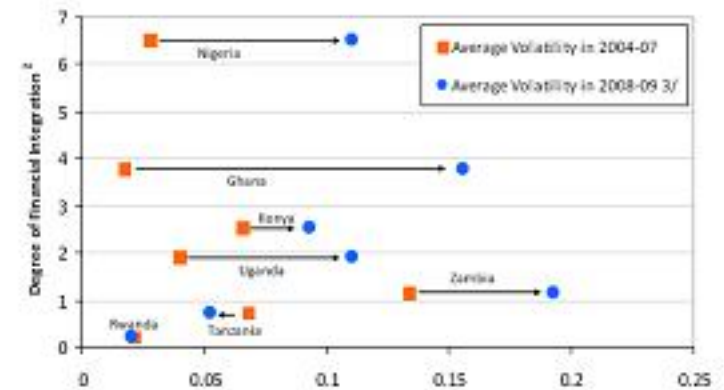


Figure 6. Volatility of African Currency/US\$¹



Source: IMF, World Economic Outlook and International Financial Statistics.

¹Volatility is measured by the ratio of the standard deviation of the exchange rate to its annual average.

²Financial Integration is measured by the level of Non-official Financial Flows in 2008.

³Through September 2009.