International Finance & G20 – Voices from the Global South

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Preface

About ten years ago, liberalised global financial markets led industrialised countries into a deep economic and financial crisis. This prompted the group of the 20 largest industrialised and emerging economies (G20) to be elevated from a specialist committee made up of finance ministers into one of the heads of state and government. A series of financial reforms were then adopted and implemented, primarily for banks as well as derivatives traded outside of regular trading venues. But the G20 reforms have not achieved a financial system of lasting stability. In 2016, huge bank failures once again occurred in countries such as Italy. Moreover, the loosening of monetary policy by the central banks did not revive the economy, as desired, but instead inflated many asset markets. And the question of the long-term consequences still remains unanswered.

The poorer countries of the world were less affected by the financial crisis than industrialised countries. This was partly due to the fact that they had had their own daunting experiences in previous disastrous crises, particularly in the Asian crisis, which led them to adopt more stringent regulations. But some emerging countries were not spared the shock waves on the global financial markets. Cheap money from central banks is being used to buy bonds in emerging countries and increasingly also in some poorer developing countries. This has led to a threatening situation for these countries, especially when the loose monetary policy ends.

On 1 December 2016, Germany took over the G20 presidency for one year. On this occasion, over forty representatives from civil society gathered in Berlin on 8 and 9 December 2016 to discuss the effects of the financial markets on the economy and on society, as well as the political consequences. This publication documents some of the participants' texts, including two each from Asia, Africa and South America. They cover a range of topics, casting a global view on the financial markets and issuing warnings about flawed project financing. The renewed over-indebtedness of many African nations and the problematic focus of poorer countries on international financing are documented. The risks of public-private partnerships in the infrastructure sector as well as the banks' business in tax havens are highlighted. The texts – and discussions at the event – show that the power of the financial markets and their negative impact on the global economy are (still) very alarming. The problem is not only the direct economic impact, but also the massive lobbying of financial actors to prevent and dilute regulatory legislation.

If the G20 does not implement stronger measures to regulate the financial markets, we will remain in crisis mode. To put an end to this, the financial markets must be greatly curtailed. Mega-banks need to be split up and derivatives markets greatly reduced. Instead, more local cooperative and public banks are needed. However, these banks must also commit themselves to clear social and ecological criteria and the consent of all concerned parties. In any case, international capital flows and investments must be restricted by national capital controls and also regulated in their local effects. Finally, all emerging and developing countries, especially those which are not part of the G20, must have a say in deciding the necessary reforms, which is only possible at the United Nations.

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Demands to the G20 from a "Finance for Forests" project

By Rahmawati Retno Winarni, TuK – Transformasi untuk Keadilan Indonesia in collaboration with Profundo

Note: *This point of view has been discussed with the Dutch research organisation Profundo, with which we collaborate on a project called "Finance for Forests" which attempts to make sure private sector actors implement social and environmental policies and practices that reduce negative effects on forests, and are engaged in global public private partnerships.*

Demand 1: The G20 should support the Sustainable Development Goals (SDGs). In this respect, the G20 should work with the major banks in their own countries to adopt and implement sustainability policies, and exert influence on non-G20 banks to do the same.

In light of the SDGs, financial institutions must become aware of the positive and negative impact of their financing on achieving the SDGs. Where they finance companies that negatively impact the livelihoods of local communities and local ecologies, they are undermining SDGs 1, 2, 8, 9, 10, 12, 13, and 15. An increasing number of financial intermediaries (FIs) from developed countries are gradually becoming aware of this; however, more needs to be achieved. Germany, as president of G20, can champion this.

G20 FIs can't do this alone. They need to be encouraged by the German presidency to work with FIs in the global South through partnerships and while leading in syndicates to integrate ESG criteria into financing covenants in order to assure that all financing at a minimum doesn't undermine SDGs and preferably makes a positive contribution to achieving them. They can play a leading role in "pulling up" laggard financiers from Southeast Asia with regard to their consideration of environmental and social issues in their financing of companies.

The G20 can play a leading role in "financing for good" in support of the SDGs, and prevent financing that will undermine the SDGs. FIs can support the SDGs, not only by directly financing SDGs initiatives, but also indirectly through the financing of companies. This latter channel is their core business, and thus the channel through which they can make the largest impact both positively and negatively. By translating the SDGs into their ESG risk frameworks and their decision-making processes, FIs can have a major impact on helping the global South meet its 2030 SDG targets.

Demand 2: The G20 should offer support to (financial) regulatory agencies in countries like Indonesia to monitor which companies are acting against the SDGs and to ensure that such companies are denied financing if their issues are not solved.

All FIs require their clients to abide by the law; however, not all clients do. There is also insufficient (capacity or will to) monitor and enforce in many developing countries. This leaves FIs exposed to companies that potentially break the law. In Indonesia, for example, companies don't always have all the necessary operating licenses, even though they are active and attract financing. While all banks say they will not finance illegal activities, it seems that they are not always completely up to speed or fully informed about the companies they finance, i.e. they are failing on their "Know Your Customer" duty.

Germany, as president of the G20, could encourage further support to strengthen the monitoring and enforcement agencies of developing countries. Additionally, it needs to work to implement and enforce punitive measures for FIs who finance companies that break the law, wherever those companies may be. While such measures already exist to a certain extent, they are currently being inadequately and inconsistently implemented. This leaves communities and environments in developing countries open to continued suffering at the hands of poorly behaving companies whose activities that cause this suffering are being financed by FIs from around the world, including from G20 countries.

Demand 3: The G20 should promote regulatory mechanisms which encourage patient (long-term) financing and discourage financiers to pull out from companies when issues emerge: "patient finance is (more) sustainable finance"

The NGO world is pursuing two different financial reform agendas without correlating them very much. The first focuses on the structure of the financial system itself and is centred on the classical questions of how to set the parameters for it, such as capital ratios and reserve requirements for banks, ease of cross-border capital flows, etc. The goals are to rein in finance by cutting it down to size and decelerating it, in order to reduce the risk of financial instability and financial crises that affect entire economies.

The second agenda, which can be called the "sustainable finance agenda", is not concerned with the structure of the financial system itself, but with the non-financial activities financed by it. We feel that this is the one that the Finance for Forests campaign is interested in. However, it may be worthwhile thinking about which features of the current financial system are conducive to the financing of unsustainable non-financial activities, and what kind of structural change would weaken these features. The rise of impatient finance, facilitated by regulation that increases the ease and speed of liquidating one's investments in whatever assets anywhere in the world, has a lot to do with it. We often try to convince financial institutions that investing in nasty stuff creates financial risks for themselves, but as long as it is possible to divest quickly, such risks are more theoretical than real because adverse effects, especially those related to climate change, are relatively far in the future. But if finance were forced to become more patient, such risks would feature more heavily in the risk management policies of financial institutions. So perhaps the slogan should be that "patient finance is (more) sustainable finance", and that is something that the NGOs might well subscribe to and include in their lobbying.

On a more practical level, this could mean a financial transaction tax – something that Germany has subscribed to in principle, although the German finance minister does not seem eager to promote it – and of course capital controls. It has simply been taken for granted by so many people in the last three decades or so that liberalised capital accounts are a fundamental component of the globalised economy. Capital controls were a perfectly normal instrument before that, but this memory seems to have faded.

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http://www.tuk.or.id

The BNDES and the international agenda: Recent changes and the new role of the Brazilian state in long-term financing

By iBASE, Brazil

As a central agenda theme in many countries, independent of their development phase, infrastructure investments are recognised as a solution to the lack of economic dynamism in the international scenario. The reason for this is their peculiar impact on economic activity: They increase the production of goods and services, generate employment and income, reduce costs, improve systemic competitiveness and produce effects in other sectors. Another element in the current context is strong pressure from international organisations to prioritise concessions and public-private partnerships around the world. G20 countries, for example, have set their agenda of investments in infrastructure as a "top priority", strengthened by finance ministers encouraging multilateral banks to be responsible for developing projects and attracting private capital investments. The alleged benefits include reducing the transaction costs, risks (and perception of risks) while promoting legal reforms in the sense of improved guarantees for institutional investors.

However, what is happening in practice is a kind of "back to the past" in terms of privatization policies of the 90s, when the role of development banks was reduced to promote the liquidation of public assets. The expertise developed by these banks as an instrument of interaction between states and markets (domestic and internationally) is recognised as being central to the process. This is also the case for the Brazilian Development Bank (BNDES). The G-20's bets – and how they have emerged for countries like Brazil – provide reason for general concern in civil society due to the lack of public consultation to measure the real impacts on society and the environment. International experience shows how nebulous these processes are. Even World Bank consultations have been much more of a formality to legitimate Public-Private Partnerships (PPPs) than a real space to take changes into account. Additionally, in many countries, the private sector normally contributes a small parcel of the total investment (between 15-20%), putting in check the "common belief" that in PPP projects it would accept a share of the risks.

Another questionable point in the Brazilian case is the market willingness to target the megaprojects being sold (under a concession programme) or, in the case of green field projects, the ones in which the returns are considered profitable. Some projects under a concession programme may not be as profitable as a private initiative would be or come with unsatisfactory or risky returns that investors normally do not want to assume. Yet many of these are of public and social interest and they are not being carried out because of these factors. How can public interest projects, even if they are not profitable, become eligible?

Regarding the institutional changes conjuncture, the Brazilian congress approved a provisional measure (a legal framework set by the presidency to approve law changes). The "MP 727" is related to a specific programme called "PPI", with a specially defined purpose: speeding up the privatisation process of public goods. This resembled the international cases without public consultation. It was stated that the BNDES would have a central role as an inductor channel and would "[...] constitute and participate in the support fund for structuring partnerships, which will have an initial term of ten years". In addition, the BNDES would be a designer of the privatisation process, proposing new regulations, as well as administrative and juridical practices. In the end, it would act as a guarantor and as a last land resort in cases of failure. The projects listed in the first phase of PPI are from several sectors: airports, energy distributors, railroads, mining and oil, seaports, roads and sanitation, among others.

Another point we should comment on is that this type of initiative is not really new. In early 2015, for example, the bank made a joint publication with the World Bank affiliate IFC emphasising that it would substitute the Regulations Agency regarding some specificities on PPPs. The big difference between then and now is that this effort will not suddenly substitute regular financing and both initiatives would be maintained together until a private market could develop. With the "new government", the BNDES decreased its financing. And due to Brazil having one of the highest interest rates in the world, it is unlikely that a long-term private market will develop. In other words, we are in a trap. Regarding the bank's transparency, all the concerns make sense.

One should not forget that the recent impeachment process was full of contradictions. The current government can be found at the core of many corruption scandals and the lack of legitimacy is being remedied with nebulous processes. Due to this situation, it is highly necessary to exchange experience and methods of analysis, thereby establishing a network able to promote Brazilian society with the required knowledge to deal with the risks and responsibilities in privatising the goods and services of the collective interest.

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For more information please visit:
http://ibase.br/pt

Table: Projects in the PPI programme

Airports	– Porto Alegre – Salvador – Florianópolis – Fortaleza
Energy	– São Simão (na divisa entre Minas Gerais e Goiás) – Miranda (Minas Gerais) – Volta Grande (São Paulo) – Pery (Santa Catarina) – Agro Trafo (Tocantins) – Boa Vista – Companhia de Eletricidade do Acre – Amazonas Distribuidora de Energia – Centrais Elétricas Rondônia – Companhia de Energia do Piauí – Companhia Energética de Alagoas – Companhia Energética de Goiás
Railways	– Norte-Sul – Ferrogrão – Fiol (Ferrovia de Integração Oeste-Leste)
Lottery	– Lotex
Mining	– Fosfato (entre PB e PE) – Cobre, chumbo e zinco (TO) – Carvão de candiota (RS) – Cobre (GO)
Oil and Gas	– 4ª rodada de licitação de campos marginais de petróleo e gás – 14ª rodada de licitações de blocos de petróleo e gás sob o regime de concessão – 2ª rodada de licitação do pré-sal sob o regime de partilha
Ports	– Porto de Santarém/PA (combustíveis) – Rio de Janeiro/RJ (trigo)
Roads	– TrechoBR-364/365, entre Goiás e Minas Gerais – Trecho BR-101/116/290/386, no Rio Grande do Sul
Sanitation	– CAERD (Rondônia) – COSAMPA (Pará) – CEDAE (Rio de Janeiro)

Source: Governo Federal

Debt problems

By Tirivangani Mutazu, Afrodad, Zimbabwe

Introduction

There are numerous global challenges facing the G20 today, on its agenda is slow global economic growth, rising debt levels, geopolitical conflicts, terrorism, refugee flows, hunger, climate change pandemics. All these challenges require global actions to overcome them.

Growing debt levels are harmful to the stability of the global economy, as witnessed during the global financial crisis and the Eurozone crisis. Global debt levels rose from US$21 trillion in 1984, to US$142 trillion in 2007, to US$199 trillion by 2014 (UNCTAD 2015)[1].

In its efforts to explore a rules-based approach to sovereign debt workouts the international community supported debt-resolutions at the UN General Assembly and commended the G20 leaders push for stronger collective action[2] and pari passu clauses[3] in debt contracts. In September 2015, the UN General Assembly adopted a set of nine Basic Principles for Debt Restructuring Processes.[4]

As civil society we need to continue to scrutinise global decision making especially on financial matters with consequences on countries and people and make our policy recommendations known.

Debt Evolution

The international community signed up for the ambitious 2030 Agenda for Sustainable Development, and debt financing was emphasized as one of the key levers for financing that agenda, by the Addis Ababa Action Agenda agreed at the Financing for Development Conference in July 2015.

The financing requirements to achieve the SDGs by developing countries are enormous, estimated between US$1.9trillion and US$3.1trillion each year. Developing countries especially in Africa have to confront new and evolving challenges to debt sustainability. Rising debt trends, causes of rapid debt accumulation, and risks to debt sustainability, all requires global policy actions.

Governments require significant amounts of resources in order to reduce large infrastructure gaps, reduce poverty levels still high, and improve health and education indicators that are still below required standards. These are still being funded through borrowing. The challenge is how do governments meet all these development needs without accumulating debt to unsustainable levels?

Local resources are far less than the financing requirements, implying continued reliance on grants. However grants are not adequate but also declining. The heavy reliance on grants is unsustainable. Therefore, countries have resorted to much heavier borrowing as grants dwindle.

Many developing countries obtained debt relief under the HIPC[5] and MDRI[6] initiatives of the World Bank and the IMF. Some of these countries have been registering economic growth, but today, the same countries are again faced by new debt crises characterized by pubic over-indebtedness, with painful consequences on the economy at large, and on poor people.

The evolution of public debt is often driven by how governments manage their public finances, from revenues, expenditures, and budget deficits. However increases of public debt over the years have been driven by – *higher budget deficits – slowdown in*

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[1] Mukhisa Kituyi, Secretary-General of UNCTAD, Opening Statement at 10th UNCTAD Debt Management Conference, Geneva, 23 November 2015.

[2] The collective action clause allows bondholders to agree on debt restructuring even when some bondholders are against restructuring as long as majority agrees. – *The editors.*

[3] If a new issue of shares (stock) is said to rank pari passu with the existing shares, then the rights associated with both issues are exactly the same. – *The editors.*

[4] Basic Principles on Sovereign Debt Restructuring Processes. http://unctad.org/meetings/en/SessionalDocuments/a69L84_en.pdf.

[5] The **H**eavily **I**ndebted **P**oor **C**ountry Initiative was adopted in 1996 by major industrialized countries to provide a comprehensive approach to helping poor countries with their debt burdens with a goal of getting the debt to sustainable levels by granting debt relief. – *The editors.*

[6] The **M**ultilateral **D**ebt **R**elief **I**nitiative provided for 100 percent relief on eligible debt from three multilateral institutions (IMF, African Development Fund and International Development Association) to a group of low-income countries. – *The editors.*

economic growth – contingent liabilities – natural disasters.

Reasons at the bases of the new crisis lie mainly on fragile governance, insufficient legal provision, weak enforcement of law, weak institutions and conflict of interest. On the other hand, it is to blame some international financial agencies for providing easy access to their lending, regardless of the priorities of the people in the country.

We know that public debt, when managed well, is an indispensable element of any financing strategy for development. But it can quickly become a problem when foreign borrowing is unrelated to productive investment projects, or when a debtor economy is hit by severe exogenous shock, such as falling commodity prices, rising interest rates, currency depreciations and a slowdown in global growth.

Key drivers of debt accumulation in Africa

Almost all Sub-Saharan African countries have registered increases in public debt in nominal terms and as a ratio of GDP. The increases have been pronounced in countries such as Angola (US$48.9bln), Ethiopia, Ghana, Kenya, Tanzania, Mozambique, Uganda and Zambia. The debt levels are well beyond the pre-HPIC stocks in most cases.

The GDP growth of most countries in Africa has been very good. Therefore, the debt to GDP ratios remain within sustainability thresholds. Increases are evident but they are not too dramatic, except for cases such as Malawi, Ghana, Mozambique, Angola and Zambia.

The key drivers of debt dynamics in Africa have been high growth, low interest rates and debt relief.

Africa's external debts improved significantly over the past decades but net debt increased. Total debt-to-GDP ratio dropped from 53.4 to 23.7 % in 2014. However, huge variations exist across countries. Compositions of debts are changing from external to domestic, also from public to private ones. Multilateral loans make out only 21% of total debt.[7]

South-South bilateral loans are also emerging. Private lending constituted 49% of total external outstanding debts. Sovereign bonds issued reached to $18bln in 2014 from less than $1bln in 2008.

Around 14 Sub-Saharan African countries have returned to the sovereign bond markets in recent years e.g. Mozambique, Rwanda, Senegal, and Zambia. Unsustainable private debts have a habit, as we well know, to end up on public sector balance sheets, as the experiences in Europe (Ireland and Greece) shows.

Recommendations to G20

- Africa needs to grow at double digits with large financing gaps to achieve SDGs by 2030. A responsible borrowing in the next 15 years and beyond is required to achieve them.
- Reconcile SDGs and debt sustainability by providing concessional finance.
- Support the development and maintenance of strong institutions and sound macro policies.
- Creditors and debtors need to share responsibility for preventing unsustainable debt situations.
- Urge the international community to actively explore a rules-based approach to sovereign debt workouts to increase the predictability and timely restructuring of debt when required, with fair burden sharing.

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For more information please visit:
http://www.afrodad.org

[7] Adam Elhiraika, UNECA (2015): Sustainable Development Goals and the Challenges Ahead. Presentation at the 10th UNCTAD Debt Management Conference, 23-25 November 2015, Geneva.

"Brump" Heightens Uncertainty in Global Economy

By Kavaljit Singh, Madhyam, India

The two big political events of 2016 – Brexit referendum on June 23 and Donald Trump's victory in the presidential election on November 8 – have added significant uncertainty to an already fragile global economy. Due to economic and political uncertainty caused by the Brexit vote, the IMF has lowered the global economic growth forecast for 2017 to 3.4 percent.

Eight years after the onset of the global financial crisis in 2008, the economic recovery remains uneven in most advanced economies with persistently weak private demand and limited job growth. The financial crisis is far from over, only its intensity and geography have changed. The crisis led to a severe global economic recession followed by sovereign debt crises that are ongoing in the Eurozone.

In terms of macroeconomic parameters (e.g., growth, employment, inflation, trade) one finds major weaknesses in one region or another. Some analysts view unemployment rate dropping to 4.6% (the lowest since 2007) in November 2016 as a sign of stronger recovery in the US. However, most of new jobs created in the US belong to low-wage sectors such as bars and restaurants. According to the US Bureau of Labor Statistics, out of the 178,000 new jobs added in November 2016, only 9,000 are full time jobs while part-time jobs increased by 118,000. Hence, the quality of jobs is a major concern as good jobs are being replaced by bad ones.

The world economy will face multiple challenges in 2017, largely due to political factors. There was a time when the political risk was largely seen in the context of poor and developing world (for instance, military coups taking place in Pakistan, Nigeria or Burundi). But now political risks and uncertainty are building up in the developed countries, particularly in the EU.

The "Brump" Factor

The Brexit vote was the biggest shock to the political establishment in the UK and across Europe. Six months have passed since the Brexit vote, there is still uncertainty as to whether Brexit will actually occur or not. Even though Theresa May has insisted that her government is "getting on with Brexit" after the High Court ruled that the UK could not leave the EU without parliamentary approval.

Now the legal battle over the Brexit process has moved to Supreme Court as the government has challenged the High Court ruling.[8] If the UK government wins its case in Supreme Court, it can invoke Article 50 of the Lisbon Treaty – the legal process to exit the EU – in March 2017. It is expected that the exiting process may take a minimum of two years.

While it is in the UK's interest to seek an orderly exit, the government has so far refused to divulge its Brexit strategy saying that to do so would weaken its prospects of negotiating a favourable deal with the EU.[9] Some analysts believe that the UK will gain more leverage by delaying the negotiations with Brussels. Prime Minister Theresa May is keen to have a bespoke arrangement but there is no guarantee that all the 27 member-states of the EU may approve such an arrangement.

The Sterling has fallen by 14% against the dollar since the Brexit vote. As the City of London is the leading international financial center, ongoing uncertainties related to the timing and nature of the Brexit process could pose additional risks to the global financial system.

In the US, the victory of Donald Trump in the presidential election was another major political upheaval. President-elect Trump has already announced that he would dilute or dismantle regulatory measures undertaken to implement Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. A deregulation push under his presidency could free US big banks from new regulatory rules introduced in the aftermath of 2008 crisis. In other words, the big

[8] Meanwhile, on 24 January 2017, the Supreme Court has decided that a parliamentary law is needed, cf. https://www.supremecourt.uk/news/article-50-brexit-appeal.html. – *The editors.*

[9] Meanwhile, on 17 January 2017, Theresa May announced a hard Brexit, see Kavaljit Singhs update: Britain Heading towards a hard Brexit http://www.madhyam.org.in/britain-heading-towards-a-hard-brexit. – *The editors.*

US banks may become even bigger if the already tepid Dodd-Frank Act is dismantled.[10]

His other policy agenda on international trade, climate change and immigration issues will be closely watched as most of his cabinet colleagues are business elites with hardly any public office experience.

Needless to say, people around the world anxiously wait to see how the "Brump" phenomenon (Brexit plus Trump) unfolds in the coming months.

The Rise of Far-Right in Europe

Almost every European country has witnessed the surge of support for far-right political parties in recent years. Such parties have been able to garner substantial popular support based on their anti-immigration policies and nationalistic outlook.

In 2017, elections are due in Netherlands, Germany, France and possibly Italy. Most political analysts expect far-right parties to achieve big electoral success in the coming elections on an anti-establishment sentiment fueled by the Brexit vote and Trump victory. The possibilities of such parties coming into power are far greater now than ever.

Instead of targeting austerity programs and neoliberal economic policies contributing to economic instability and unemployment, far-right political parties use nationalist, anti-immigrant and xenophobic rhetoric to woo public support.

The growing popularity of far-right political parties across the Europe indicates that the possibility of other countries leaving the EU include the France (Frexit), Netherlands (Nexit), Italy (Italeave) and Austria (Auxit). In all likelihood, the EU may survive Brexit but a Frexit would completely jeopardize the entire European integration project.

The Global Banking System Fragility

The global banking system is still in a fragile state. The big banks, particularly in crisis-hit countries, are facing numerous challenges despite huge efforts have been made by central banks and governments to clean up their balance sheet. According to the Global Financial Stability Report (October 2016) of the IMF, over 25 percent of banks in developed countries (controlling $11 trillion in assets) remain weak.

In the US, very little progress has been made to prevent taxpayers from bailing out "too-big-to-fail" banks. The resolution authority has not ended the problem of banks being too big to fail. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, banks are required to create "living wills" outlining how they would shut down their business if they fail, at no cost to taxpayers. In April 2016, the US regulators issued a failing grade to five big banks (including Bank of America, Wells Fargo and JPMorgan Chase) on their emergency wind-down plans in a crisis-like situation. Put simply, if another financial crisis hit US today, these banks would need a bailout from the US government to prevent a major financial crisis from happening again.

In Europe, high levels of non-performing loans may spark new crises in the banking sector in the coming months. According to KPMG, the European banking sector has about €1.1 trillion in non-performing loans and an average NPL-ratio of 5.7% (three times as much compared to the US or Japan). The policymakers are currently focusing on eight of Italy's troubled banks. In particular, the financial position of Italy's Banca Monte dei Paschi di Siena, the oldest surviving bank in the world, is extremely weak as it was the worst performer in the annual stress tests carried out on 51 lenders across the EU in late-2016. The bank has nearly €50bn in non-performing loans, accounting for 38 percent of its total loans. It recently failed to raise €5bn in fresh capital as part of its recapitalization plan. Hence, a state bailout of this ailing bank cannot be ruled out even though such a move may not comply with EU state aid rules.

In the UK, the Royal Bank of Scotland (RBS) failed in the annual stress test carried out recently by Bank of England. The UK government had bailed out the RBS in the aftermath of 2008 crisis. The RBS is currently 73% owned by the UK government. It is important to emphasize here that any further weakening of financial strength of RBS will directly impact the UK's public finances because of 73% public ownership of this bank. Similar will be the fate of many other European banks which were bailed out by their national governments following the 2008 financial crisis.

[10] Meanwhile, Trump has started to dismantle the Dodd Frank Act, cf. Ben Protess / Julie Hirschfeld David: Trump Moves to Roll Back Obama-Era Financial Regulations, The New York Times, 3 February 2017.

Deutsche Bank is in Trouble

The weak financial strength of Deutsche Bank should be a matter of grave concern. Since 2008, Deutsche Bank has faced numerous lawsuits and investigations over its alleged role in rigging of interest-rate benchmarks and commodity prices, violations of US sanctions and mis-selling of mortgage-backed securities. Even after paying more than $16 bn in fines and settlements worldwide since 2008 for serious misconduct, the troubles at Deutsche Bank are not yet over as it has lost more than half of its value in 2016.

With Deutsche Bank having a leverage of 40 times, some analysts forecast that the impending failure of Deutsche Bank may trigger a far bigger financial crisis than the 2008 crisis. As Deutsche Bank is highly interconnected with other big banks and insurance companies in Germany, there is a valid concern that it could pose a systemic threat to Germany's entire financial sector.

In June 2016, the IMF in its report on Financial System Stability Assessment on Germany stated that "among the G-SIBs (globally systemically important banks), Deutsche Bank appears to be the most important net contributor to systemic risks, followed by HSBC and Credit Suisse." The report further noted that "Germany, France, the UK and the US have the highest degree of outward spillovers as measured by the average percentage of capital loss of other banking systems due to banking sector shock in the source country."

Further, Deutsche Bank is the biggest European bank in London with staff strength of 8,000. The bank generates nearly 20 percent of its revenue from the UK and therefore is exposed to greater Brexit risk than other European banks.

What about Bright Spots?

In 2016, India and China were seen by many as the two bright spots on the world economy map but both economies are facing their own challenges.

Post-demonetisation, India's GDP growth projections have slipped. Launched on November 8, 2016, the stated objective of the demonetisation initiative was to crack down on the black (shadow) economy. At the time of writing, news reports point out that this policy objective has not materialized as 94% of demonetised notes have been deposited back in the banks, thereby putting a big question mark on the efficacy of this entire initiative which put mass hardship on the majority of India's 1.2 billion people.

There is a growing evidence to show that the demonetization initiative has badly affected the informal sector (which constitutes roughly half of India's economy) where legitimate cash transactions are common. In the rural and semi-urban areas where banking infrastructure is sorely lacking, this move has negatively impacted the jobs and livelihoods of working people who earn and spend money in cash. Numerous media reports have highlighted how cash shortage has led to the closure of many micro and small enterprises throughout the country, with adverse impact on incomes and jobs of people associated with these enterprises. In particular, agriculture, textiles, jewellery, retail trade, automobiles, real estate and construction sectors have been adversely hit by the demonetization initiative. In such a scenario, an immediate revival of economic activity is unlikely to happen.

In the case of China, the shadow banking system (non-bank financial intermediaries) poses a potential systemic risk given its large size and opaque nature. Since shadow banking institutions are interconnected with China's commercial banks, risks in the shadow institutions can easily be transmitted to the Chinese banking system.

Brazil and Russia suffered heavily to due to the crash in commodity prices in the past two years. Now as commodity prices have stabilized, it is expected that both these economies may come out of recession in 2017.

To sum up, the world economy is not out of the woods yet. A more robust, sustained and balanced global recovery is still missing.

The global financial reforms implemented so far are inadequate to prevent another crisis from happening. The political will to implement global financial reforms is currently missing at G20 – the premier forum for international economic cooperation. At G20, the progress in regulatory cooperation has been patchy and spasmodic. The member-countries of G20 have yet to implement several past commitments on financial reforms. With the result, the policy agenda to create a more transparent, inclusive and resilient global financial system has lost momentum. At the opening session of the G20 Hangzhou

Summit, Chinese President Xi Jinping urged the G20 to be a "group of action, instead of a talk shop." It appears that G20 leaders have forgotten about the root causes of the global financial crisis.

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Finance and Investment

By the Third World Network Africa

No country has developed without mobilising its own resources for productive investment and domestic capital formation. As in other parts of the world that have been successful in economic transformation, as much as is possible of the resources generated in African economies need to be retained for investment in strategic economic sectors and activity. External finance, both public and private, is critical to complement national resources. It is essential, however, that external finance is directed to strategic economic activities that compensate for its ultimate outward transfer of resources. Such transfers must be coordinated to minimize the disruption of the continued formation of capital within the national economy.

Like their counterparts in developing countries elsewhere and in developed economies in the post-war years, immediate post-independence African governments adopted policies and institutions that supported investments in developing productive capacity across different sectors: in economic infrastructure such as energy, transport and communication; and in social infrastructure such as health, education, and clean water. In the face of weak or nonexistent domestic private sectors, state enterprises were established in economic areas, especially manufacturing, seen as key to catalyse the transformation of the primary dependent economies inherited from colonialism. Foreign investment was sought to fill in critical gaps, often in partnership with governments with defined economic developmental and social objectives.

Financial systems, institutions and policies deemed appropriate to this effort included development banks; directed credit and other financial institutions; commodity marketing boards that tapped into the strategic role of commodities in African economies and mobilised the finance generated thereby for investment in other sectors of the economy; the developmental mandate of central banks; as well as policies that sought to regulate foreign profit repatriation while providing incentive for re-investment.

In their totality, these were a response to the fact that within the patterns of economic activity dominant in Africa's primary commodity export economies, a bulk of the investible components of the economic surplus was and is transferred outside Africa's economies, rather than re-invested. Much of what remained was either too inadequate for the scale and the quality of requisite investments, or too fragmented or held in forms that were not readily investible.

As is widely acknowledged, application of these policies was not always consistent; state institutions lacked the capacity and legitimacy for transparently holding economic agents in account to the policy objectives and their social goals, leading to much abuse and corruption. Further, and more significantly, global collapse in primary commodity export prices took away much of the means for financing these policies, and, complicated by global economic developments, led to profound economic crises.

The World Bank and IMF sponsored structural adjustment policies (SAPs) introduced from the mid-1980s and enforced by means of aid-based conditionality throughout Africa were meant as a response to these difficulties. In the context of corporate driven economic de-regulation which had begun to take hold through most of the advanced industrial world, however, SAPs became a project of neo-liberal, free market ideology, aiming to install the primacy of the market throughout all economic relations and social provisioning. This system reduced the role of the state to providing conditions appropriate to the primacy of the market. The result has been thirty years of the wholesale dismantling of the very policies that the World Bank and IMF had hitherto promoted in Africa and which had still been in practice in those regions of the world that did not have Africa's misfortune of falling into external debt. Thus almost every form of public sector role in the economy and in socio-economic provision has been replaced by private enterprise or subjected to the profit logic of private investment.

As the domestic private sector was too weak to assume the private-sector led economic development mandate so abruptly thrust upon it, this role effectively fell to the foreign investor, typically transnational corporations. Investment policy thus came to be defined around the primary goal of creating conditions favourable to attracting the foreign investor. This has meant maximizing investor profits by relaxing and/or removing most economic, social and environmental regulations, while simultaneously providing incentives, including tax incentives, to foreign companies. It has also involved easing or altogether removing restrictions in international capital movements, foreign exchange restrictions, currency controls, etc. to facilitate cross-border investments and profit repatriation. Above all, whereas before foreign investment was contained within a domestic investment agenda, now it is foreign investment which is primary, with domestic players given protected spaces within areas deemed too minor for foreign investors.

Changing Forms of Investment and Finance and Africa's Economies

Foreign investment has taken on a range of forms which pose multiple challenges to African economies. At one end is foreign direct investment (FDI): the establishment or purchase of an enterprise by foreign owners of capital in an African country. Foreign investment can also consist of the external purchase of up to 10% shares in a local company; purchase of government or corporate bonds issued either in foreign or local currency; buying up local currencies to sell at a profit when the exchange rate is right; and hedge funds buying up agricultural land for speculation. This has been aided by financial sector reforms, including the privatisation of banking, which has enabled the foreign takeover of domestic banks assets now listed on foreign markets; the introduction of stock exchanges and capital markets, non-bank financial institutions; and the cross-border holding of financial assets of all forms.

Thus foreign investment has become closely intertwined with financial dealings, and with the exotic new products and instruments of the age of financialisation. The loosening of regulations to encourage foreign investment has thereby also created space to affect policy for all these financial instruments that would otherwise have little place in an investment strategy of a developing economy.

So far, investment flows to and operation in Africa have not contributed to shifting the economic patterns established under colonialism and targeted by early post-independence policies. The bulk of investment, especially FDI, still flows to resource extraction, operating as enclaves with little or no spillover linkages to the rest of the economies. The services sector has in recent times attracted significant levels of foreign investment, but its concentration in financial and business services have served to further disconnect investment from the sectors of domestic economy in most need. Manufacturing, domestic agriculture and the rural economy remain ill-served.

Moreover, the nature of these investments, their financing modalities, and the deregulated framework within which they operate have all accelerated the net transfer of resources out of Africa's economies rather than their re-investment. In addition, the weakening of social, environmental and fiscal standards as incentives to attract investment has in effect been the externalisation of all social, economic, and environmental costs of investment: in effect, the transfer of these costs to the public sector. With the reduced means available to this public sector to fulfil these costs, this has degraded the economic, social and environmental conditions of society at large, and of the poor and vulnerable majorities in particular.

The net effect has been a dislocation of investment and financing from the strategic sectors of the domestic economy. This has had negative consequences for the livelihoods and means of income in the sectors which occupied predominantly by small farmers, workers, domestic producers and industry and trading. Reflecting pre-existing gender-based relations of inequality, women and their economic activities both within the market and in the domestic sphere have suffered disproportionately.

The Problem of Global Finance

The challenges outlined above have been reinforced by changes in the character of global finance and its role in Africa's economies. Global finance has always been integral to the structuring of Africa's economies, given their dependence on imports for most of their manufactured products and their role as primary commodity exporters. The foreign banks and capital markets that have financed mining and other primary commodity companies, as well as the import-export trade, have always served to channel outside disproportionate amounts of finance that could have been reinvested in Africa's economies.

Changes in the financial sector over the past two decades – both globally and in Africa, with increasingly exotic new players, practices and instruments – have compounded this trend. This has enabled financial institutions and players to intervene directly in the mobilisation of financial wealth in Africa's economies, while playing little direct role in the productive sectors of these economies. This wealth is then repatriated as profit.

In the latest wave of deregulation, privatisation of insurance and reform of state-owned pension funds are handing purely local accumulation of financial wealth (requiring little or no foreign investment) over to foreign interests. This diversion thus puts this financial wealth beyond the reach of citizens and their investment needs. In a twist of irony, pension funds and the vast national wealth that they represent are targeted by governments to underwrite public partnerships with foreign investment (so-called public-private partnerships, or PPPs) in providing infrastructure. Given the history of PPPs so far, this indicates the use of public resources to fund private wealth – and foreign private wealth at that.

The ability of governments, especially in African and other developing countries, to manage these evolving financial processes and flows are further complicated by characteristics of these same processes. For instance, the easy flows of finance across national boundaries and the attendant currency movements have brought with them a stronger tendency to currency instability and crises of volatility. In dealing with such crises, governments are forced to throw whatever foreign reserves they have into shoring up their currencies. Indeed, the accumulation of foreign reserves for these purposes has begun to take priority over investment of these resources in production and exchange in the national economies.

Measures at the intergovernmental level, which could counterbalance the limits of individual national governmental action as well as provide support for weaker national governments in Africa and elsewhere, are undermined by the tendency of further deregulation that seems to dominate as the default position in sites of inter-governmental decision making, whether in formal institutions like the IMF or the informal groupings and gatherings as the G20. For African countries, this is aggravated by a further deficit of governance. Not only are they under-represented in these spaces, but the imbalances of power therein undermine their ability to effectively articulate their specific issues, interests and perspectives as an integral part of the agenda.

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The role of global banks: Financial asset management by "private banking" and the case of HSBC

By Jorge Gaggero, Fondacion SES, Argentina

Note: *This text is based on a text from 2015 by Jorge Gaggero and Madalena Belén Rua, then both at CEFID-AR, on "The role of global banks: Financial asset management by 'private banking'". Given the actuality of the events, some recent developments might not be covered.*

The role of global banks in global wealth chains and offshore wealth

Financial institutions play a key role in the offshore services market. On the one hand, they transfer financial assets belonging to wealthy individuals and large companies not reported to tax authorities to tax havens or offshore financial centres and, on the other, they keep their origin, amounts, circulation and ownership strictly confidential. An essential tool is bank secrecy, and, along with it, the promotion and use of tax havens. Global banks manage this business through the "private banking" sector, which provides a service known as "wealth management". Wealth management involves providing advisory and management services for investments made by wealthy individuals – with the assets in question generally being in excess of USD 250,000 – and by the companies related to them. The services offered include opening offshore bank accounts for individuals and legal entities, setting up shell companies, foundations or trusts – which are established in tax havens for the purpose of keeping the name of the beneficial owner strictly anonymous, providing advice on mergers and acquisitions, and on capital market transactions, planning successions and providing advice on investments in mutual funds, hedge funds and private equity.

International banks tend to classify their clients into different segments according to the total value of liquid assets to be invested by each of them. Depending on the segment to which clients are assigned, they receive more or less complex and customised services. UHNW (Ultra High Net Worth) clients, who have a net worth in excess of USD 25 million in liquid financial assets, and HNW (High Net Worth) clients, who have between USD 10 million and 25 million in liquid financial assets, generally require highly sophisticated services straddling different jurisdictions with complex tax and legal structures (such as networks of foundations, trusts, holding companies and international investment funds and hedge funds, among others). To design these schemes, private banks rely on specialised advice and close connections with the large professional accountancy firms (especially, the so-called Big Four), who work in conjunction with bankers in order to devise the mechanisms to be used.

There is a close link between the success of this business and that of tax havens, because most of the private banking activities "formally" concentrate in these jurisdictions. According to a report by the Swiss Bankers Association from 2013, Switzerland accounted for 26% of the global private banking business, and topped the Financial Secrecy Index compiled by the Tax Justice Network (TJN) for the year 2015. It was followed by Hong Kong and Singapore at 14%, the Channel Islands (Jersey and Guernsey) and Dublin (Ireland) at 13%, the Caribbean and Panama at 13%, the UK at 11%, the U.S. at 8% and Luxembourg at 7%. All of these jurisdictions rank high in the index mentioned above.

Furthermore, Hong Kong, Singapore and Ireland maintain close ties with the City of London, and the Channel Islands are dependencies of the British Crown, and thus the UK, along with the network of jurisdictions that are under its aegis, indeed accounts for 38% of the market.[11] Likewise, Oxfam has estimated that 67% of offshore wealth is located in tax havens related to the EU, and 33% is located in tax havens related to the UK.

Jurisdictions with high secrecy levels and/or low tax rates have a disproportionate number of banks relative the size of their population. The existence of banks in these jurisdictions must therefore be justified by the management of international financial

[11] Magdalena Belén Rua (2014) Fuga de capitales V. Argentina, Los "facilitadores" y sus modos de acción. Supervised by Jorge Gaggero. CEFID-AR, Working Paper No. 60, Buenos Aires, August 2014.

flows. A clear example is that of the Cayman Islands, which, with a population of around 53,000, has 234 banks, which means that there is one bank for every 226 inhabitants.

The Boston Consulting Group[12] estimates that offshore private wealth amounted to 8.9 trillion in 2013. The total amount of offshore wealth seems to be largely underestimated, since other estimations, such as the ones made by the International Monetary Fund, put global informal money parked in small international financial centres at USD 18 trillion, excluding Switzerland (which indicates that the figure should be even higher). Other estimations of unreported global private financial wealth put such figures at between USD 21 trillion and 32 trillion for the year 2010.[13]

The case of HSBC

So far, the case of the bank HSBC is the largest tax evasion case to be revealed in the history of global banking. The case is unprecedented, not only because of its sheer extent, but also because it reveals the existence of an extensive, – in terms of time and territory – systematic practice on the part of the bank, both in developed countries and in developing and emerging nations. The information discovered shows that there are more than 130,000 offshore bank accounts, most of which were not declared between 2005 and 2006, with funds whose total topped USD 102 billion, and it relates to 106,000 individuals residing in 203 countries who managed to flout tax regulations almost around the world thanks to the services of the bank. The information was pulled from the company's own computer system by Hervé Falciani, a former systems engineer at HSBC Private Bank Geneva (Switzerland). He travelled to France to submit this information and have it validated by the French judiciary. The top 10 countries affected, sorted by the extent of damage suffered according to the number of citizens holding "secret" accounts in HSBC Geneva, are: Switzerland, France, UK, Brazil, Italy, Israel, Argentina, U.S., Turkey and Belgium. According to the total amount of funds involved by country of origin, the top 10 countries are: Switzerland, UK, Venezuela, U.S., France, Israel, Italy, Bahamas, Brazil and Belgium.

The administrative, parliamentary and judicial reactions are only preliminary, as the events in question go back less than a decade at the most. Firstly, it should be noted that the Anglo-Saxon countries that house the largest global financial hubs (London and New York) and are also the centre of the largest tax haven networks, seem to be the ones that, in turn, are suffering significant economic and financial impacts from the manoeuvres under analysis and that have the most lenient legal systems towards them.

In contrast, in the case of the U.S., the actions of the administration and of Congress are often quick and effective, at least – in the last case – when it comes to their investigation efforts, if not in their legislative activity. Judicially, it should be noted that sanctions have been limited to fines that seem hefty as long as they are not compared to the benefits that the sanctioned banks have derived from violating the law. When such a comparison is made, these fines turn out to be a "bargain", especially if we take into account that they are often imposed in the context of agreements by which the executives directly involved and liable to actual imprisonment have not been prosecuted in any of the cases addressed. A new legal principle, "too big to jail" now seems to tie in with the better-known, longstanding economic/financial policy principle known as "too big to fail", which refers to the major global banks and their owners and executives.

In the case of the UK, so far, the anomy that tax authorities display seems to be consistent with the virtually total passive attitude of its judiciary with regard to the challenges posed. A notable exception is the interrogation of top executives at the global headquarters of HSBC (based in London) made by the head of the Committee for Public Accounts of the House of Commons (a member of an opposition party).

Almost all the significant fines imposed on the large global banks were thus paid by them in the U.S. *"The financial centre in the City of London, whose international financial centre is of a similar size to the U.S.' financial sector, is significantly more corrupted and dangerous even than its counterpart in the U.S., and the 'capture'* (of political and regulatory authorities) *is more complete*." The British journal "The Economist" also points out that "*criminal behaviour in America was once a guarantee of bankruptcy (...) Yet*

[12] The Boston Consulting Group (2014): Global wealth 2014 – Riding a wave of growth.

[13] James Henry (2012): The price of offshore revisited, Tax Justice Network.

Box: The case of HSBC – recent developments

October 2015 – The Federal Administrative Contentious Judge 7 rejected an injunction presented by the HSBC Bank of Argentina to replace Gabriel Martino as CEO of the local subsidiary.

November 2015 – The results of Argentina's Presidential elections: Mauricio Macri, 51.34%.

December 2015 – The Administrative Contentious National Chamber 5 accepted the appeal presented by Martino and ordered the suspension of the effects of Resolution 259/15 from the Central Bank that removed and replaced Martino at HSBC.

President Macri appointed attorney Mariano Federici (a man from the IMF) as Head of the UIF (local anti-laundering authority), and his colleague Maria Eugenia Telerico as Vice-chief. Telerico was founder of the ONG "Será Justicia" ("It will be justice") and a defendant of HSBC Bank in cases of money laundering ("Estudio Félix Marteau").

January 2016 – The new authorities of the Central Bank approved a "bridge loan" from the banks HSBC, Santander, Citi, UBS, BBVA, JP Morgan and Deutsche Bank for an amount totalling USD 5 billion. With this indebtment, the new government initiated what seems to be Argentina's "third large historical cycle of external indebtment".

February 2016 – An Investor Assembly of HSBC Argentina decided to reincorporate Martino as Titular Director of the corporation.

HSBC Bank was denounced by the families of U.S. citizens for its involvement in murder by Mexican drug gangs. They held that HSBC directly participated and knew about the drug traffic, including "brutal acts" committed (Martino was a member of the Executive Committee of HSBC Mexico prior to becoming Director of HSBC Argentina).

March 2016 –Judge Straccia cited 224 persons under investigation for the crimes of aggravated evasion and money laundering in the court case of "4,040 undeclared HSBC accounts".

April 2016 – The "Panama Papers" are published. President Mauricio Macri appears as Director and Vice-president of the *offshore* firm "*Fleg Trading*". Since then, 50 *offshore* firms of the President, his family and important members of the Argentine government have been disclosed.

Martino resumed the function of Director of the local affiliate of HSBC Bank.

July 2016 – Judge Straccia issued a preemption of the Finance Minister Alfonso de Prat Gay in the court case of the "4,040 undeclared HSBC accounts".

The FBI detained Mark Johnson, HSBC's Global Chief of Exchange Management, in New York. He was accused of fraud in the exchange management business involving the use of "insider information".

August 2016 – The Administrative Contentious Chamber IV decided to "nullify Resolution 259/15 of the Central Bank related to the penalty fees imposed" on HSBC.

December 2016 – Former Argentine Finance Minister Alfonso de Prat-Gay announced in a press conference with the Chief of the AFIP (national tax authority) that on 27 December, USD 90 billion in assets (approx. 20% of the total of "offshore assets" non-declared by local residents) had been declared under the "*official laundering plan*" (i.e. the "*government tax amnesty plan*"). It is possible that this figure included at least part of the USD 3 billion in evaded taxes transferred to Switzerland in the past by HSBC, denounced as part of the "Falciani list" and subject to legal prosecution by the AFIP (in the period previous to the change in national government).

The President of HSBC Argentina, Martino, declared (in the "Buenos Aires Herald" newspaper, 16 December 2016): **"Argentina is becoming a normal republic again."**

the Department of Justice and other regulators seem to have magicked this consequence away".[14]

It should not be forgotten, they claim, that the proceedings are still underway. The capture is not being combative; it seems – quite on the contrary – to be taking an even stronger hold now, as the peak of the financial crisis seems to have been left behind.

[14] Justice, interrupted: will bankers get off the hook ever more lightly? Tax Justice Network. 22 May 2015.

The administration and the judiciary seem to be acting more swiftly and with more determination in France, Spain and other European countries. It is still impossible to conduct a thorough analysis of this matter, because, as has been stated above, the events in questions were discovered rather recently, but the two countries mentioned have already managed to get their taxpayers to regularise their situation in the context of administrative proceedings (and to pay the large amounts they owed) as a result of the analysis made by the tax authorities of the information received from Falciani. The legal actions against HSBC are also making progress, but with limited results (see box).

As for the case of Argentina, the precedents do not make us – in principle – optimistic about any effective outcome of the administrative, parliamentary and judicial efforts to tackle the challenges posed by the "HSBC affair". A timely evaluation of these cases will be very significant for developing or emerging countries as a whole because of the far-reaching effects and the financial and economic impacts of capital flight and tax evasion on the country. It should be recalled that "freedom of foreign exchange transactions" prevailed in Argentina during most of the 35-year period between 1976 and 2001, during which foreign debt was built up enormously to unsustainable levels (leading to the largest sovereign default in recent history at the end of 2001, with the collapse of the currency board system). Also, during the same period, the outflows of domestic capital rose so substantially that the amount of offshore assets held by Argentine residents was, on average, approximately the same as the amount of sovereign debt. Another fact to be noted is that during that time, a neoliberal law was (and continues to be) in force – enacted in 1977 – which freely enables transnational banks to do business locally. In particular, it enabled "private banking".

Although foreign exchange control was resumed in 2002, there have been no substantial actions – until very recently – aimed at preventing and actually penalising such transactions, and, more generally, at effectively attacking the tax evasion/capital flight combo. All of this is happening despite: (a) the circumstance of the acute 2001-2002 crisis, dominated by the substantial outflows of foreign exchange; (b) the smart findings of a Parliamentary Committee that investigated capital flight in early 2002, and which were finalised and submitted to the Argentine government in October 2003; (c) the warnings issued in academic papers that anticipated a potential future re-emergence of a severe foreign exchange crisis as a result of ongoing capital flight; and (d) the complaints filed by Hernán Arbizu regarding tax evasion and capital flight encouraged by JP Morgan in the country in 2008.

The vigorous return (October 2011) of "foreign exchange restrictions" in Argentina and an in-depth knowledge of the circumstances and extent of the "HSBC case" (September 2014) were useful in late 2014 for the administrative and judicial actions filed by the AFIP (national tax authority) for coordination – which had been thus far unprecedented – to take place between agencies of the Argentine Executive responsible for the matters involved; and for the creation of a new Two-Chamber Investigative Committee within the context of the Argentine Congress, which seeks to pick up on the issues addressed by the preceding committee that so far have been mostly ignored.

It is clear that these transactions by global banks and the widespread use of the facilities provided to them by tax havens (and, in some cases, by external tax and legal advisory firms) should force scholars and policymakers to focus on the "structural determinants" of the phenomenon, in the so-called offshore world, seeking effective ways of addressing the matter of "contradictions between the world market and the nation-state system"[15]. Also, "analyses of global wealth chains are essential for understanding not only how (global) finance is changing, but core changes in finance and production in modern capitalism"[16].

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[15] Ronen Palan (2003): The Offshore World: Virtual Spaces and the Commercialization of Sovereignty, Ithaca, Cornell University Press; Leonard Seabroke and Duncan Wigan (2014): The Governance of Global Wealth Chains, Norwegian Institute of International Affairs (NUPI), Working Paper 839.

[16] Leonard Seabroke and Duncan Wigan (2014): The Governance of Global Wealth Chains, Norwegian Institute of International Affairs (NUPI), Working Paper 839.

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