

# WORLD COMMERCE REVIEW

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**DANIEL DĂIANU** WRITES ABOUT  
THE GOVERNANCE OF THE  
EUROZONE

**PASCAL SAINT-AMANS** AND  
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ON IMPROVING THE  
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**JO LEINEN** INVESTIGATES THE  
NATURE OF THE TTIP

**THE GLOBAL TRADE PLATFORM**

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# Industrial revolution 3?

**W**ill the third industrial revolution have a significant impact on growth? This question needs asking as advanced economies struggle with weak growth and daunting fiscal challenges. Some believe that the rate of growth of productive capacity has fallen markedly across the developed world and that technology has exhausted its growth-enhancing potential, and have argued that the recent waves of technological innovations are simply not as transformative as in the past. In other words, we are returning to the old norm of very low growth rates.

A lot hinges on whether this is correct. It is worth noting that the technological improvements of the past didn't happen overnight and that often new technologies would exist side-by-side with old technology. The same is happening today. The world is now dominated by computers and all things digital, and a large part of the population does not operate comfortably with this technology; new technology exists next to older methods. The full potential of new technologies will only be realised by those who have been brought up with it.

The industrial internet, a network that binds together computers, software and people, has huge productivity-enhancing potential. By 2020, an estimated 50 billion devices around the globe will be connected to the internet. Perhaps a third of them will be computers, smartphones, tablets, and TVs. The remaining two-thirds will be other kinds of 'things': sensors, actuators, and newly invented intelligent devices that monitor, control, analyse, and optimize our world.

This technology has been decades in the making, but is just now hitting a tipping point. The arrival of the 'Internet of Things' (IoT) represents a transformative shift for the economy, similar to the introduction of the PC 30 years ago. The IoT also opens a range of new business opportunities for a variety of players globally.

Research, development and the dissemination of ideas is easier and quicker with the use of computers and the internet. The whole world is currently connected, and the number of innovators and thinkers is larger than ever, and they can share ideas as never before. Every wave of innovation brings the fear of fewer jobs. But, as in the past, new jobs replace redundant jobs. However, it is essential that the education system supplies the new skills required.

Productivity-pessimists are betting against human ingenuity. The potential growth of GDP is now higher than ever. The efficiency gains that are coming within reach suggests that the potential impact of the industrial internet on productivity and GDP growth will be substantial.

The prospect is currently shrouded by the effects of the financial crisis, but once this has been remedied then the third industrial revolution of rapid productivity growth and incomes can be embarked on. ■

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# External imbalances and the governance of the eurozone

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**T**he plight of the eurozone is far from being over. The economic growth of this area has been barely above zero in 2014 and debt deflation is increasingly a daunting worry for policy-makers. Such a dénouement would be as risky as the menace of a financial meltdown of a few years ago.

This fact is pretty relevant for the world economy too since the European Union holds a large chunk of the global GDP and of world trade. ECB President Mario Draghi's assertion in August 2011 that whatever it takes will be done in order to save the common currency, seems to have produced a wonder until now. But the exit from deep troubles is still to be made. There is a widely shared view that the design of the euro area was flawed institutionally and policy-wise. This reality has been amply illustrated by a crisis that cannot be ascribed exclusively to budget profligacy in several member states and the extent of wrongdoing in finance. The institutional flaws of the euro area combine with a less fortunate crisis management exercise in explaining its very difficult current state.

Recent years have brought to the fore a salient feature of the eurozone and of the global economy: the current account surplus of Germany, with an ensuing debate on its impact on neighbouring economies. This surplus was c. 7% of its GDP in 2013 (which was slightly higher than in 2012 according to IFIs and the European Commission data<sup>1</sup>) and the figure for this year is seemingly nearby; at about 200 billion euros, it was the largest in the world<sup>2</sup>. Germany is a formidable export machine, maybe the best performing in the global economy in view of the range of and the value added contained by its manufactured goods. The criticism some analysts make as to what underlies this performance, such as suppressed wages<sup>3</sup>, can give food for thought, but cannot obfuscate a formidable capacity to generate exports.

Is this surplus a problem? Does it matter for the level of aggregate demand in the eurozone and further, in the global economy? Especially now, when there is such a marked inability to grow in the largest economies of the euro area and debt deflation is a real threat. A response to how much this surplus matters can be given in broad terms, or by looking at the euro area in particular.

## **A global perspective**

A surplus has a corresponding deficit among partners; an accounting identity operates here. If surpluses and corresponding deficits would vary cyclically, alternating in the

external accounts of trading partners, high imbalances would be avoided over time. Otherwise, the very functioning of trade and the funding of deficits would be put under strain. The exchange rate is a key tool in the adjustment of imbalances. Floating, or adjustable exchange rates (as were predicated by the Bretton Woods arrangements) are meant, together with monetary and fiscal instruments, to enhance the correction of large external imbalances. One has to make a distinction between real and nominal exchange rates, with the former considering price movements.

A legitimate question arises: why large imbalances appear and what lies behind their persistence despite corrective mechanisms? Likely answers are: a country can undertake a massive effort at paying back debts over a period of time; a country benefits on a stellar constellation of circumstances that make it excel in innovation, industrial prowess, the constant rejuvenation of its competitive advantages; the trading partners do not have the room, at least for a while, to undertake a corrective action of their deficits. It goes without saying that being a constant creditor does not make sense for a surplus country unless this status extracts other benefits, not necessarily of a commercial nature. But which country would accept to make a permanent transfer of resources to the rest of the world via a trade surplus?

It could be the case of a 'hegemon', which could be endowed with a remarkable and unmatched economic and technological power and which could be interested in maintaining an international order that suits its interests. Such a situation brings the discussion in the realm of geopolitics. The US could be seen under this light after the end of the Second World War, when a dollar hunger prevailed and the Marshall Plan was part and parcel of the strategy of reordering the post-war western world and containing the communist bloc. Later on, nonetheless, the US delinked its currency from gold and had to resort to its printing press in order to fund large military operations abroad. And closer to our times, its external balance has turned negative. The exploitation of shale gas and the prospects for the US of becoming an energy net exporter may turn its external balance positive again eventually.

The case of paying back debts would involve not condoning an appreciation of the own currency as a means to bolster exports and contain imports. Trading partners could tolerate such a policy conduct when there is a mutual interest in settling debt matters. Excellence in innovation, in creating competitive advantages, puts pressure on trading partners,





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*“Unconventional monetary policies aimed at breaking the deadlock of the transmission mechanism need to be combined with bold public investment policies which should prop up aggregate demand at the euro area level and enhance chances for longer term recovery”*

which may be forced to try to devalue their own currencies as a policy response. Structural reforms which should enhance productivity gains may also be a venue for keeping up with competitive pressures. When trading partners do not have policy room for correcting massive imbalances, they are likely to go through painful balance of payments crises. This is not an uncommon occurrence around the world.

There could also be a case when a country keeps its currency undervalued steadily by betting that, in such a way, competitive advantages would be created via tradable oriented resource reallocation and intensive assimilation of new technologies (as an outcome of export expansion)<sup>4</sup>. In this case, short term income losses (due to currency undervaluation) are accepted for the sake of greater benefits over the longer term which result from dynamic productivity gains. Not a few Asian countries pegged their currencies to the USD in order to grow economically through export expansion. And they were quite successful.

One has to say that such a strategy demands very intensive assimilation of knowhow and steady upgrading of own exports. Asian countries' temptation to keep their currencies undervalued was boosted by the crisis of 1997/98; they realized that the international regime is quite destabilizing because of large and volatile, speculative capital flows and that it pays to build up foreign exchange reserves, that there is premium on holding large reserves as a means to fend off adverse shocks<sup>5</sup>.

This said, however, there are limits to how much emerging economies can mitigate the pains of massive capital in- and outflows. Even wisely calibrated capital controls can be of little help when big central banks do not heed the externalities their operations create in the world economy. This is what Helene Rey has in mind when saying that the 'impossible trilemma'<sup>6</sup> is essentially a 'dilemma' in small economies, under the circumstances of volatile capital flows<sup>7</sup>.

When a country is heavily export-oriented (as Germany is) the propensity to use net exports as a vehicle to stimulate domestic economic activity is pretty high – especially when recession is spreading around, as it has been the case in most of the industrialized world after the current crisis erupted. A big problem with such behaviour is that it invites 'beggar thy neighbour policies', namely, policies that harm partners reciprocally.

The reason is simple: partners would try to replicate the same conduct, and a destructive race to the bottom would take place. A caveat needs to be made however in this regard. Countries are not similar in economic terms and, therefore, their response tools are not similarly effective. The countries that hold more

technological power are also stronger commercially, and they are likely to win more, or to lose less, from a currency/trade war. Germany, the Netherlands, Austria, Denmark, Sweden, are European economies that belong to this category; for both big firms and highly specialized SMEs which are active in niche markets.

The bottom line is that currency and trade wars, however carefully waged they are, are doubled edged; it is better to avoid them. This is the rationale behind the search, during history, of trade and currency agreements, which should foster international economic exchanges. International institutions and analysts remark that Germany's large external surplus (out of which above 70% is obtained outside the euro area currently) damps global aggregate demand in a period of much subdued economic activity in Europe<sup>8</sup>.

For its part, German officials retort that their country's public debt has grown to above 80% of GDP in an ageing society, that its strategic objective is to balance the books, which sounds fine *prima facie*. This choice shows up inevitably in external accounts (since domestic saving is considerably higher than domestic investment<sup>9</sup>) and impacts economic activity across borders. A central policy issue is how to reconcile over-indebtedness, which limits the appetite of many firms and families to borrow, with the need to bolster aggregate demand in order to fend off debt deflation. This is a huge conundrum for policy-makers who are sailing in uncharted territory and resorting to unconventional means.

#### **A European perspective**

A big problem in the euro area is that for economies that are less competitive and register trade imbalances on a recurrent basis two key tools for correcting external imbalances are no longer available – the exchange rate and own monetary policy. At the surface, the euro area seems not to have a problem in this respect since creditor countries' surpluses more than compensates other member states' deficits. As a matter of fact, the euro area has a surplus vis-à-vis the rest of the world<sup>10</sup>. But the single currency area is hardly a genuine monetary union, which should temper worries about external imbalances among member states. The reason is that the euro area is lacking proper fiscal underpinnings, which should take care of asymmetric shocks.

Daniel Gros notices that The Netherlands, Norway, Sweden, Switzerland, also have substantial external surpluses<sup>11</sup>; he talks about a 'Teutonic' cluster, whose economies have been running trade surpluses for years now. But Norway is not a EU member state, and is a big oil exporter, while Sweden and Switzerland are not in the euro area. Moreover, the latter country has put a ceiling on its currency of 1.20 to the euro, which suggests a mercantilist stance. Not to mention that the sheer size of Germany's economy after reunification puts it in its own league and creates a peculiar situation for the effectiveness of one size fits all policies in the euro area.

Once the euro area crisis erupted, bond yields differed increasingly among member states, investors fleeing the paper of afflicted issuers and favouring more and more German bunds. These differentials came down again only following the start of the ECB's special operations. Eventually, the ECB decided to act as a de facto lender of last resort, although its statutes would not allow such a function. But is it surprising that such a task should be in the mandate of the ECB in a monetary union, be it an incomplete one?



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In the last couple of years, internal devaluation, via drastic cuts of incomes (wages) did take place in various member states (Ireland, Greece, Spain, and Portugal). And this has helped the substantial reduction of external imbalances. But this method puts economic and social structures under enormous strain. It is hard to assume that internal devaluation can be the main tool for correcting imbalances in the euro area. And if structural reforms, which are time consuming, do not raise economic growth rates soon enough, so that the burden of private and public debts be mitigated, a backlash can ensue. Debt deflation has already turned into a major threat for the euro area. Inflation has come down constantly in recent years, at 0.3% annually in November 2014 for the whole area; several countries (Slovenia, Spain) already witness deflation.

Higher public debts and very large private debts, high levels of non-performing loans in banks' balance-sheets ask for a wider range of correction mechanisms, including, arguably, debt restructuring. Bailing in schemes are part of new means of dealing with high indebtedness and trying to protect taxpayers' money. The attempt to sever the link between banks balance-sheets and sovereign debt has not succeeded so far and it may be a futile endeavour if the objectives are not realistic. For, however damaged the reputation of some member states may be, banks would likely continue to place sovereign debt among preferred assets. A stark fact is that the only taxation power rests with governments. And it is still too early to think that the Banking Union can be the definitive solution to euro area's troubles.

What impedes a new design of the euro area when it comes to its governance and institutions? First, it is arguably a train of thought regarding the roots of the crisis, which puts emphasis on public indebtedness. But this is in contrast with the cases of Spain, Ireland and other countries where it is private borrowing that has brought about the bigger troubles. And if one accepts it, then a legitimate question relates to what central banks and other regulators and supervisors did in restraining the growth of private debt. How did commercial banks assess the risks incurred by funding rising private indebtedness in the countries which ended up with large external imbalances? Not least, the suboptimal character of the single currency area combined with markets' myopia in causing failures of all sorts. Therefore, a proper analysis of the causes of this crisis needs to be much more nuanced in order to build adequate policy responses, corrective measures.

The one-sided adjustment of large imbalances, which may involve unavoidable austerity, is not sufficient and can engender pernicious effects; further sinking economies into recession and debt deflation are among such effects. It is very much true that public mood among citizens in creditor countries should not be underestimated. There are also legal and constitutional reasons which do play an important role in this equation. But the crucial explanation lies with the interpretation of the root causes of this crisis. There is over-indebtedness of public and private sectors in most of the EU countries, which, clearly, restrains credit demand. But the way the eurozone does function is no less important.

The Banking Union is an attempt to reorder things, address and redress the flaws of the Monetary Union and, consequently, find a way out of the mess. There is undeniable progress scored until now with the creation of the Single Supervisor Mechanism, the setting up of national resolution schemes. However, much more needs to be done. The joint Resolution Fund, which is meant to

help recapitalize banks, or help wind them down in an orderly fashion, is much too small (55 billion euro) as compared to banks' balance-sheets, and its coming into being is far-fetched – in 2024. And deposit insurance schemes remain national. What matters in the end is what member states are willing to stake together. Which means that, for the foreseeable future, countries will have to use, basically, their own resources. The ECB will be around to intervene as a lender of last resort, and its operations could be critical to forestall things getting out of control. But is it sufficient for the longer term?

The description of the euro area sketched above suggests that the focus on external imbalances needs a broader framework for analysis. The German external surplus mirrors exceptional industrial and trade capabilities, the capacity of a social and institutional model to mobilize internal resources for change, to undertake adjustment under duress (as it did happen after reunification and during Chancellor Schroeder's mandate). But the way the euro area has been functioning from its start made the euro operate as an undervalued DM (which bolsters exports and discourages imports, creates jobs, etc) and an overvalued escudo, drachma and peseta.

Adjustments have taken place in the last couple of years and, Spain, for instance, shows an external surplus this year. But these corrections have taken place primarily via a drastic compression of internal demand in those economies and not by a surge of net exports. This is also shown by the level of unemployment. Moreover, the new governance structure in the euro area/the EU, for monitoring imbalances (the European Semester, the Fiscal Pact, the Excessive Deficit Procedure, etc), be it useful, is quite complicated and cumbersome to implement<sup>12</sup>.

More important is that the policy mix in the euro area has not matched expectations. And data is quite revealing in this respect. In 2014, the euro area has been coming close to a new recessionary phase. Quite worrisome is that Germany, which is its economic locomotive, has been slowing down. The sanctions on Russia have probably taken its toll, but more is at work in explaining the inability of the single currency area to recover. And economic stagnation is liable to foment social strain further, continue to fuel the rise of extremist political groups. Not least, the very survival of the European project could be tested. This is the broad picture under which the thrust of current policies in the euro area have to be judged.

If the euro area had not existed the German surplus would have pushed the DM toward steady appreciation, as it constantly did during the decades of German economic miracle, after the Second World War. The same would have happened with the Dutch and, maybe, other currencies. But now, the fracture between the North and the South in the euro area can have very deleterious effects unless its institutions and governance policies change. Recent years' internal devaluation in Ireland, Spain, Portugal, and Greece have diminished their external imbalances dramatically. But does it change the essence of the problem? Are such adjustments the path to follow in the future for whichever member state gets into trouble? Is such a process sustainable socially and politically? Because one has to consider that economies do not have the same capacity to absorb shocks.

The unemployment rates are quite ominous: in Germany it is below 6%, in Austria similarly, while it is above 20% in Spain and Greece; in these latter countries external imbalances have been internalized via internal devaluation. A union that does not have

tools to combat asymmetric shocks is prone to go from one crisis to another. This dramatic situation prompts the EC officials to demand symmetric adjustments in the euro area, which is a diplomatic language of saying that the countries which have fiscal space should buttress aggregate demand at the euro area level. A fiscal capacity, as suggested also by the president of the European Council, Herman van Rompuy, does make sense in a monetary union.

### Conclusion

The euro area needs a new design and policy arrangements which should fit a genuine monetary union. The way it does function now resembles more the gold standard regime of the inter-war period and this should be quite alarming, for we know what that international policy regime contributed to. The talk about a looming economic stagnation ('secular stagnation', as Larry Summers put it)<sup>13</sup> in Europe is motivated by a very serious situation, ominous data. Unconventional monetary policies aimed at breaking the deadlock of the transmission mechanism need to be combined with bold public investment policies which should prop up aggregate demand at the euro area level and enhance chances for longer term recovery.

Such a fiscal-monetary policy mix at the euro area level would make it easier for Italy and France to advance with structural reforms while pursuing their fiscal consolidation programs more firmly. More stimulus at the euro area level must be accompanied by structural reforms as a senior partner. What the new head of the European Commission, Jean Claude Juncker, has announced is a public investment program of several hundred billion euros is a major step forward that can give some hope.

However, it is not clear how much of it is going to be actual new money, or it will mostly provide public incentives and guaranties in order to entice private investment. Mario Monti, a former Prime Minister of Italy and European Commissioner, rightly points out that, when funding is so cheap and basic

infrastructure is in dire state, it is more than justified to undertake investment via public borrowing<sup>14</sup>.

The EIB could be the conduit for funding such a program, which would be of much assistance in those economies that meet biting fiscal constraints. The involvement of the private sector in the whole investment scheme would help pursue good projects. At the same time, symmetric adjustments need to become a rule of the game in the euro area, which brings external imbalances and their connection with national policies to the fore.

Ottmar Issing, formerly Chief Economist at the ECB, sounds commonsensical when he portrays Germany's macroeconomic situation on its own. Nonetheless, what may look optimal at a national level may not be optimal for the euro area as a whole<sup>15</sup>. And this is arguably the crux of the matter right now. The president of the Bundesbank, Jens Weidemann is right to emphasize the principle of 'individual responsibility', as it is enshrined in the Maastricht framework, and which means that 'sovereign, banks and investors bear the consequences of their decisions'<sup>16</sup>. Structural reforms fit the logic of individual responsibility fully. But, however responsible national policies may be, a union still asks for a lender of last resort and tools for dealing with asymmetric shocks. All eyes are on Germany to take the lead when it comes to better policy coordination in the euro area.

External imbalances in the euro area are a facet of the challenges the management of the euro area crisis is encountering. These challenges are compounded by the need to continue reforming finance and repair banks' balance-sheets without undercutting the efforts to enhance economic recovery. Unless the governance of the euro area improves considerably what Olivier Blanchard calls 'dark corners' will likely engulf it<sup>17</sup>. To paraphrase Mario Draghi, whatever is needed to avoid debt deflation should be made. ■

*The views expressed in this article are to be seen as the author's own.*

1. See also "Macroeconomic imbalances: Germany 2014", *European Economy, Occasional paper 174, European Commission, Brussels, March 2014*
2. The German current account surplus has gone up since the inception of the eurozone in 2001 and its level held above 6% of GDP since 2006.
3. Philippe Legrain, "Germany's economic mirage", *Project Syndicate, 23 September, 2014*
4. Robert Wade, Alice Amsden, Lance Taylor are among those who have emphasized the role of exchange rate policies in fostering competitive advantages in several Asian economies. Dani Rodrik is also known for highlighting 'non-conventional', including industrial policies, as a means to foster competitive advantages. These policies were at odds with the so called 'Washington consensus' which extolled the virtues of speedy trade and financial liberalization.
5. For an analytical presentation of the destabilizing function of volatile capital flows see also Joseph Stiglitz's "Contagion, liberalization and the optimal structure of globalization", *Journal of Globalization and Development, vol.1, 2, 2010, pp. 1-44*
6. Which says that autonomous monetary policy, free capital flows and a stable exchange rate cannot operate simultaneously.
7. Helene Rey, "Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence", *Global Dimensions of Unconventional Monetary Policy, proceedings of the 2013 symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole 28-30 August, pp.285-335*
8. China's external surplus has been declining from c. 10% of its GDP in 2007 to about 2% currently. This may reflect an attempt to rely more on domestic consumption in supporting its growth rate.
9. Domestic investment has come down in Germany to c. 17% of GDP lately (from an average of 21% of GDP during the past decade/Eurostat data).
10. In 2014 the current surplus of the euro area has been running at c. 3% of its cumulated GDP. And one finds here an explanation for the high level of the euro against the USD in the last couple of years, though a drastic correction has occurred during 2014 – to below 1.25 to 1USD in late November from above 1.34 in the first half of 2014.
11. Daniel Gros, "The German Scapegoat", *Business Standard, 24 December, 2013*
12. Germany's external surplus in 2013 would have had to trigger a procedure for dealing with an excessive imbalance – as according to the EU rules. Although one could argue that the German surplus with the rest of the euro area is considerably below 6% of its GDP.
13. Larry Summers resuscitated Alvin Hansen's concept of 1938 in order to underline structural trends that may have diminished the growth potential of industrialized economies ("Crises Yesterday and Today", speech at the IMF 14th Jacques Polka annual research conference, November 2014)
14. Mario Monti, "We saved the euro from the markets, now save it from the governments", *Financial Times, 9 October, 2014*. Monti's argument resonates with Larry Summers' piece in the same financial daily: "Why public investment really is a free lunch", 7 October this year.
15. Otmar Issing, "Blame Berlin for bad policies, but not for its reluctance to spend more", *Financial Times, 24 October 2014*.
16. Jens Weidemann, "Reforms for recovery and resilience", speech at the Bank of Latvia Economic Conference, 17 October 2014
17. Olivier Blanchard, "Where danger lurks", *Voxeu, 3 October 2014*



# What's needed to lift growth over the longer term?



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## The long road to recovery and the urgent need for reforms

The world economy still hasn't broken free from the legacy of the 2008-09 financial and economic crisis. While US and UK growth looks encouraging, the euro area faces an increasing risk of stagnation, Japan struggles with the 'third arrow' of Abenomics, and China faces worryingly high levels of credit growth. Both trade and investment are still performing sluggishly and haven't yet regained their pre-crisis levels. Youth unemployment remains exceptionally high in many euro area countries, standing at over 50% in Greece and Spain<sup>2</sup>.

In light of the weaker-than-expected growth, the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) have each lowered their global forecasts for 2014 and 2015, while the World Trade Organization (WTO) has revised downwards its global trade forecasts. In the words of OECD Secretary-General Angel Gurría, "the global economy remains stuck in the 'repair shop'<sup>3</sup>."

Faced with such risk and uncertainty in world markets, it is understandable that in recent years the private sector has repeatedly urged policymakers to make growth a top priority<sup>4</sup>. Worryingly, however, the pace of policy actions across both product and labour markets in OECD countries has slowed over the past two years, and has been largely piecemeal<sup>5</sup>.

There may nevertheless be reason for more optimism as we enter 2015. At their recent meeting in Brisbane, G20 leaders set an ambitious goal to lift G20 GDP by more than 2% above the trajectory in the October 2013 IMF World Economic Outlook baseline by 2018. This would add more than USD 2 trillion to the global economy and potentially millions more jobs.

To support growth in the short- to medium-term, the G20 recognizes the need for continued use of macroeconomic policy levers. But if we consider what's really needed to secure strong and sustainable growth in the longer-term, we should expect policymakers to make a firm commitment to deep-rooted reforms. The G20 Brisbane Action Plan rightly states that "supporting short-term demand is a complement to, not a substitute for, the structural reforms that are needed to raise our growth potential"<sup>6</sup>.

But which reforms are needed, and how can they be achieved?

## Choosing the right reforms

G20 countries have set forth their plans for nearly 1,000 individual structural policy commitments<sup>7</sup>. Each country needs to pursue its own agenda for reforms, recognizing that there isn't any 'one-size-fits-all' approach. However, the ultimate objective for all countries should be the creation of productive societies and strong economic growth.

OECD and IMF analysis of G20 countries' growth strategies finds that "product market reforms aimed at increasing productivity are the largest contributor to raising GDP"<sup>8</sup>. This has to be a priority. Economists were rattled by the news that total factor productivity growth in major markets of both labour and capital inputs – essential for raising prosperity – dropped below zero in 2013<sup>9</sup>. In order to bolster growth and productivity, a comprehensive set of reforms is needed that will increase investment, boost trade, promote competition, foster innovation, strengthen skills, and make it easier for companies to hire.





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## "More than ever since the 2008-09 crisis, the G20 has now put structural reforms squarely at the centre of the global growth agenda. This is a welcome development"

One of the major issues needing to be tackled is the regulatory burden facing companies. Regulation should facilitate, not impede, the ability of business to invest, trade, innovate, and hire. A survey carried out earlier this year by the Business and Industry Advisory Committee to the OECD (BIAC) found that over 70% of private sector respondents consider product market regulation among their top five national policy priorities for 2015, with the vast majority of respondents calling for the reduction of economy-wide and sector-specific regulatory burdens<sup>10</sup>. In practice, this calls for reforms that reduce the scope of state intervention and public ownership, improve the transparency of regulation, and streamline permit and licensing systems.

In advocating for reforms that will lead to more growth, policymakers often face intense concerns about the side-effects of such reforms – especially on income disparities<sup>11</sup>. This issue is at the forefront of discussions on 'inclusive growth'. Often the debate is overly-simplified as a tug-of-war between growth on one side and inclusiveness on the other. However, both can and should go hand-in-hand. Many structural reforms don't negatively impact living standards; in fact, several actually help to reduce inequality.

For instance, new OECD analysis finds that lowering labour taxation, promoting active labour market policies, and reducing regulatory barriers to domestic competition, trade and FDI, are found to lift incomes of the lower middle class in the long-term and thus help to narrow inequality in disposable incomes<sup>12</sup>. And in cases where negative impacts are apparent, this shouldn't necessarily mean that those reforms be shelved; instead, it may be more appropriate to introduce flanking policies to offset (temporary) side-effects.

### Achieving reforms

The difficult task now facing G20 countries is to implement the hundreds of structural reforms that they have identified in their growth strategies. G20 leaders have agreed to "monitor and hold

each other to account" for the implementation of their growth strategies in the coming years, based on continued OECD-IMF analysis<sup>13</sup>. However, we don't expect this to be smooth-sailing.

A recent BIAC survey is revealing in this respect. Private sector respondents perceive that only 4% of the OECD's 2013 structural reform priorities for countries were fully implemented one year later, while over a third were considered to have not been implemented at all<sup>14</sup>.

There are many reasons that may explain why many structural reforms are not being implemented in the current period. These may include political economy factors or social concerns. Most probably the extremely expansive fiscal and monetary policies have also decreased the willingness of governments to tackle reforms, by alleviating the symptoms but without treating the underlying problems.

Another possible reason may be shortcomings in regulatory policymaking procedures in many countries. The BIAC survey finds that consultation processes on new policies and regulations often appear insufficient, and this could undermine stakeholder support for new reforms. Only 32% of business respondents perceive that minimum periods for consultation are respected by the government, and nearly a quarter perceive that minimum periods are rarely respected. Furthermore, only 14% of business respondents consider that the allocated time for consultation is sufficient. Added to this, nearly a quarter of respondents state that it is rare for consultation documents to be easily accessible.

It also appears that many governments do not make sufficient use of impact assessments to help make the case for reform. Over a third of business respondents states that partial regulatory impact assessments are rarely or never carried out by their governments. That figure even jumps to 66% when respondents are asked about full regulatory impact assessments.

### 2015 and beyond

More than ever since the 2008-09 crisis, the G20 has now put structural reforms squarely at the centre of the global growth agenda. This is a welcome development. But governments shouldn't grow complacent, for the job is not nearly complete. Implementing the structural reforms in countries' growth strategies is going to necessitate careful planning, analysis, consultation and communication over several years in order to make the case to citizens and stakeholders. Because in the end, only reforms that are properly implemented can yield their beneficial effects. ■

1. The views expressed in this article reflect the views of the authors, and not necessarily those of BIAC or its members.

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# One-sided relationship between Africa and China is increasingly irking Africans

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## Introduction

After the initial wild excitement of supposedly no-strings-attached Chinese investment, aid and support, many African countries are now asking difficult questions of China's footprint on the continent.

According to figures from China's commerce ministry, Chinese foreign direct investment in Africa climbed from US\$392 million in 2005 to US \$2.5 billion in 2012<sup>2</sup>. China overtook the United States in 2009 to become Africa's largest trading partner<sup>3</sup>.

Many African countries are now complaining that early contracts signed with China, usually hid punitive fine print. African civil groups, trade unions, and indigenous businesses and citizens are also increasingly critical to one-side deals, lack of transparency and the local behaviour of Chinese companies. Not surprisingly, between 4-11 May 2014, Chinese Premier Li Keqiang in his first visit to Africa since he took office last year was inundated with a barrage of criticisms from Ethiopia, Nigeria, Angola and Kenya, the countries he visited.

## African complaints about the one-side relationship between Africa and China

African governments have complained that China is undermining Africa's growth by only extracting raw materials from the continent, without helping Africa adding value to its

products, which create more jobs and profits. Former Nigerian central bank governor Lamido Sanusi has rightly said: "*China takes from us primary goods and sells us manufactured products. This was also the essence of colonialism*". Very few Chinese investments in Africa are in the manufacturing sectors – so crucial for Africa's development.

Partnerships between Chinese investors and local African companies are rare and rarer still transfer of new technology, efficiencies and management from Chinese to African companies<sup>5</sup>. There is little 'technology diffusion' whereby Chinese transferred skills to Africans could allow them to set up new companies<sup>6</sup>. African companies are also rarely local suppliers of inputs to Chinese investors<sup>7</sup>. In many Chinese investment projects in Africa, labour is often imported from China, instead of local labour being used. In Angola, there has been rising anger over the fact that Chinese projects have brought up to 300,000 Chinese workers to the country amid high levels of domestic unemployment and poverty.

In Chinese projects in Africa there is often little skills transfer to Africans. But even when Africans are employed in Chinese enterprises on the continent, there have been allegations that basic labour, safety and environmental rights are often not adhered to. In Africa, Chinese companies often use the



same domestic 'low-cost' business model of cheap labour, long working hours for workers, poor worker rights, safety and working conditions and "a lack of respect for social and environmental issues"<sup>8</sup>, and often substantial numbers of imported Chinese labour, living segregated from local African communities. In March 2014, oil workers at two China-invested projects in Chad and Niger went on strike to protest against unequal pay.

Africa is increasingly seen as a continent where the traditional low-cost Chinese manufacturers could be relocating to. Doing so will smother the attempts by African countries to create their own infant labour-intensive manufacturing sectors.

Many African countries have complained that mountains of tariff barriers prevent finished African products which increased African jobs, profits and growth find difficult to get into China. China in 2009 announced it would increase the number of items to the 30 least developed African countries it has diplomatic relations with can export to it duty-free to 440. However, value-add and finished African products are not on the list. Neither, are key products which African countries produce, but which are highly subsidized in China, such as cotton and textiles.

But China also has numerous non-tariff barriers against African products. Many African countries are criticising China for overbearing discretionary import prohibitions based on environmental safety, national security and health considerations. In 2010, for example, China banned South African wool exports to China after an outbreak of Rift Valley Fever in the Northern Cape and Free State provinces. Rift Valley Fever is a mosquito-borne virus that kills livestock and humans. South Africa and the World Organisation for Animal Health told the Chinese that Rift Valley Fever is not transferred through wool. The Chinese government insisted on the ban which outraged South Africans.

Unfair contracts between Chinese companies and African governments, which many African governments have entered into to attract investments, have now increasingly become sore points. The Gabon government took the Chinese investor, Addax Petroleum, owned by state-owned Sinopec, to the International Chamber of Commerce's arbitration court, after the Gabon government disputed small print in the original contract between the Gabon government and Addax Petroleum, which blocked the Gabon government from selling an oilfield licence to a third party. In 2013, the international tribunal ruled in favour of the Gabonese government in the dispute with Addax Petroleum.

The negative impact of Chinese investment on the environment in Africa are now regularly criticised by African civil society groups and opposition parties. China has invested in controversial projects which have destructive impacts on Africa's environment. Some of these include the Bui Dam in Ghana, financed by China Exim Bank, which is projected to flood a quarter of the country's Bui National Park.

China's must vaunted claim that it provides finance; development aid and infrastructure investments to Africa without conditions are increasingly being challenged by African governments. The reality that China's policy is to "closely combine foreign aid, direct investment, service contracts, labour cooperation, foreign trade, and export"<sup>9</sup> is increasingly becoming quite clear to many African leaders. Most of the Chinese infrastructure investments in Africa usually are 'tied' to bringing Chinese labour, machinery

*"Africa is increasingly seen as a continent where the traditional low-cost Chinese manufacturers could be relocating to. Doing so will smother the attempts by African countries to create their own infant labour-intensive manufacturing sectors"*

and firms<sup>10</sup>, and foreign aid is linked to securing Chinese investment opportunities for Chinese companies, or political support from African governments for China global diplomacy positions.

Zimbabwean leader Robert Mugabe in August 2014 went to Beijing to ask for US\$10 billion financial bailout for the country's ailing economy. China gave Zimbabwe US\$2 billion loan, to build a power station, coal mine and dam, using future Zimbabwean mining tax revenue as security<sup>11</sup>. Zimbabwe also received US\$8 million in donated rice, US\$24 million grant to build clinics and schools, and a commitment that China would do feasibility studies for further infrastructure projects. For these Zimbabwe had to sign a commitment to use revenue from Zimbabwean state-owned companies to get loans from China's state-owned banks.

China's foreign to Africa is mainly through delivering projects, rather than transferring money directly to countries. Chinese investment in Africa provides bountiful business for Chinese service companies, with Africa now the second largest supplier of contracts to Chinese service companies<sup>12</sup>.

There has been rising criticism in Africa that Chinese workmanship has often been shoddy, with white elephant infrastructure projects such as football stadiums, homes for presidents and roads leading to parliaments, rather than more socially and economically useful infrastructure. Botswana President Ian Khama in an interview with South African daily *BusinessDay*, bemoaned the unreliability of Chinese contractors, saying: "You know, we have had some bad experiences with Chinese companies in this country"<sup>13</sup>.

Most of Africa's roads and rail networks were built during the colonial period, and was mainly to link mines, oilfields and large farms to ports to be exported to the markets of former colonial powers. China appears to replicate this colonial type of infrastructure. Many of the Chinese infrastructure projects, such as rail, roads and ports, are mainly built to export African raw materials easily offshore from Africa to China – or bring Chinese finished products easily from China to Africa, rather than being integrated with local African economies, communities and industries.

### **China are appearing to diversify its relationship with Africa following local complaints**

Like many other African leaders, Angolan President Jose Eduardo dos Santos have called on the Chinese government to ensure that the country's firms embark on "mutually beneficial partnerships with Angolan businesses"<sup>14</sup>. Chinese Premier Li Keqiang, told African leaders during his May 2014 visit to the continent that disputes arising over China's investment projects in Africa were just 'growing pains'<sup>15</sup>. Li assured African leaders China was willing to sit down with African countries to resolve



any issues that arose over investment projects – and want to be an ‘equal’ partner to Africa, rather than colonial power<sup>16</sup>. Li insisted that Chinese firms in Africa needed to abide by local laws and regulations as well as also take responsibility to protect the interests of local communities.

Li<sup>17</sup> promised for example to promote Kenyan exports to China – African countries usually find high trade barriers in China making it difficult to export to China. Li also said that China will encourage its companies to invest in Kenya’s manufacturing sector<sup>18</sup>. Li promised to push Chinese companies to invest in the Kenyan manufacturing sector. Kenyan President Uhuru Kenyatta, had directly complaint to Li about China’s policy of importing only Africa’s raw material, and exporting finished products back, requesting a more diversified trade portfolio between China and Kenya<sup>19</sup>.

China promised it would support Kenyan industrial parks, help the country improve product processing capability and improve Kenyan companies’ competitiveness in global markets. Kenyatta also questioned China’s policy of having trade surpluses in favour of China with African countries. Li told Kenyatta that it was never a stated policy of China to pursue trade surpluses in its trade with African countries, and that China was willing to lift trade barriers to Kenyan products to China<sup>20</sup>.

Responding to criticisms that Chinese companies are destroying Africa’s environment, Li addressing the African Union, pledged \$100 million in aid for wildlife-protection projects in Africa<sup>21</sup>. The jury is still out whether China will make true the new promises to Africa, to make its relationship with the continent more equitable. ■

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# IMPROVING THE INTERNATIONAL TAX SYSTEM



**Pascal Saint-Amans is the Director, and Grace Perez-Navarro Deputy Director, at the OECD Centre for Tax Policy and Administration**

**E**liminating tax barriers to cross border trade and investment is at the core of the OECD's work on taxation. This was the foundation on which some of the OECD's key tax instruments were based, eg. the OECD Model Tax Convention, which forms the basis of over 3,000 bilateral tax treaties, and the OECD Transfer Pricing Guidelines, which are used by countries around the world. And yet, the headlines of today's newspapers are focused on the aggressive tax planning arrangements of major multinationals that pay little or no corporate tax, through sophisticated tax planning, which is in most cases legal under the existing framework. What has changed?

The OECD remains focused on restoring robust and resilient growth by reducing tax barriers such as double taxation, but we are also committed to ensuring that the outdated international rules are revamped to deal with changing business models and the rapidly changing economic environment so that the current rules cannot be used to artificially shift profits from the location where economic activities and value creation occur. The G20 mandated the OECD in 2012 to develop responses to the causes of tax Base Erosion and Profit Shifting and thus the BEPS project was born.

In November 2014, G20 Leaders welcomed the progress made by OECD and G20 countries working together to fix the international tax system to prevent tax base erosion and profit shifting. The three pillars of the BEPS work are to ensure the coherence of corporate tax systems in an era of increasing cross-border activity; strengthen the link between substance and taxation and ensure transparency while promoting certainty and predictability. These efforts will also restore trust in governments and ensure the integrity of the international tax system, essential building blocks for resilient growth in the aftermath of the economic crisis. They should also ensure a more inclusive approach to developing robust and sustainable instruments to eliminate double taxation.

## **BEPS: the first set of deliverables**

Addressing BEPS is a key priority for both developed and developing countries. The aim is not only to re-align taxation with economic activities and value creation; it is also to establish a single set of international tax rules adapted to 21<sup>st</sup> century business models and to close the existing loopholes and gaps in the current international tax system. An important focus of this work is to ensure that the responses to BEPS do not result in increased double taxation, excessive compliance burdens or new barriers to cross-border trade and investment.

Following the publication of the ambitious 15 point BEPS Action Plan in July 2013, the OECD/G20 BEPS Project presented the first results of the work to G20 Finance Ministers in September 2014. These results were developed and agreed by 44 countries, including all OECD and G20 countries following extensive consultations of developing countries, the business community, trade unions, academics and civil society organisations. These results, which were delivered mid-way through the two year span of the OECD/G20 BEPS project, focus on:

1. Designing new international standards to ensure the coherence of corporate income taxation at the international level with new rules to neutralise hybrid mismatch arrangements (Action 2). These provisions, once implemented by countries through appropriate legislation and modification of tax treaties, will eliminate the ability of companies to seek multiple deductions for a single expense, deductions in one country without corresponding taxation in another or the generation of multiple foreign tax credits for one amount of foreign tax paid.
2. Realigning taxation with relevant substance - ie. real economic activity and value creation - to restore the intended benefits of international tax standards related to tax treaties by setting a minimum standard to deny access treaty benefits in circumstances where they were not intended (Action 6), and by assuring that transfer pricing outcomes are in line with value creation in the area of intangibles (Action 8).
3. Improving transparency for tax administrations and greater consistency of documentation requirements for taxpayers through the new master file, local file and country-by-country template (Action 13).
4. Streamlining implementation of the BEPS actions through the development of a multilateral instrument as one means of modifying the existing network of bilateral tax treaties (Action 15).
5. Identifying the cross-cutting tax challenges posed by the digital economy (Action 1).
6. Countering harmful tax practices more effectively, taking into account transparency and substance (Action 5). This work is intended to reduce the distortionary influence of taxation on the location of mobile financial and service activities so as to encourage free and fair competition. It has

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## “Overhauling the global tax system and its practices is therefore fundamental if we are to deliver stronger growth for a post-crisis world”

particular relevance in the context of the intense focus on the use of patent boxes, which resulted in a joint proposal by the United Kingdom and Germany, which is now being examined by the OECD’s Committee on Fiscal Affairs. It is also of relevance in the context of the ‘Luxleaks’ affair, in that the recommendations include spontaneous exchange of certain rulings.

An added feature of the project going forward is to strengthen the involvement of developing countries through a more structured process. This will be achieved by bringing 10-12 additional developing countries directly into the work of the OECD’s Committee on Fiscal Affairs on BEPS. We will also invite regional tax organisations to participate more closely in the work and establish regional policy networks to enable all countries to have an opportunity to influence the outcomes of the work. This will ensure that the concerns of developing countries are taken into account in the development of solutions to BEPS; it will also ensure that the standards developed are truly international.

### Next steps in BEPS

Further work remains to be done on a number of the BEPS Action items referred to above, including addressing implementation issues and ensuring the coherence of the solutions identified thus far with the remaining elements of the Action Plan. The 2015 deliverables include:

- The design of effective controlled foreign company (CFC) rules to provide countries with more effective tools to tackle the large amounts of untaxed profits booked offshore (Action 3).
- The development of best practices for rules that prevent base erosion via interest deductions and other financial payments (Action 4).
- Rules to prevent the artificial avoidance of permanent establishment rules (Action 7).
- Further work on transfer pricing issues such as risk and re-characterisation, hard to value intangibles and commodity transactions (Actions 8-10).
- Indicators of the scale and economic impact of BEPS (Action 11). This will facilitate the assessment of the effectiveness of the BEPS measures once implemented.
- Mandatory disclosure rules of aggressive tax planning arrangements (Action 12). The development of these rules will be informed by the rules already developed by certain countries and will be focused on international tax planning arrangements. The objective will be to develop flexible rules that ensure consistency but allow for country specificities and particular risks identified in those countries.
- Improvements to dispute resolution mechanisms by addressing the obstacles that prevent countries from solving treaty disputes (Action 14). A major step forward in

this area was already announced in October by the OECD’s Forum on Tax Administration as discussed further below.

### Resolving disputes: Heads of Tax Administrations commit to improve Mutual Agreement Procedures (MAP)

The ongoing globalisation of business, the increased complexity and significance of international tax issues and the resulting emphasis of tax administrations in fulfilling their mandates has increased the levels of tax risk and uncertainty for both governments and business. The OECD Model Tax Convention and most bilateral tax treaties in the world recognise the need for dispute resolution mechanisms to alleviate potential double taxation and to ensure that taxation is in accordance with the terms of tax treaties.

The mutual agreement procedure established in most treaties is designed to deal with these issues. However, the effectiveness of these procedures is routinely put into question, in particular by the business community. The OECD, as part of its efforts to improve the timeliness and processing and completing mutual agreement procedures, publishes statistics on MAP cases. The most recent statistics, released on the 25<sup>th</sup> of November, show the steady increase of the inventory of these cases since 2006 when the statistics were first published, confirming the growing importance of addressing this issue.

At the October meeting of the OECD’s Forum on Tax Administration (FTA), which brings together the heads of 46 tax administrations, the FTA unveiled a *Multilateral Strategic Plan on Mutual Agreement Procedures: A vision for Continuous MAP Improvement*. The plan involves the creation of a new forum – the FTA MAP Forum – to meet regularly to discuss general (not taxpayer-specific) issues related to MAP programs and to work together to collectively improve the MAP process. The Strategic Plan reflects a strong new commitment to fix the MAP system:

#### FTA statement of vision and commitment

*The competent authorities participating in the FTA MAP Forum recognize that the purpose of the mutual agreement procedures, and thus the central mission of the competent authorities, is to ensure that the principles embodied in our global network of tax conventions are properly applied to minimize to the fullest possible extent incidents of double taxation, unintended double non-taxation and taxation otherwise not in accordance with the provisions of applicable tax conventions. It is the vision of all MAP Forum participants that the effectiveness of our mutual agreement procedures should be collectively improved in order to meet the needs of both governments and taxpayers and so assure the critical role of those procedures in the global tax environment, and that this can best be accomplished through the collaborative work of the MAP Forum in accordance with this Multilateral Strategic Plan.*

The FTA MAP Forum’s work will be a valuable new support to the implementation of the BEPS Action item on removing impediments to effective dispute resolution at a very practical level. The areas of strategic focus reflect a commitment to address the resource challenges faced by competent authorities around the world, to establish appropriate governance arrangements to ensure that MAP cases respect the convention-based mandate of competent authorities rather than revenue considerations and a number of process improvements to ensure that MAP cases are resolved as efficiently and effectively as possible, including consideration of multilateral case resolution procedures, and enhancement and streamlining of taxpayer involvement.



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## Conclusion

Bringing the international tax rules into the 21<sup>st</sup> century involves both elimination of double taxation as well as double non-taxation. Double non-taxation is currently grabbing headlines but if we want to encourage cross-border trade to spur growth, we need to ensure that tax disputes, which are growing in number, can be resolved in an efficient and timely manner. Rebuilding the world's economy and encouraging resilient and stable growth, also requires countries to remain competitive,

attracting quality investment and real jobs. Countries must work together to develop fair and transparent tax rules, rather than triggering a 'race to the bottom'. A more transparent international tax system is also critical if we are to restore trust in government amongst the citizens who bore the brunt of the crisis. Overhauling the global tax system and its practices is therefore fundamental if we are to deliver stronger growth for a post-crisis world. ■



# Why tax corporations at all?

**Ben Southwood is Head of Policy at the Adam Smith Institute**

*The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.*

Louis XIV's finance minister Jean-Baptiste Colbert

**P**eople want the government to provide certain services, as well as redistribute to make sure no one lacks for basic needs. People don't like being taxed to pay for it, but they notice the burden of some taxes more than others. I will argue that corporation tax is an invisible tax on everyone, and a particularly costly one, making us worse off through lower wages in the short term and worse off through lower investment and output per capita in the long run.

Income taxes feel burdensome to most, but they feel more burdensome when you first get, and then hand the money over to the Treasury, than when the money is deducted automatically. Sales taxes feel more burdensome when you pay them 'on top' of the cost of the items you are buying, and less when they are automatically calculated into the price.

There are many axes and margins on which taxes can feel more or less burdensome, but it seems like the least burdensome-feeling taxes are ones you don't think you are paying at all. For example, while the buyer actually pays George Osborne stamp duty land tax in a housing transaction, some economists think the seller actually bears a substantial fraction of the burden of the tax through lower house prices. Indeed, a 2013 paper found house prices rose by something from two times to as much as five times the size of the tax liability during the stamp duty holiday of 2008-9.<sup>1</sup> But the seller will not count the money they would have got without stamp duty as 'theirs', and will not resent its loss nearly as much as if they were paid it then had it taken away.

According to my review of the evidence, published early this year, the situation is similar for corporation tax.<sup>2</sup> Empirical studies, using a wide variety of intra- and international methodologies, find that a large fraction of the burden is borne in the form of lower wages for workers. Or, as economists would say, the economic incidence of the tax falls mainly on workers. In fact, even excluding the three outlying very large results (which estimate that workers lose out by the entire size of the burden, or a cost even larger than raised by the tax) on average the paper finds workers bear 57.6% of the burden.

Since then more evidence has come out. For example, a 2014 Australian study from Xavier Rimmer, Jazmine Smith and Sebastian Wende found that two thirds of the revenues of corporation tax came out of the pockets of workers, rather than those of capitalists, in the form of lower wages.<sup>3</sup> The empirical literature seems pretty clear that regardless of what it actually looks like, workers pay corporation tax.



Empirical studies	Share of burden falling on workers
Krzyzaniak and Musgrave (1963)	Over 100%
Hassett and Mathur (2010)	2,200%
Felix (2007)	400%
Desai, Foley and Hines (2007)	45-75%
Arumpalam, Devereux and Maffini (2009)	75%
Fuest, Peichl and Siegloch (2013)	77%
Dwenger, Rattenhuber and Steiner (2011)	47%
Aus dem Moore, Kasten and Schmidt (2009)	~
Liu and Altshuler (2011)	40-80%
Aus dem Moore (2008)	92%
Felix and Hines (2009)	Over 50%
Clausing (2012)	0%
<b>Average excluding first three</b>	<b>57.6%</b>

But how do they actually find these results, one might ask? Do these results apply in every situation? The issue is quite complex. Economists think that the burden can fall on workers in two ways.

The first is the direct effect: higher corporation taxes means lower net profits which means less surplus for the firm and workers to bargain over (the workers effectively have instantly lower productivity from the perspective of the firm's bottom line). The second is the indirect, medium- to long-term effect: higher corporation taxes means less incentive to invest in the corporate sector, or in a given country's corporate sector. Lower investment there means less capital to worker and lower productivity. Lower productivity means lower wages.

The best paper on the direct effect is a 2007 study from Wiji Arulampalam, Michael Devereux and Giorgia Maffini.<sup>4</sup> Picking through the unconsolidated records of 55,082 European companies between 1996 and 2003, they find that the effective incidence of an exogenous \$1 rise in the tax burden leads to wage payments \$0.75 lower, or \$0.59 lower after the reduction in the tax burden from the lower wages is taken into account. To back this up, they find a symmetrical \$0.57 gain to labour from a \$1 rise in pre-tax value added. They also try to control for managerial ability to erase that possible reason for lower tax burdens.

The indirect effect is harder to observe. An early contribution, from two scholars at the American Enterprise Institute, found that workers lost \$22 in wages for every \$1 raised extra in corporation tax, implying not just 100%, but 2,200% of the burden fell on workers! But this study, along with most other attempts in the literature, has been heavily criticised and none of the more authoritative reviews think that anything like 2,200% is a plausible estimate.

Whatever the exact number, economists think it plausible that a substantial fraction of the burden falls on workers. However, almost no workers are likely to have read this counterintuitive research, and will tend to see corporation tax as something that falls on others. Indeed, some may think that somehow corporations can bear the burden of the tax, even though they do not consume goods or have utility functions and thus cannot be made better or worse off (they are just legal constructs!) Even those who realise that some households must bear the burden

are likely to think it is rich capitalists, rather than their own pension funds and ISAs.

This means that corporation tax functions a bit like a stealth tax. No one realises when they are paying it, and it is thus a popular way to raise revenues. Alleged tax avoidance and evasion by big companies such as Starbucks and Amazon and Vodafone is widely covered and cited by left-wing campaign groups like UK Uncut. To many, raising revenues through it seems like a free lunch. Although transparency is a virtue of tax systems, this particular 'secret' might not be so bad; if it is a secret income tax on workers then it allows for more plucking with less hissing.

It wouldn't be so bad, that is, if it were not for the fact that the remaining portion falls on capital. Nearly all economists agree that taxes on capital reduce investment and future living standards. This is because they effectively tax future consumption at a higher rate than present consumption. A capital tax, ie. on saving, makes future goods more expensive because to buy them you also have to pay a capital tax, causing inefficient allocation of consumption over time. The upshot of this is that, since savings fund investments, less of them means less capital, lower economic output and lower living standards in the future.

In the words of N Gregory Mankiw, a professor at Harvard and top economic advisor to the US federal government under George W Bush:<sup>5</sup>

*"Perhaps the most prominent result from dynamic models of optimal taxation is that the taxation of capital income ought to be avoided. This result, controversial from its beginning in the mid-1980s, has been modified in some subtle ways and challenged directly in others, but its strong underlying logic has made it the benchmark."*

That is, the tax on capital should be as close to zero as possible - zero capital gains, zero corporation tax (if it falls on capital). And if we modify our results from above with the scepticism of the governmental reviews of corporation tax incidence, finding an 80% or higher burden on capital, not workers, we should be very worried about the costs capital taxes might be imposing on us in terms of reduced living standards for everyone in the future.

*“... corporation tax is an invisible tax on everyone, and a particularly costly one, making us worse off through lower wages in the short term and worse off through lower investment and output per capita in the long run”*

In fact, two papers from the last year suggest the benefits we could obtain from scrapping corporation tax are huge. Daphne Chen, Shi Qi, and Don Schlagenhauf, working for Florida State University and the Federal Reserve Bank of St. Louis, found that completely eliminating corporation tax would decrease the total number of US unemployed by 5.4% or something like 400,000 people.<sup>6</sup> They were building on a new avenue of research into what exactly corporation tax taxes, founded by Laurence Kotlikoff and Jianjun Miao.<sup>7</sup>

*“This paper makes this point with a simple, capital-less model featuring entrepreneurs, with risky production technologies, deciding whether or not to go public. Doing so means selling shares, which is costly and triggers the firm’s classification as a corporation subject to income taxation. But going public has an upside. It permits entrepreneurs to diversify their assets. In discouraging incorporation, the corporate tax taxes business risk-sharing, keeping more entrepreneurs private and, thus, exposed to more risk. The added risk experienced by these entrepreneurs limits their demands for labour whose costs must be paid come what may. And less demand for labour spells a lower wage. Thus, the corporate tax is, as a general rule, borne, in part, by labour. But it is borne primarily by high-skilled entrepreneurs who decide to remain incorporated despite the attendant tax liability.”*

Chen, Shi and Schlagenhauf put a number on the size of the effect: 86% of their 400,000 jobs came from the reduced costs of incorporation for entrepreneurs. So what the corporation tax is really doing is drastically reducing the efficiency and fluidity of firm organisation and hindering entrepreneurs, the men and women who take risks to direct resources to where they can do the most good for society.

Another paper from Kotlikoff, this time written with Hans Fehra, Sabine Jokisch and Ashwin Kambhampati, found that:<sup>8</sup>

*“Eliminating the model’s US corporate income tax produces rapid and dramatic increases in the model’s level of US investment, output, and real wages, making the tax cut self-financing to a significant extent.”*

What’s more, this doesn’t come at the expense of foreign countries as their companies flee to the newly low-tax regime.

And it doesn’t harm certain generations for the benefit of others - everyone benefits. Of course, highly stylised mathematical models or simulations are never perfect and can never give us truly robust, exact answers. But the lesson that economics is repeatedly trying to teach us is that corporation taxes, far from being something that workers can happily call for, knowing they will fall on someone else, are actually some of the most costly we can impose.

What are the alternatives? So-called ‘lump sum’ taxes are the ideal - they impose no efficiency costs since individuals cannot change their obligations by changing their behaviour. But the only practical lump sum tax is the poll tax, which is either too low to fund the activities governments want to do, or extremely unfair.

In one sense we’d ideally like to tax individuals ‘endowments’ - their natural abilities and the impacts of their upbringing and schooling on the skills and output they bring to the table. But it’s practically impossible to measure this in a way that would actually result in ‘lump sum’-style efficiency - people can game tests and reduce investment into their children’s human capital (education, skills). What’s more, it feels a bit like ‘slavery of the talented’ - it doesn’t matter whether you do a well-paid job, if you have skills you have to pay high taxes.

So we move to next-best options: ones that ideally don’t distort the allocation of consumption and production. Income taxes are popular but they don’t completely remove taxation of savings: you are taxed on your whole income not just the portion you consume. This makes consumption taxes perhaps the most attractive on economic grounds.

A common objection to them is that they are ‘regressive’ - ie. the poor pay a higher fraction of their income under them, since they consume a higher portion of their income - but this is only under certain regimes. If you taxed individuals’ *total* consumption - their income minus their savings - then you could have a highly progressive system. And it would have other attractive features, since it would effectively tax luxury status goods very highly, and some evidence suggests that consumption at the very top follows a ‘keeping up with the Joneses’ pattern. Many economists think the ideal tax system is a progressive consumption tax system.

Some governments have taken notice of this work, but the lesson has been learnt by far too few. Raising corporation tax is not a progressive move that gets us more revenue to help the badly-off or spend on public goods. Corporation tax is either a stealth tax on workers’ wages or it comes out of investment and the wellbeing of our children and grandchildren. Scrapping it will not be very costly because investment and wages should rise rapidly, and even if some funds need to be raised elsewhere, we have a large number of existing taxes with lower efficiency costs. The alternative is a poorer future. ■

1. [http://www2.warwick.ac.uk/fac/soc/economics/research/centres/cage/events/conferences/peuk/henirck\\_kleven\\_paper\\_best-kliven\\_landnotches\\_june2013.pdf](http://www2.warwick.ac.uk/fac/soc/economics/research/centres/cage/events/conferences/peuk/henirck_kleven_paper_best-kliven_landnotches_june2013.pdf)
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# The Bali deal impasse prognosis

## IMPLICATIONS FOR THE WTO-LED MULTILATERAL TRADE LIBERALISATION NEGOTIATIONS

Suparna Karmakar is a trade economist and Marie Curie Fellow at Bruegel<sup>1</sup>

India's decision against signing onto the Bali trade facilitation protocol<sup>2</sup> on July 31 put a spanner in the scheduled implementation plan of the WTO's December 2013 agreement. While it is yet uncertain whether India's move will irrevocably scuttle the mini-deal negotiated after much delay and difficulty, it is inevitable that in the foreseeable future the WTO membership will be struggling to work out a compromise of this latest setback; this has also affected both trust and discussions among members on the post-Bali agenda of the Doha Round of trade negotiations.

Other than South Africa and a small group of allies including Cuba and Venezuela, India stands alone in this most recent negotiating spat. Several countries even issued statements saying that a failure to agree on the protocol would be a massive blow to the WTO's credibility<sup>3</sup>. Member's adopting/signing onto the TFA protocol on July 31 was a key first step before the Bali deal could be ratified for implementation by July 31, 2015. With the negotiations hopelessly deadlocked, given little evidence of US and India finding a compromise soon, some leading member's have now begun discussions on how to circumvent one of WTO's founding principles that all decisions are made by 'consensus'<sup>4</sup>.

The Bali package is an early harvest of the 13 year old multilateral trade negotiations under the Doha Development Round (DDR), which has been faltering since its inception given the wide divergence in expectations of the key negotiating partners from the trade agreement. The Bali package included 10 agreements. They comprise a binding agreement on trade facilitation<sup>5</sup> and four descriptive items in agriculture such as general services, public stockholding for food security purposes, understanding the tariff rate quota administration provisions of agriculture products, and export competition. In the development dossier, the Bali package offered non-binding best endeavour outcomes on preferential rules of origin for least developed countries, organisation for the waiver concerning preferential treatment to services, duty-free and quota-free market access, and a monitoring mechanism on special and differential treatment.

As I had noted in an earlier Bruegel post<sup>6</sup>, *"the net immediate gains from the Bali agreement therefore boils down to the symbolism of resurgent multilateralism and the WTO"*, given that other than in trade facilitation and food security, *"in several other areas the ministerial declaration only consists of statements of intent and conditional implementation promises"*. However, while commentators have noted the various asymmetries marking WTO's Bali package<sup>7</sup> and the hypocritical stance of the developed countries<sup>8</sup> at the WTO, and in particular the USA in the agriculture negotiations, the adoption of the mini-agreement

in December 2013 did indicate a support for multilateral trade negotiations at a time when the world's leading economies have decidedly turned pro-regional and increasingly nationalistic in their approach to trade liberalisation negotiations.

### Is there any method in India's madness?

As regards its design, under the paragraph 47 of the Doha Declaration of 2001<sup>9</sup>, the early harvest Bali package is part of DDR's single undertaking, although it can be implemented in a manner decided during the negotiations. And the Bali package envisaged agenda-wise sequential timelines for delivery<sup>10</sup> of the different parts of the package, without hinting that progress in the different protocols need to be simultaneous or at similar speed, with the TFA adoption being the first deliverable scheduled for July 31, 2014 in order to facilitate implementation within the next 12 months.

The next key deliverable on the timeline was finalisation of the post-Bali DDA work programme before December 2014, while the permanent solution on public stockholding for food security purposes under the Agriculture Committee negotiations were slated for conclusion with a 2017 deadline, the latter's extended timeline also reflecting the fact that food security issues still have to be negotiated, most likely as a part of the overall agriculture agreement. The only assurance on the subject was that the Peace Clause<sup>11</sup> expiry was tied to the timeline of a 'permanent solution' on the dispute over the legitimate uses of food reserves for food security, a definite negotiation gain that India scored at Bali.

Thus it can be argued that the above differential implementation timelines have determined prioritisation of certain sections of the Bali package in the Geneva based negotiations in 2014, although it has drawn criticism from the LDC group<sup>12</sup> that expressed unhappiness stating that *"everything else is being held hostage pending the conclusion of discussions on the TFA"*. Critics have however argued that the concept of the single undertaking was undermined because trade facilitation had a quick implementation deadline while the other two parts of the Bali package, food security and policies to support least developed countries, had only vague commitments and distant deadlines. The fear is that by advancing agreement on only some parts of that broader development agenda, and by fast-tracking an issue of most interest to developed countries – trade facilitation<sup>13</sup> – the logic of the single undertaking would dissolve and they would see no movement on the issues that matter to them most, agriculture and food security.

But it may be interesting to understand whether India's threat to withhold its support for trade facilitation can effectively

scuttle the Bali deal in the WTO's consensus-based process. In fact there is a legitimate view emerging that perhaps too much is being made out of the TFA protocol outcome. All the protocol does is open the Marrakesh Agreement establishing the WTO to allow another agreement, in this case the TFA, to be added to the existing WTO Agreements. The protocol is therefore a mere legal instrument which allows this change to happen.

Governments must still ratify the TFA following WTO's procedural requirements, and only when two-thirds of the members do so does it enter into force, but only for those countries which ratify. Although it wasn't intended thus, it is theoretically possible that India could actually never ratify and thus never have to comply with the TFA requirements. In fact, the US and a number of other countries have been discussing on how to turn the Bali Trade Facilitation Agreement into a 'plurilateral' pact within the WTO, meaning it would not require the approval of all members.

Unfortunately that move will be counterproductive for Indian businesses and their external competitiveness, even when Indian exports are largely in a narrow band of product categories that are either commodities or niche (traditional and manufactured) products and services, and are unrelated to any major global production networks' trade chain. And this is the reason why Indian industry has been vocal in its disapproval over the current supposedly pro-business government's willingness to put in jeopardy an agreement that would enhance national export competitiveness merely to "ensure that Indian minimum support prices (MSPs) for food products continue to be high"<sup>14</sup>.

Others have argued that if India's refusal to back the protocol derails the Bali deal, it could lose the four-year reprieve and

*"... this lack of strategic thinking worldwide may have grave consequences for the future of the global trade governance system"*

face sanctions on its current foodgrain stockpile<sup>15</sup> which critics say could be dumped into global markets, although in practice India does not have a history of dumping grain that it acquires for purposes of food security for the economically vulnerable<sup>16</sup>, and its exports are usually at market prices.

#### **Strategy or lack of vision?**

Multilateral negotiations at the WTO are an extremely complicated exercise, requiring the fine balancing of a multitude of sectors and interests. Countries have to play off their internal lobbies' demand against the gains from trade, which are generally spread out over all their citizens; and unanimity is required, making progress subject to vetoes from countries with no stake in the future.

It is doubly tragic, therefore, if such hard-won outcomes get scuppered by one of the countries with most to gain from a strong multilateral trading system; India's current economic development and trade patterns indicate that unilateralism and multilateralism are its welfare-optimising options, and ought to be preferred over the much-hyped gains from regionalism.

The new Prime Minister has often emphasised that all his policy actions will have only one single criterion of whether or not they serve India's national interests. Mr Modi has vowed to



spur economic growth through sweeping changes in policies and seems committed to boosting India's competitiveness by improving its business climate.

In that light, the present government's fixation with focusing primarily on alleviating domestic infrastructure and policy constraints for growth is laudable if India hopes to catch up with its neighbouring Asian powerhouse; China's GNI per capita (PPP, in current international \$<sup>17</sup>) in 2013 stood at \$11,850 – more than double of India's \$5,350<sup>18</sup>. And his government's apathy to global governance issues and proactive multilateral engagement is then a corollary if one believes that good bureaucratic and diplomatic resources are limited and become ineffective when spread out thin (although his government is yet to show any urgency on the domestic economic reforms necessary to meet his electoral promises).

That said, the strategists in the present Indian government would do well to consider in totality the related geo-economic developments before determining the country's future stance towards regional/global engagement. Unfortunately, not unlike the other economic powerhouses, the new Indian government's current stance on the TFA (and multilateral trade negotiations in general) seems to reinforce the concern that a grand vision on future international trade policy and a longer-term governance strategy is sorely lacking; the current thinking seems to be largely dominated by short-termism and protectionist-nationalist mindsets. The other ongoing regional and plurilateral trade agreements also appear to be ridden with naïve false promises and the world liable to falling back on creeping protectionism.

As the panellists in the July 2014 Bruegel workshop<sup>19</sup> on the subject argued, this lack of strategic thinking worldwide may have grave consequences for the future of the global trade governance system, which if it evolves in favour of fractured regional trade governance regimes will harm most the weaker developing countries, including emerging markets like India with limited integration into the global production and supply networks, and a large population of poor low-skilled workforce.

India has a history of resorting to aggressive brinkmanship to get its way at the GATT/WTO, but as an oft-used strategy it may have lost its edge already. It is clear that there is still very limited support for its latest stance on the TFA protocol. On the other hand, doing nothing is an acceptable strategy only when it is backed by a long-term strategic thinking and foresight. Inertia and political opportunism are also often confused with continuity in policy making.

Thus, one only hopes that there is more strategy to India's recalcitrant stance in the WTO this time around, beyond its use as a mere negotiating tactic. For it is becoming painfully apparent that in the current geo-political and economic context, doing nothing/maintaining status quo in the multilateral forums is likely to extract a very stiff price in the future from everyone, and in particular a country like India. The short term implications are also dire: while it is necessary to call out on US's false pious oratory about the rule of law and free trade<sup>20</sup>, India's current obstructive stance at the WTO while indefinitely postponing the necessary agriculture reforms at home is equally detrimental to its own farmers', consumers and businesses interests. ■

1. This article reflects only the author's views and the European Union is not liable for any use that may be made of the information contained therein.
2. <http://in.reuters.com/article/2014/07/23/uk-india-wto-idINKBN0F51LB20140723>
3. The European Union has warned: "Without adoption of the Trade Facilitation Protocol by July 31 a great opportunity to mobilise trade as an instrument for growth and development would be lost, and the credibility of the WTO, which has during the financial crisis proven its value as a firewall against protectionism, would be further damaged." Japan also said it strongly urged "those members who take a contradictory stance" to try to achieve the common objective. A statement made by Thailand, Malaysia, Vietnam, Pakistan and other developing countries said: "A decision to step away (from TFA) will be in no one's interest. It will undermine the ability of WTO to deliver for the future."
4. <http://www.ft.com/intl/cms/s/0/a289ba90-51e7-11e4-b55e-00144feab7de.html?siteedition=intl#axzz3FzhWdblf>
5. The TFA is often described as a "good governance agreement" for customs procedures that industrialised countries want the developing and the poorest countries to implement on a binding basis, failing which the latter can be hauled up at the WTO's dispute settlement body.
6. <http://www.bruegel.org/nc/blog/detail/article/1211-life-after-bali/>
7. [http://www.atimes.com/atimes/Global\\_Economy/GECON-02-171213.html](http://www.atimes.com/atimes/Global_Economy/GECON-02-171213.html)
8. [http://www.ase.tufts.edu/gdae/Pubs/rp/GC66Dec13Wise.pdf?utm\\_source=GDAE+Subscribers&utm\\_campaign=51f006a8a0-WTO\\_food\\_7\\_24\\_2014&utm\\_medium=email&utm\\_term=0\\_72d4918ff9-51f006a8a0-49724549](http://www.ase.tufts.edu/gdae/Pubs/rp/GC66Dec13Wise.pdf?utm_source=GDAE+Subscribers&utm_campaign=51f006a8a0-WTO_food_7_24_2014&utm_medium=email&utm_term=0_72d4918ff9-51f006a8a0-49724549)
9. Paragraph 47 states: With the exception of the improvements and clarifications of the Dispute Settlement Understanding, the conduct, conclusion and entry into force of the outcome of the negotiations shall be treated as parts of a single undertaking. However, agreements reached at an early stage may be implemented on a provisional or a definitive basis. Early agreements shall be taken into account in assessing the overall balance of the negotiations.
10. And several countries have already said that renegotiation of existing timelines is not an option.
11. We acknowledge here the inherent injustice of the Bali Peace Clause being offered to India and the G33 countries for just four years, and also that it excludes the subsidies measures and expires even if there has been no resolution of the other outstanding Doha issues. This is in sharp contrast to the nine-year long Peace Clause that the US and the EU negotiated in 1994 to protect themselves from WTO lawsuits over their hugely distorting subsidies and countervailing measures.
12. <http://www.twinside.org.sg/title2/wto.info/2014/ti140702.htm>
13. This unfortunately has indeed been recommended by some American trade policy experts.
14. [http://www.business-standard.com/article/opinion/strategic-mistake-114072101196\\_1.html](http://www.business-standard.com/article/opinion/strategic-mistake-114072101196_1.html)
15. India's vast grain stockpiling and a US\$22 billion annual food subsidy programme implemented by the previous government are (price) subsidies in breach of the WTO's current specified limits.
16. <http://www.ft.com/intl/cms/s/0/e554dd66-13ce-11e4-8485-00144feabdc0.html?siteedition=intl#axzz38ZKoFafY>
17. <http://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD>
18. The corresponding figures in GDP per capita (current US\$) are China: 6,807, India: 1,499, indicating a more than 4-fold gap.
19. <http://www.bruegel.org/nc/events/event-detail/event/442-the-future-of-trade-multilateralism-governance-of-21st-century-trade-and-the-role-of-the-wto/>
20. <http://blogs.ft.com/beyond-brics/2014/10/08/americas-craven-capitulation-in-the-wto/?Authorised=false>



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# THE GROWING IMPORTANCE OF THE G20 AND THE WAY FORWARD

## AN INDIAN PERSPECTIVE

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### Introduction

One of the world's premier trade forums, the Group of Twenty (G20) countries was established in 1999 to bring together industrialized and developing economies to discuss key issues in the global economy. The inaugural G20 summit took place in Berlin, December 1999, hosted by German and Canadian finance ministers. This year's meeting was held in Brisbane, Australia. The G20 is made up of the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States of America. The remaining seat is held by the European Union, which is represented by the rotating Council presidency and the European Central Bank.

The G20, which came into being to respond to the East Asian crisis in 1997-98, played a key role in responding to the global financial crisis of 2008-09. Its decisive and coordinated actions boosted consumer and business confidence and supported the first stages of economic recovery. The G20 continues to focus on measures to support global economic growth, with a strong emphasis on promoting job creation and open trade.

During 2008 to 2010, deliberations in G20 summits focused mainly on building consensus on measures required for stemming the Global Financial and Economic crisis of 2008. Since the Seoul Summit held in November, 2010, attention is being given to an agenda such as the framework for a strong, sustainable and balanced growth; stable international financial architecture; clean energy, food security and climate change; employment creation and trade facilitation and many more.

During and after the global financial crisis of 2008, while advanced economies experienced dwindling growth, India was one of the countries that continued to grow. Also, India has not been a contributor to the global imbalances. By virtue of these, India has emerged as an important member of G20 to be able to influence and contribute towards reshaping of the world economic and financial order. Thus, it is of utmost importance that India must bring to the table its own assessment of the G20 agenda in the light of the global developments and offer considered views on global cooperation without compromising on its own interests. In the above backdrop, this piece has made an attempt to detail the major issues for discussion in the G20 and the role of India with a focus on the lessons learnt, missed opportunities and the way forward.

### India in G-20 – post-global crisis (2008)

Post 2008, while several nations of the G20 suffered from the consequences of two global economic meltdowns (popularly

known as the subprime crisis and the eurozone crisis), India was rated highly. This was predominantly due to its fast recovery and sustaining high growth rate supported by a massive labour force and industrial potential. Five years later, the rupee depreciated steadily<sup>1</sup>.

Also, India has amongst the world's highest trade and current account deficits. Its industrial potential seems to have eroded and domestically though the new government led by PM Modi has made an attempt to end the policy paralysis and give a boost to the economy by announcing several reform measures, including hiking FDI in many sectors such as defence, railway etc. and also initiating few reforms including labour sector reforms, land acquisition, e-governance etc. that are acting as hindrance to investment. India must continue to play a proactive role in the G20 and take up issues important to itself and to the group as a whole and play a key role in strengthening the economic order as G20 accounts for more than 80 per cent of world trade and two-thirds of the world population. Therefore, it is the main forum for global development.

### Global imbalances and mechanisms

The post-crisis debate on global imbalances and the role of the G20 in mitigating its effects has three facets. The first is the role of exchange rates in global rebalancing. The second relates to capital flows into emerging markets. And the third facet is the framework for the adjustment process. Exchange rates – a prime lever for redressal of external imbalances – require currency markets to be more efficient and should represent economic fundamentals.

Global rebalancing will require deficit economies to save more and consume less, whereas surplus economies will need to mirror these efforts – save less and spend. The problem though is that while the adjustment by deficit and surplus economies has to be symmetric, the incentives they face are asymmetric.

Though India did not contribute to the generation or transmission of global imbalances, it believes it is important that the G20 keeps a watch on changes in composition, nature and distribution of global imbalances and their implications, and to steer work towards their underlying causes. India, along with other emerging economies, is agitated by two points – first, that in as much as volatile capital flows are a spillover from the quantitative easing of advanced economies, the burden of adjustment has to be shared. Second, the capital controls should be understood as legitimate and acceptable defence against speculative capital flows. There is a need to create an effective framework for the adjustment process, as emerging

(deficit) economies are first to feel the pinch when global stability is threatened.

### **Protectionism**

The idea that globalization is a mixed blessing is being increasingly challenged since the advent of the global financial crisis. G20 nations have, through the various summits post 2008, reiterated their commitment of not resorting to protectionism. However, there are concerns that even as 'open protectionism' has been resisted relatively well during the crisis, 'opaque protectionism' has been on the rise. Opaque protectionism takes the form of resorting to measures such as anti-dumping actions, safeguards, subsidies, preferential treatment of domestic firms in bailout packages, and discriminatory packages.

India has opposed protectionism in all its forms; at the same time it respects the WTO-consistent policy space available to the developing countries to pursue growth, stability and development. However, there is a need to strengthen multilateral trade discipline – the conclusion of the Doha Round. A successful and quick conclusion of the Doha Round agreement would be welcomed as a non-debt creating stimulus to the global economy.

### **Financial sector reforms**

The broad contours of the international initiatives fronted by the G20 on financial sector reforms rest on four broad pillars – regulation, supervision, resolution and assessment of the implementation of new standards. India feels that the investment needs of the emerging markets and developing economies deserve special attention. It is important to ensure that financial intermediaries in emerging and developing economies are not disadvantaged in the new regulatory framework, as the opportunities and challenges in their systems are different. Moreover, financial regulatory reform has not focused on redirecting savings from investment in volatile financial assets to financing investment in the real economy, where the impact on growth and employment is more tangible.

There is a need to guard against the possibility of regulatory arbitrage. If comparable standards are not implemented in all jurisdictions simultaneously, financial activity is likely to migrate to less regulated jurisdictions as well as into shadow banking. These will create global imbalances and uncertainty, and would limit one of the core objectives of the G20 forum.

### **Global reserve currency**

Concerns about the robustness of the international monetary system with the dollar as an international reserve currency has become a significant issue. The United States, by virtue of its status as the issuer of the global reserve currency, has the responsibility of ensuring every country has access to dollar liquidity, especially in times of stress. However, the financial crisis showed that having a single reserve currency poses many risks for the stability of the system.

According to the Reserve Bank of India, to address the problems arising from the use of a single reserve currency one has to have a menu of alternative reserve currencies. A possible solution is to expand the special drawing rights (SDR) basket by including the currencies of the countries that are increasingly important economically and politically in the composition of the global economy. Integrating emerging markets into the international monetary system would increase their incentive to manage their policy conduct towards contributing to the stability of the system. India's position on the global reserve currency is that

*“India believes it is important that the G20 keeps a watch on changes in composition, nature and distribution of global imbalances and their implications, and to steer work towards their underlying causes”*

the world would be better served by increasing the number of reserve currencies and to be able to employ suitable safety-nets to protect them against the vulnerabilities of the global currency system.

### **Lending constraints by Multilateral Development Banks**

Development finance through MDBs has been one of the crucial policy interventions of the G20 summits. The fund base has been expanded significantly, including the IMF and World Bank. However there have been concerns regarding the fixing of constraints on lending by MDBs. The accumulation of all kinds of approvals and safeguard policies, the rising influence of lobbies, and staff constraints in the MDBs has resulted in the volume of lending being much below what is needed.

India stands to make a big contribution to global growth were its investments (especially in infrastructure) to be unaffected, or even accelerated, by the fixing of these constraints. India needs to take the lead in identifying policies and practices that impede growth in lending to productive sectors.

### **Reforming the global financial architecture**

The global financial architecture has undergone fundamental changes in the past decade and a half, but these changes have not been reflected appropriately in the international financial architecture. While agreement has been reached in the G20 for effecting major reforms, the implementation so far has been disappointing. The agreement for IMF quota and governance reforms in 2010 has not yet been implemented, mainly due to lack of approval of US Senate.

India strongly feels that the G20 has played a crucial role in steering discussions on the quota formula in the past and it will be unfortunate if this aspect is diluted going forward. Global institutions can only be legitimate and credible if their vote share and governance structure reflects members' share in the world economy today, not on the basis of quota decided half a century back.

### **The G20 Brisbane Summit, 2014: outcome**

The ninth summit of the G20 group, which was held in Brisbane, took place at a time when the world is struggling to move past the economic crisis which began six years ago. The crash of 2008 had led to the under-performance and decelerated growth both in advanced and emerging markets, and has resulted in uncertainties and unresolved legacies. This has weakened demand, constrained supply and hampered job growth. Since the February 2014 G20 meeting held in Sydney, the global economy has not shown any clear signs of revival.

Advanced economies, apart from the European Union, would be staring at just 2.35% growth in 2015 while the austerity-laden EU is expected to wobble at 1.76%<sup>2</sup>. Amongst the emerging economies, China, India and Indonesia are the only countries that will have a collective growth of 6.63% in 2015, while others

are still lacking momentum because of unbalanced situations in their domestic economies.

The Brisbane summit was a morale booster showcasing a clear signal of the leaders' commitment to take decisive steps to uplift economies facing fragile growth and shortfall in demand. With an ambitious goal to lift the G20s GDP by at least an additional 2% by 2018, the IMF-OECD analysis suggests that achieving this target will add up more than US\$2 trillion to the global economy, which will give boost employment and create millions of jobs.

Focusing on the fundamentals i.e. trade, tax issues, infrastructure, employment and banking, the G20 under the presidency of Australia has proposed various initiatives to be taken to target these fundamentals, which are the key constraints to growth across the G20, with inadequate infrastructure being one of the major hurdles. This meeting brought the proposal to launch the Global Infrastructure Initiative, paired with a new global infrastructure hub which will attract a large pool of potential private financing for infrastructure investment, which will create jobs in construction and allied heavy industries and provide an impetus to growth. The leaders also gave a commitment to bring more women into the workforce, and improve the quality of their jobs by targeting to reduce the gender gap by 25% by 2025, which will add 100 million women into the formal workforce.

Another significant issue which was discussed was corruption and the leaders adopted a two year plan to strengthen enforcement, enhance transparency and facilitate the recovery of the assets stolen by corrupt officials<sup>3</sup>. Concrete measures were also put forward to cut down the cost of remittances by 5% by increasing competition and expanding accessibility of money transfer services and enhancing financial inclusion. The G20 leaders also committed themselves to energy and climate

change issues, where they endorsed a new set of principles and reaffirmed their commitment to rationalize and phase out inefficient fossil fuel subsidies. The G20 also took significant steps forward strengthening bank capital and liquidity by reducing leverages and making the derivative markets more transparent and safe by addressing the systemic risks posed by shadow banking. With such a laundry list of initiatives in place, the wait is now for their speedy implementation so that G20 economies are poised for an increased growth in 2015.

### **Take away for India**

India's approach toward G20 summit was influenced by its domestic agenda as the problems of the Indian economy are largely self-afflicted and unique. Narendra Modi made a strong pitch against black money. Modi called for close coordination on unaccounted money stashed abroad. He said unaccounted money was also linked to security challenges.

For India the communiqué specially welcomed the breakthrough between India and United States at the World Trade Organisation, and this paved the way for a pact that will help ease the process involved in global commerce, and move forward in addressing the concerns of developing countries on security. The communiqué also brought the commitment of the leaders to implement all elements of the Bali package and one of the major breakthroughs was achieved by India when US agreed to its proposal on food security issues at WTO, a development that will pave the way for ending a three month long stalemate on trade facilitation agreement at the multi-lateral trade body. As per the agreement with India, the US will support India's proposal at the WTO for an extension of the 'peace clause' which is crucial for uninterrupted implementation of India's food security programme. This will enable India to continue the procurement and stocking of food grain for distribution to the poor under its food security programme, even if it breaches the 10% subsidy cap as prescribed by the WTO.



Taxation was one of the areas where India had success as the number of key goals set by Modi were accepted in the Summit. The common reporting standard and the automatic exchange of tax information were successfully endorsed. The communiqué also committed to finalise the adoption of the Base Erosion and Profit Shifting (BEPS) system, designed to reduce the ability of multinationals to hide their profits from taxes, by 2015 and most importantly the black money issue. Other issues which New Delhi pursued vigorously and found echoed at the G20 Summit included a reduction in the cost of remittances from abroad, of which India is the largest beneficiary at \$70 billion annually, as the G20 promised strong, practical measures to reduce the global average cost of transferring remittances to 5%.

Modi also extended India's backing for all the initiatives to facilitate exchange of information and mutual assistance in tax policy and administration. India pays among the highest global rates for natural gas because of the fragmented nature of the international gas market. It wanted the G20 to push for better energy markets to help reduce this discrepancy. There was an understanding reached on energy issues as well.

Undoubtedly, the Brisbane Summit managed to cover a wide gamut of issues. Given the success of the summit, it can be said that India's role was not only specific to a contributor but also a beneficiary.

### Missed opportunities

Despite the progress in the fight against tax evasion and corruption made this year in the summit, G20 leaders stopped halfway down the road. They failed to deliver true transparency. On anonymous companies – a weapon of choice for the corrupt – leaders agreed to a set of high level principles – which is significant progress. But while these principles lay out the importance of governments having access to information about who owns companies and trusts, they fail to concede that the public should see this information. Developing countries without legal treaties with G20 countries would also be denied this information.

On a crucial point, the Australian G20 regressed: transparency of the extractive industries. Under the Russian presidency last year, the issue was profiled in the official communiqué, but this has simply disappeared this year and been relegated to the annex as an area which is at risk of corruption, among others. It hasn't completely fallen off the agenda but certainly isn't there upfront either. With the EU progressing to transposing a new directive into national laws, and Canada close to finalizing laws, the G20 missed an opportunity to give a boost to extractives transparency internationally.

On tax evasion, the G20 referred to helping developing countries improve tax collection. It is positive that the G20 agreed to take forward Automatic Exchange of Information. But for developing countries that don't have the systems in place, to reciprocate and provide information to large countries like the US or Germany would not be possible from the start. Similarly, companies will be required to disclose their financial details on a country-by-country basis to governments as part of a broader project on reforming international tax rules – a

positive step – but again this is not available to the public or to countries without tax treaties with G20 countries.

Though so much emphasis is being given to infrastructure development, nothing concrete has been done to finance the enormous amount of required investment. For example, the Asia Pacific regions need almost \$1 trillion every year till 2020 to sustain their present growth rate. All Bretton Woods organisations, along with the new BRICS, AIIB banks, are nowhere near or in a position to do it. On the contrary, there are for instance countries like Japan which are sitting on billions and trillions of dollars in form of pension funds and insurance, or in the form of other savings instruments.

### Success of the Brisbane Summit and way forward

The Summit was successful as it covered wider areas and concluded with some of the major initiatives and promises. However, the success is dependent on cooperation, follow-through and the implementation of the commitments. The much debated growth target of 2 per cent over five years requires long-range commitments and the implementation of the policies which will require monitoring by IMF and OECD. On the infrastructure front, the countries need to go in for quality infrastructure and be judicious in selecting the 'right infrastructure' projects which will provide the highest net social benefit. To enhance global trade will require a rebuilding of the confidence in the multilateral trading system and WTO and most importantly rapid implementation of the Agreement on Trade facilitation.

For combating tax evasion, participation of non-OECD G-20 members (such as China, India, Brazil and South Africa) needs to be formalised beyond the current BEPS initiative. Moreover the IMF Quota and Governance arrangements need to be reformed and not be blocked by the US Congress again. Focus needs to be directed on developmental issues as well, as the G-20 development agenda has been criticised as being too diffuse and largely an 'add-on'. Therefore, the success of the summit will largely depend upon successful implementation of the policies which have been proposed in the Summit.

### Conclusion

As a G20 nation India's growth also depends on how well India can create links with its African and Asian partners. India's lines of credit and large developmental assistance into Africa and to the least-developed countries in Asia can prove important in the future. Equally important is the role India can play in the global financial market. Since the modern day global financial market was created for the Western nations (Bretton Woods, eurobonds, etc.), from within the G20, India would be suited to lead the charge for a more 'South-South' system. Whether it is the setting up of the BRICS bank (New Development Bank) or an Indo-ASEAN cooperative system, India has to be able to execute its Look East Plan effectively. India while accessing alternative markets is also creating alternative trade routes (eg. Indo-Myanmar-Thailand Sea link). In all these issues of importance for India, the G20 could serve as a useful vehicle in forging partnerships and agreements with other countries to achieve its development goals. ■

1. Between May 2013 to August 2013 the Indian Rupee had fallen nearly 17%.

2. [http://economictimes.indiatimes.com/news/economy/policy/g20-importance-of-the-summit-possible-takeaways-for-india/etvertical\\_articles/45160632.cms](http://economictimes.indiatimes.com/news/economy/policy/g20-importance-of-the-summit-possible-takeaways-for-india/etvertical_articles/45160632.cms)

3. <http://www.whitehouse.gov/the-press-office/2014/11/16/fact-sheet-g-20-brisbane-summit>



# Just the (T)TIP of the iceberg?

Jo Leinen MEP is President of the European Movement International (EMI)

**T**he on-going Transatlantic Trade and Investment Partnership (TTIP) negotiations have faced an unprecedented level of civic interest, becoming subject to heated public debates. Media and civil society organisations are in a state between support and protest. A supporting stance is evoked by the prospects for jobs and economic growth that are expected from a successfully concluded deal, whilst the threat of lowering standards - fomented by infamous reports of chlorine-washed chickens flooding European markets - is met with strong opposition from consumers.

Given existing US-EU trade convergence, why has the TTIP elicited such a debate? Aside from the economic size of the two partners, it is about the nature of the TTIP, which is more an all-encompassing regulatory agreement, rather than a classical trade deal. Taking a closer look at its structure, we could break it down into three parts:

- The first part is a classical market access approach whereby, in line with other free trade agreements, it encompasses tariffs and public procurement.
- The second part comprises the regulatory component, which seeks to harmonise certain industrial and product norms. TTIP opponents argue against this, as they call it, 'deregulation' or 'uniformisation' of standards, while its supporters claim that the existence of different rule sets constitute the real barrier to trade, especially for SMEs.
- The third part concerns basic agreements on rules, such as labour, the environment, and investment. It can thus be perceived as a basic agreement to prevent dumping, and at the same time: an attempt to establish an ambitious template introducing such rules at international level. The difficulties in assessing the real economic impact underlying TTIP results from the complex nature of the agreement, which is anything but a standard bilateral trade deal.

What lies beneath these headlines? Is the information available just the (T)TIP of the iceberg and anti-TTIP demonstrations seizing European capitals merely an expression of citizens' fear of the unknown?

To understand this, the TTIP debate needs to be de-dramatised. The concerns voiced are diverse. Some opponents of the agreement see dangers to democracy emanating from the planned establishment of an Investor-State Dispute Mechanism, others fear the import of shale gas and its environmental impact as well as the unwanted introduction of GMOs, while another group of protesters focuses on a wide scope of health issues.

The variety of doubts reflects the complexity of the agreement and leads us to the main issue: transparency.

## Behind closed doors

The EU negotiating team insists that the TTIP negotiations are the most transparent trade talks in the history of the Union and that it is due to their unfortunate start in June 2013, which coincided with the NSA scandal, that the level of suspicion is so high. If that is the case, taking into consideration the level and complexity of the agreement already debated, the European Commission should further develop the steps already taken in the area of transparency and citizens' involvement, by strengthening civil dialogue and conducting open consultations at every stage of the negotiation talks.

The Commission should build upon the momentum that was generated by the Council's decision to make the negotiating mandate public on 9 October 2014, especially after missing the opportunity to enter into the dialogue with citizens, when they voiced their concerns via the self-organised European Citizens' Initiative (ECI) against TTIP and the Comprehensive Economic and Trade Agreement (CETA) with Canada. The ECI 'Stop TTIP' was declared inadmissible by the Commission for legal reasons, but gained considerable support among the public. Even if the Commission acted correctly in the legal sense, it indeed lost a significant possibility to engage in a dialogue with the stakeholders.

If the Commission is truly committed to transparency on TTIP, it must now grant broader access to the negotiating documents. Regular publication of texts should include more detailed information on the content of the TTIP, as current information is predominantly based on leaked, rather than officially released documents. Only a few Members of the European Parliament and members of the TTIP Advisory group currently have access to this content - accessed via the medieval practice of reading rooms.

Moreover, the selected group of TTIP readers cannot disclose the substance of what has been studied. To fully exercise its watchdog's role and supervise the process of recognising concerns and incorporating relevant amendments, the European Parliament must be granted full access to the negotiation texts.

Also, as voiced by the members of the TTIP Advisory group, the reading room practice does not allow all members to have equal access to its content, disqualifying those not based in Brussels. Hence they call for digital access as well as the establishment of additional specialised advisory committees in each of the relevant Commission's Directorates, which could be directly asked for expertise.



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The Commission defends the reading room practice by providing an American example and stating that it cannot grant more access than the negotiating counterpart. As for the latter suggestion, the solution is still being considered, but it is constantly mentioned that it would be necessary to take confidentiality requirements into account. The European Ombudsman was sufficiently alarmed by the growing negative reactions following the closure of the 7<sup>th</sup> round of negotiations in Washington DC, to open a public consultation on the transparency of the TTIP-negotiations - the official outcome of which is expected to be published in early 2015.

Given the wave of protests, Commission representatives claim that TTIP has revived the anti-globalization movement, which is leading a fear campaign against free trade. In response, the Commission organises stakeholders' meetings after every single negotiation round. The Commission recognises the trust problem in European institutions, as every debate on substance leads to the distrust argument. From the negotiators' perspective, NGOs do not engage with the Commission by asking for meetings – that is to say they do not go to the decision-makers and give substantive positions and opinions - but they mobilise the public instead.

At the same time, the Directorate General for Trade openly admits that the Commission is not used to liaising with the public and still has a lot of room for improvement in this field. Indeed, negotiation teams need to take into consideration the concerns that repeatedly arise in debates amongst non-governmental organisations, civil society organisations, consumer groups and labour organisations, and to ensure that they are well represented at the negotiation table. Concurrently, we are drawn to the core of the communication problem: the Commission is not a pan-European communicator. This gap could be filled by encouraging national governments to better engage in the TTIP communications, which should go way beyond the big European capitals.

The negotiations should not fail for the wrong reason, which is the transparency dispute. Yet, without achieving a satisfactory level of communication with stakeholders, the level of trust needed to successfully back the deal will not be achieved.

**TTIP legacy and a brand new approach**

The call for general transparency and enhanced communications was backed by the new Commission President Juncker, who stated that the new College of Commissioners is going to be more 'media-friendly', when officially taking office on 1 November. During the hearing of the (then) Trade Commissioner designate, Cecilia Malmström, the European Parliament received assurances that efforts would be made to improve transparency and access to negotiating documents, as well as communication with the European Parliament, national parliaments, and, first and foremost: the European citizens. The increasing role of trade for Europe's jobs and growth was emphasised, "Trade [...] clearly shows the added value of Europe working together".



EMI TTIP Summit, Brussels, 2<sup>nd</sup> October 2014

The two main challenges Malmström undoubtedly has to face, inheriting De Gucht's legacy, are the burning issues of transparency and investment protection provisions. A number of suggestions for a new approach have already been made at the last meeting of the TTIP Advisory Group. These include: more positive engagement with civil society and citizens in general, as well as greater access to documents; pro-active engagement in the public debate by presenting the benefits of TTIP, rather than only tackling the myths which can come across as defensive; and scrapping the reading room in favour of a secure electronic system for use by the advisory group, similar to that used in the US for cleared advisors.

In sum these provisions would ensure greater access to documents for all Members of the European Parliament. One positive step taken by the new Commission was Cecilia Malmström's announcement of measures in the framework of a broader transparency initiative coordinated by the first vice-president of the Commission, Frans Timmermans.

Responding to the very controversial issue of including the Investor-State Dispute Settlement (ISDS) in the TTIP during her Parliamentary hearing, Malmström answered diplomatically, "[W]hether ISDS will stay in TTIP, I don't know, it is too early to say". We need to bear in mind that the S&D Group openly stated its lack of support for the TTIP if it includes ISDS provisions, whilst the Greens have voiced their general opposition to the deal.

The new Commissioner's remarks on the possibility of designing "a new system that addressed all people's concerns", maintaining an open tone and offering room to manoeuvre, were praised by Bernd Lange, Chair of the International Trade Committee at the European Parliament. Recalling that there are thousands of investment treaties already functioning, with EU corporations involved in over 60% of ISDS cases world-wide, we need to think carefully about the entire system. No discussions on investment protection or investor-to-state dispute settlement were included in the last negotiation round on 29 September – 3 October 2014, which focussed on the technical regulatory issues covering roughly all products.

**American TTIP story**

Another widely debated issue revolves around standards and consumer protection. In this particular context it is interesting to take a look at the 'more relaxed' American perspective. US civil



society organisations are briefed on a regular basis - following each respective negotiation round, there are advisory committees which are provided access to the texts via reading rooms, and regular meetings with a plethora of stakeholders chaired by Ambassador Michael Froman.

During his speech delivered in Rome on 14 October 2014, the US Chief Negotiator strongly addressed the issue of standard lowering, continuously raised by the European actors, *"Americans don't want lower standards. Europeans don't want lower standards. We won't negotiate that kind of agreement. And our legislatures wouldn't approve such a thing. And the only reason we are negotiating this agreement is because we believe that, on balance, we share a similar commitment to strong levels of health, safety and environmental protection – even if our regulators get to the answer through somewhat different approaches."* The US thus shows a high level of political commitment to TTIP and the understanding that separate systems will be maintained.

Stakeholders on both sides of the Atlantic need to understand that there is nothing like a 'one size fits all' regulation and focus instead on the differences that pose obstacles to trade, mainly for SMEs, as the negotiators claim. The US' initial offer was based on the elimination of all tariffs, which is not an option for the political establishment in Europe. American negotiators remind their European counterparts of the mistakes made early on whereby the apparent secrecy of the trade talks led to ill-feeling and suspicion from citizens that has been allowed to grow, rather than being countered by policy makers. Once again, the communications' problem appears to prevail. The American stakeholders state that the EU and the US have a chance to shape globalization through the TTIP. The alternative is to let ourselves be shaped by globalization.

### **Towards a transatlantic energy alliance**

Shadowed by exhausting energy talks with Russia and the Ukrainian crisis, many ask if TTIP can help to solve Europe's energy-supply situation via US sourced fossil fuel exports. Commentators, such as *Forbes*, have said Ukraine needs an American-style shale gas revolution. The recent boom in unconventional energy supply from oil and gas on the other side of the Atlantic provoked many questions about its potential impact on the global energy markets, the security of energy supply, especially crucial in light of the on-going talks with Russia, as well as its environmental impact.

Within these debates the question of European energy security emerged: how and whether the old continent can develop its own resources and what the potential consequences of unconventional hydrocarbon production would be. The possible adverse environmental impact of such a switch has to be taken into account. Europe's 2020 climate and energy policy (which imposes strict carbon emission limitations: 20% reduction in comparison to 1990), rightly focuses on renewables and not fossil fuels. France, Bulgaria and the Czech Republic have banned fracking. Germany continues research without issuing any fracking permits. In the UK, it is permitted under strong regulations. Poland, due to the on-going energy concerns related to the situation on the Eastern border, remains one of the shale gas supporters. A leaked document on TTIP, published by *The Huffington Post* in May 2014, revealed the EU negotiation position 'on raw materials and energy'. Article C of the document provides that no restrictions should apply to the 'exports of energy goods' between the transatlantic trade partners.

*"The goal of the on-going negotiations should be to make TTIP a deal that truly intensifies cooperation among Western democracies and settles precedential trade standards in the globalized world"*

### **Transatlantic renaissance**

Institutional changes in Brussels and Washington will undoubtedly pose new challenges to the TTIP negotiations due to the on-going political transition on both sides of the Atlantic. However, a successful TTIP agreement could herald a 'transatlantic renaissance'; still, it could only be achieved as a result of a multi-stakeholder dialogue, where the concerns of all interested parties are carefully examined and taken into consideration.

Concerns that should be further addressed in the stakeholders' dialogue should not only tackle the issues outlined above, but also touch upon the impact of TTIP on EU partners. That is to say, candidate and potential candidate countries, states in the wider European Free Trade Area, as well as those EU member states that have been hardest hit by the economic crisis – themes which tend not to be widely discussed at the negotiation table. The Commission needs to improve the communications system, preferably through boosting the national channels and by involving European governments. As such information should not only be broadcast from within the European Bubble in Brussels, but should reach other audiences and stakeholders, and allow them to voice their concerns at the negotiation table. Such an approach would deliver a more effective deal that safeguards European citizens' interests, and that would gain the support, rather than opposition of, civil society.

Only by embracing views from all parts of Europe and its citizens will the joint transatlantic TTIP venture be considered truly successful. The concept of stakeholders' consultations need to be further explored and understood correctly to fully emphasise the importance of intensifying economic and political cooperation between the world's two leading open and democratic market economies. The promise of boosting markets, flourishing trade and investment as well as increased wages should not overshadow the issue of regulatory convergence and cooperation being pursued openly and not leading to lower standards. It should serve the purpose of promoting fair competition and economic openness in the world economy and safeguard the environment, fundamental principles and rights at work.

This agreement is wanted and needed, but not at any cost – it should be a result of wide consultations, careful examination of concerns, and implementation of necessary amendments. The goal of the on-going negotiations should be to make TTIP a deal that truly intensifies cooperation among Western democracies and settles precedential trade standards in the globalized world. ■



# The possible merits of TTIP

Jacques Pelkmans is a Senior Fellow at the Centre for European Policy Studies (CEPS)

**T**he Transatlantic Trade and Investment Partnership (TTIP) is hyped up in various ways, negative and positive. Both are overblown. One wonders why various groups or politicians do this so blatantly. A sober look at the possible merits of TTIP is needed.

The two central reasons why TTIP has been in the spotlight are the economic size of the two partners (the EU and US) and the ambitious and wide-ranging nature of the proposed agreement. With nearly 40% of world trade conducted with the EU plus the US, the enormous potential of TTIP is obvious. The economic preponderance of the EU + US is even greater in terms of stocks of foreign direct investment in each other's markets. If well-done and WTO-compatible, TTIP could 'lead' the world economy into a new, more advanced set of rules for trade and investment.

However, that one-liner has to be thought through for a host of reasons. One is that many other WTO members might not want to be placed before a 'fait accompli'; another, that most WTO members might not be economically capable to maintain such more advanced rules (note that a number of specific agreements of the Uruguay Round – eg. on pre-shipment inspections, TRIPs, customs valuation, etc. – have still not been fully incorporated in national laws of several WTO countries, not to speak of proper enforcement); yet another is that such Atlantic rules might not fit or be preferred by (say) China, India or Brazil; still further, even if TTIP might serve as the beginning of a new world regime, what about the WTO as a negotiation platform? What would remain of it, and what rights or opportunities will genuinely exist for the large bulk of the WTO membership? Should one multilateralize TTIP, and, if so, will the US and the EU be prepared to genuinely modify it, or, would the world be dragged into a Doha Round 2.0 again?

The nature of TTIP is incredibly broad. When a negotiation round is held, in Washington DC or Brussels, the airplane is full with regulators and regulatory advisors, besides a more limited number of trade negotiators. The principal reason is that, strictly, TTIP is a so-called 'FTA-plus' negotiation, but in fact it is meant to become a 'regulatory agreement'.

Good old-fashioned trade policy is not the core of TTIP at all; one might even ask the question whether TTIP would or should be shaped or drafted as a trade agreement. The main problem with trade agreements is that trade negotiators (in an old tradition of GATT and even older commercial diplomacy, but also for reasons of building a political alliance at home to support the deal) strive after a 'balanced' agreement, implying trade-offs during the end-game of talks. Such trade-offs are

usually about tariff concessions and, in the past, quotas as well, with great flexibility over thousands of tariff lines for goods.

But in regulatory agreements, such a balancing would be utterly mistaken, as the improvements in market access are built on fundamental regulatory principles, not ad-hoc deals on individual tariffs. If, say, mutual recognition would be agreed in TTIP in product market x, it would be inconsistent and arbitrary to disallow that for some subcategories of these products, merely because the result in some other area in the negotiations is not fully to the satisfaction of EU or US negotiators.

But the nature is also determined by the huge spectrum of policy domains included, be it services (like the GATS but with more ambition for access commitments), investment (including the now much discussed dispute settlement via arbitration in ISDS), competition, IPRs, horizontal regulatory arrangements (also with an eye to future regulatory initiatives in new domains like electric cars or, even more fundamentally, as a 'living agreement', and about 'transparency' and openness to comments from each other), standardisation, a series of sectorial approaches meant to reduce 'regulatory barriers' to market access (eg. cars, chemicals, food & feed with SPS measures, machinery, air transport, etc.), public procurement, environment and climate issues, energy (although it is still an open question how much and how far, for instance, about lifting export restrictions) and so on.

There are also some 'taboo' areas, kept out of the talks such as broadcasting, the US Jones Act (an old super-protectionist device to protect shipping), GMOs, perhaps financial markets, and whether these might come in later is unclear. Almost all aspects in these domains are about regulation. The central question is whether such ambitious negotiations would not undermine or at least possibly affect the EU and/or US regulatory autonomy to regulate as its electorate wants it, now and in future? A lot of the recent debate – if it deserves that label – boils down to an all-or-nothing ping-pong between authorities explicitly denying that such autonomy would be affected, and loud (though unsubstantiated) assertions that it will.

The mandates on both sides as well as subsequent formal documents from negotiators, all public, are clear: TTIP is not about questioning or undermining regulatory autonomy. This is sensible as neither Congress nor the EP (not to speak of the Council of the EU) would accept this anyway. Why then the unproductive exchange of denials and repetitions of the mandates? One explanation is that some political currents and NGOs have chosen a confrontational attitude – irrespective of whether it is based on facts or mandates – in order to bind or

please their electorates having pre-conceived views. In some sectorial instances, this is supported, but the hidden reasons may well be protectionist. The upshot is an artificial non-debate about what TTIP is not!

This is not to say that the regulatory aspects in TTIP do not present challenges, they do. But regulation is not so easy to change. Since about two/three decades, the EU has become much more interested in how to 'better regulate' for given societal objectives such as safety, health, environment and investor/consumer/saver protection. In the past, given objectives were often strived after with inefficient means or heavy-handed procedures. The Commission Impact Assessments (in operation since 2003) have gradually caused a much more careful and analytical thinking about how to draft legislation (including, where relevant, reference to standards) properly, considering alternative options, with their societal benefits and costs. It is in this type of thinking where the EU and the US have become much closer.

But if that is so, then there must be numerous opportunities to lower regulatory barriers over the North Atlantic, without in any way sacrificing one's regulatory autonomy. However, in the EU there are fears that such thinking might be unduly influenced by lobbies, hence perhaps end up in deregulation where it should not. In the US one stumbling block consists in the many independent federal regulatory agencies, which have proven in the past to be almost immune to suggestions from international negotiations.

In 1998 the US and EU concluded six sectorial Mutual Recognition Agreements (MRAs, recognising conformity assessment - for export purposes - by technical bodies, themselves recognised as competent, in the 'other' partner economy, on the regulatory requirements of the importing country) but three of them - with most of the potential trade - are not operational due to a refusal of US Agencies to respect the details and spirit of the MRAs. In many areas, the US and the EU have developed 'soft' forms of regulatory cooperation for years, with some concrete results (eg. in aircraft certification, organic farming, wines, etc.). In the OECD the EU and US have committed to mutual recognition of chemical test data. TTIP has to build on that but

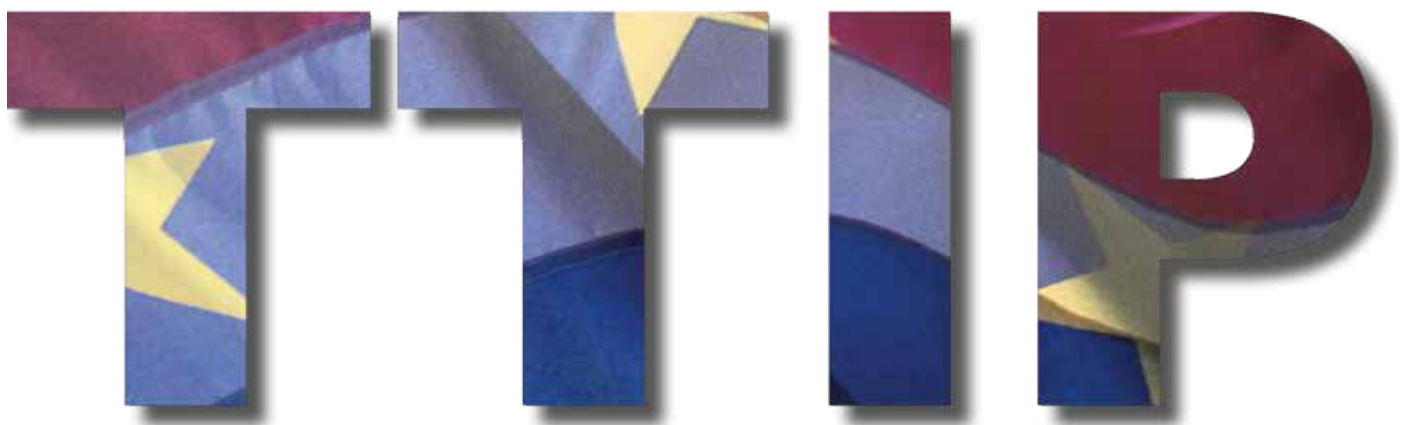
*"If well-done and WTO-compatible, TTIP could 'lead' the world economy into a new, more advanced set of rules for trade and investment"*

amplify and 'deepen' such cooperation over a wide spectrum of sectors, including services.

There is also some discussion about the economic gains of TTIP. Here the US and EU have hyped a little too much at the outset, calling TTIP a kind of growth engine, in times when other sources of growth are hard to come by. With more empirical economic studies around, and disregarding one outlier which suffers from highly unrealistic assumptions, one may say that, if TTIP is achieved more or less as intended, the addition to EU GDP would be somewhere between 0.5% and 1%, including so-called dynamic longer-run effects. This is most welcome but not really a growth engine.

There are a few studies predicting doom, even negative output effects, as well as negative impact of third countries. If TTIP can succeed in making rules attractive for third countries and/or principles which would be MFN-based (ie. non-discriminatory in WTO), there would be positive spill-overs to third countries, possibly larger than any other negative effects. The intra-EU negative effects on output seem not credible on the whole and are due to modelling aspects. Of course, sectorial negative effects can occur but the positive effects for the sectors mentioned above almost certainly dominate by a considerable margin.

The TTIP is a major effort and will take a long time. here might be an 'early harvest' for political reasons in 2015 and that may well be wise. Anyway, it is meant to be a 'living agreement' and if there is enough stamina (yet, some urgency as well), the talks may well continue for another three years. Better a sound agreement which is truly acceptable in domestic politics on both sides, than a partial and unsatisfactory one. ■





# Eastern Partnership at a crossroads

**Amanda Paul is a Policy Analyst and Senior Programme Executive at the European Policy Centre (EPC), Brussels**

**T**he EU's Eastern Partnership (EaP) initiative aimed to bring increased stability, prosperity and democracy to the six partner countries - Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine. Over the last five years, the EaP has produced mixed results, achieving more in some partner countries than others. While some states wish to become full-fledged EU members, others want a more minimalistic approach.

Structural policy weaknesses and different socio-economic realities of the Eastern partners notwithstanding, a significant challenge to the policy has come from Russia which views European integration and democracy on its borders as a threat to its own security. Today insecurity and instability in the EU's eastern neighbourhood is far greater than it was five years ago as Russia has pushed back against the aspirations of Ukraine, Moldova and Georgia to further integrate with the EU.

While trade embargoes have been used to undermine economies, Russia has created instability via the existing frozen conflicts in the region and by creating new ones. Hence, while the framework of the EaP was correct, the assumption was wrong - namely the EU under-estimated how Russia would view the threat to the spread of Western values to its borders.

The future of the EaP, not to mention the security of the Eurasia region, depends on the EU's ability to clearly define its objectives in the region, respond robustly to Russia, and give the countries that are committed to modernization and democratization sufficient political and economic support.

The EU's new leadership has promised a review of the Eastern Partnership. This is important because the EaP in its current form has run its course. There is now a broad recognition that there is a need for a more differentiated approach. This does not mean scrapping the policy, but rather deconstructing and reloading it, taking into account the new realities on the ground.

There is little to be gained by putting countries that see their future as full members of the EU (Ukraine, Moldova and Georgia) and which are committed to carrying out political and economic reforms, with those countries that want very different types of relationships (Armenia, Azerbaijan and Belarus). Much greater focus needs to be placed on bilateral ties rather than on the multi-lateral approach, meaning the EaP requires a tailor-made approach, linked to each partner's achievements and the wishes - not just the political elites but other actors such as civil society and business.

## Ukraine-Moldova-Georgia

The Russia-Ukraine crisis forced the EU to boost its engagement with Ukraine to an unprecedented level which has had a knock-on effect on Moldova and Georgia. All three countries signed Association Agreements (AA) including Deep and Comprehensive Free Trade Areas (DCFTA) with the EU in June 2014. These are now being implemented, although in the case of Ukraine the provisional application was postponed until the end of 2015. However, the road ahead will be far from easy as implementation of AA/DCFTA's will not be easy or cheap.

With Ukraine, the EU has increased political, economic and security ties and has acted as an interlocutor in gas talks between Ukraine and Russia. The crisis with Ukraine has created greater solidarity in terms of steps to strengthen energy security, and has been a wakeup call to the EU in terms its relationship with Russia. However, Ukraine's new coalition government faces significant challenges of both an internal and external nature and Kyiv will require significant economic and political support for the foreseeable future, otherwise Europe risks a failed state on its doorstep.

Yet despite Ukraine's economic woes, economic support must be linked to reform. While Russia is without doubt a significant threat to Ukraine, security, stability and prosperity will only be achieved if Ukraine's political elites make a complete break from the corrupt and criminal style of governance that has plagued the country for the last two decades.

Meanwhile, the recent parliamentary election in Moldova has underlined how divided Moldovan society is, with the pro-European parties winning by a whisker. Despite the ruling coalition declaring that European integration is irreversible, almost half the country continues to favour closer ties with Russia. Moscow has been particularly proactive. As in Ukraine, Russia carried out a successful information war, promoting its own Eurasian Union, decimating the EU, while also placing trade embargoes on Moldovan produce and threats of restrictions on labour migration in Russia.

The EU and the Moldovan authorities have failed to match Moscow's proactivity in terms of promoting their own policies, including failing to explain the benefits of closer integration with the EU and drawing attention to projects, including infrastructure such as roads and bridges, that has been financed by the EU. The new coalition government, together with the EU, will need to significantly beef-up their communication strategy if they are to turn this situation around.

The Georgian approach to the EaP has been successful for a number of reasons: political consensus for Euro-Atlantic integration; broad public support from all parts of society; a genuine desire for democratic change and a shared belief that, given its geopolitical situation, membership of the Euro-Atlantic institutions is the only way to guarantee Georgia's independence and long term security.

Located in a particularly volatile region, surrounded by undemocratic states and frozen conflicts, Georgia can be a role model for the region, representing an opportunity for the EU to demonstrate how adopting key reforms and values can improve the quality of life for the population. However, maintaining the current level of support will not be easy as Georgia begins to implement the AA and DCFTA.

All three countries require deeper support from the EU and the Union should be creative in terms of its engagement, including reaching out and initiating dialogue with other important actors, such as the Russian Orthodox Church.

### **Armenia-Azerbaijan-Belarus**

Armenia, Azerbaijan and Belarus have no aspirations to join the EU. Nevertheless, all three want relations with the EU but to different degrees. Armenia's relationship with the EU has entered a new phase based on the new reality of Yerevan's membership in the Eurasian Union. While what Yerevan is able to have in terms of cooperation with the EU is limited there is still space for the EU, and it's important for the EU to be there supporting civil society and other actors in the country.

Azerbaijan, an important EU energy partner, is looking for a strategic relationship based on mutual interests and objectives and is not interested in signing an Association Agreement or being a party to the EU's 'more for more' approach. Belarus is also looking to open a new dialogue with the EU and this should be explored, despite ongoing concerns related to human rights.

### **Expectations from the new team**

With a new team taking over the top EU posts there has been considerable speculation over what this will mean for foreign policy, and in particular how it could impact the Eastern Partnership at such a crucial time for the EU's relations with its Eastern neighbours.

It seems that the new leadership is unlikely to have a significant impact on the policy, particularly in terms of what the end game will be. President Jean-Claude Juncker's statement that there will be no further enlargement for the next five years, a remark that brought little counter-reaction from any of the member states, demonstrates that with the exception of a handful of states, there is little appetite for further enlargement and a continuing lack of political will to even begin to contemplate offering membership prospectuses to countries such as Ukraine, Moldova and Georgia.

Moreover, the new high representative for foreign and security policy, Italy's Federica Mogherini, has never been regarded as a strong supporter of further enlargement. And in terms of neighbourhood policy, Rome traditionally looks to the south when neighbourhood issues are discussed.

*"... any revised EaP would have to take into account the fact that Russia was the main threat, as witnessed by its annexation of Crimea and promotion of instability in Eastern Ukraine"*

While the new Commissioner for enlargement and neighbourhood policy, Johannes Hahn, stated during his hearing in the European Parliament that Ukraine would be his priority, his catchphrase for the countries in his dossier was 'quality before speed' - making the economic benefits of applicant and association agreements more visible and ensuring that these countries also did their homework in implementing reforms.

This again indicates that we are likely to see a continuation of the 'door is neither open nor shut policy' because of the ongoing enlargement fatigue and the very visible lack of consensus and vision amongst EU member states over how far and how deep the policy should go. The current state of the Union is very fragile due to poor economic growth and the rise of populism. This makes it all the more difficult to pursue normative values in external relations.

### **The Riga Summit and beyond**

The May 2015 Riga EaP Summit seems set to be a watershed moment as Ukraine, Moldova and Georgia are demanding a clearer, longer term perspective, as remaining in what could be termed as the 'the grey zone' indefinitely will be very difficult. While the Riga summit will be an opportunity to assess the provisional results of the implementation of association agreements, there is an urgent need for the EU to first of all deliver something tangible such as visa liberalization to Ukraine and Georgia as well as present a vision for the future. This could take the form of a roadmap that goes beyond what is currently on the table, to give all three states a sign that there is a light at the end of the tunnel and to clearly distinguish them from the other states in the policy.

Furthermore, any revised EaP would have to take into account the fact that Russia was the main threat, as witnessed by its annexation of Crimea and promotion of instability in Eastern Ukraine. It also had the tools to interfere in other EaP countries. Furthermore, when it comes to Russia and the EaP countries there can be no compromise and the EU must demonstrate unity in purpose. This means the EU devise a robust strategy for Russia which must include continuing with its policy of sanctions as long as Russia refuses to de-escalate the situation in Eastern Ukraine, despite the economic pain this is causing in some member states.

Steps to appease Russia or strike a grand bargain should be avoided as Moscow will perceive this as the EU allowing Russia a veto on the EaP and this is something we must never allow. If we do so we will, to all intents and purpose, be agreeing to Russia's goal of re-establishing zones of influence. ■





# Intellectual property protection: the key driver of innovation in Europe

Emma Marcegaglia is the President of BUSINESSEUROPE

Legend has it that the much-loved Earl Grey tea was first blended by Richard Twining in 1831 when British Prime Minister Charles Grey asked him to replicate a tea he'd been given by a Chinese Mandarin. Sadly, Mr Twining didn't think of protecting his 'Earl Grey's mixture' – tea flavoured with bergamot oil – so his 19<sup>th</sup> century competitors felt free to come out with their own brands. In short: the Twining's company failed to care about the protection of their intellectual property (IP).

What didn't seem as a priority for a 19<sup>th</sup> century company is of crucial importance in the 21<sup>st</sup>. The protection of IP in Europe is key to drive innovation and creation. This is the basis for progress, growth and job creation. But innovators and creators need to know that their inventions and creations can be protected and their rights enforced.

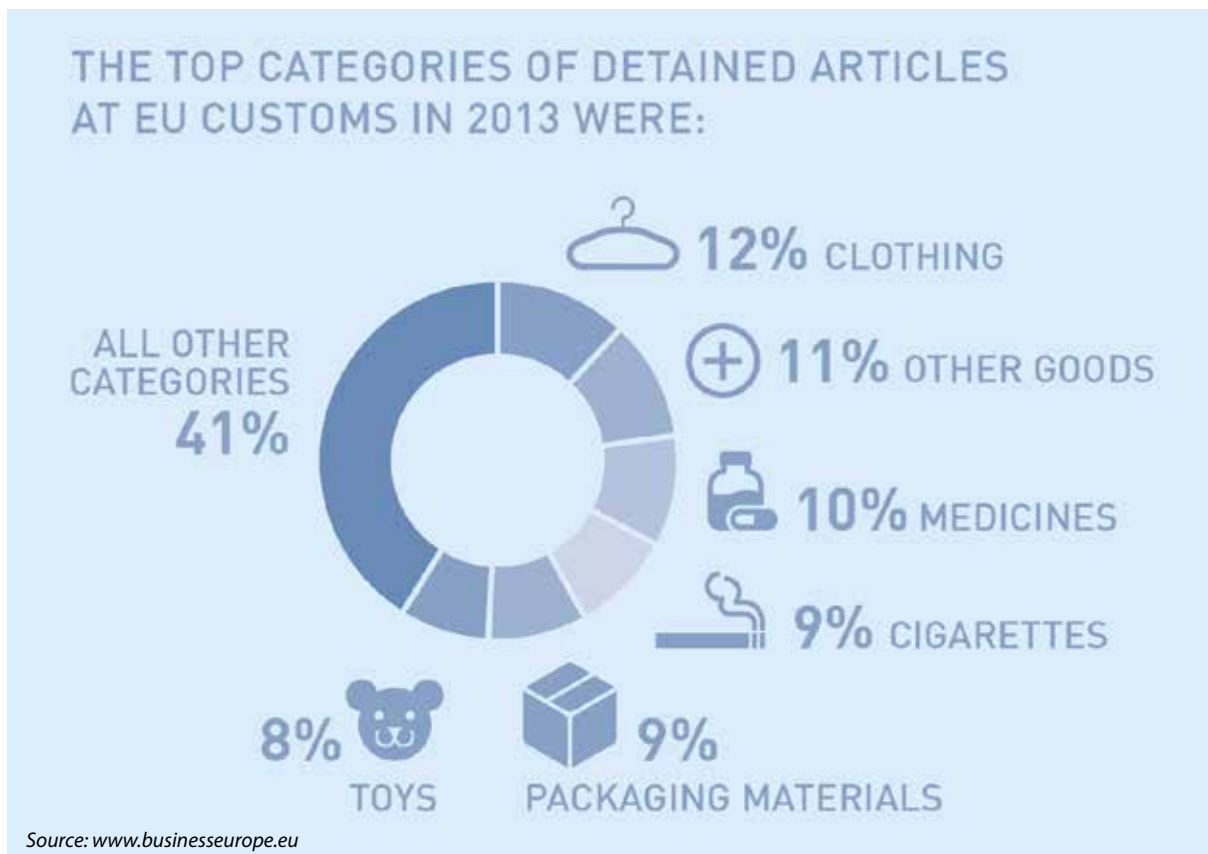
We use new or improved products and services every day. Today IP-intensive industries generate about 39% of EU GDP and directly employ 56 million people. Roughly 20 million

jobs in Europe come indirectly from IP-intensive industries, illustrating the positive spill-over effects that these industries have on other parts of the EU economy.

Despite the fundamental importance of protecting IP, innovative businesses - in particular SMEs and start-ups - still face many challenges when trying to protect their inventions and creative works. In today's digital world the enforcement of IP rights is especially difficult and increasingly challenging.

We know from practice that not all of our European companies are fully aware of the benefits of IP yet. They do not always protect their inventions and creations properly, so others can misappropriate them. Many SMEs and start-ups struggle to find the right information. They often have trouble to understand where and how to obtain protection and how IP can help their business.

BUSINESSEUROPE is a firm advocate of teaching the value of IP across the board, from the classroom to the boardroom, with





# “Aviation Malta - Open for Business”

The Malta Business Aviation Association (MBAA) aims to promote excellence and professionalism amongst our Members to enable them to deliver best-in-class safety and operational efficiency, whilst representing their interests at all levels in Malta and consequently Europe. The MBAA will strive to ensure recognition of business aviation as a vital part of the aviation infrastructure and the Maltese economy.



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*“The protection of IP in Europe is key to drive innovation and creation. This is the basis for progress, growth and job creation”*

special focus on young entrepreneurs, start-ups and SMEs. We also support the national IP offices in their efforts to step up their awareness-raising actions.

The full picture is quite complex as different businesses from different industries use different IP rights, such as patents, trade marks, designs and copyright.

One of the big challenges in bringing innovation to the market is financing. Therefore IP valuation is important for the commercialisation process, making it possible to licence and exploit IP assets. This is why BUSINESSEUROPE urges Europe to develop a simple and effective European approach for IP valuation to boost much needed public and private investment.

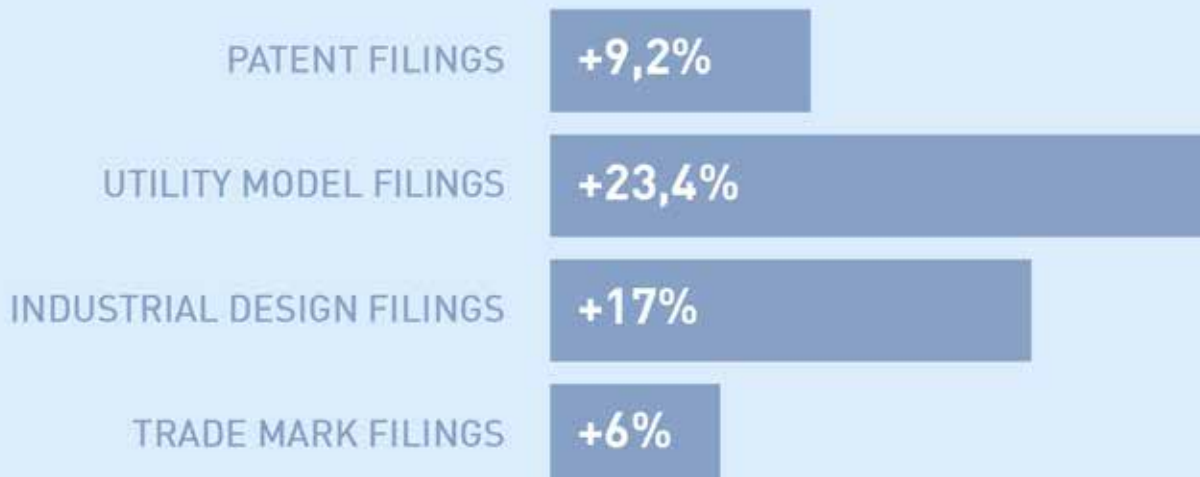
But even if innovation is brought successfully to the market there are new hurdles ahead. European companies find it very difficult to enforce their IP rights, especially online and across borders. The rise of piracy and counterfeiting poses health and safety risks to consumers, leads to value losses and destroy jobs in Europe. If we look at the overall figures: in 2013 EU customs detained almost 36 million products suspected of violating IP rights, at a value of nearly €800 million. Most of them were fashion items, medicines, cigarettes, packaging materials and toys. Every year about 2.5 million jobs are at risk worldwide as a result of counterfeiting and piracy.

We shouldn't look only at Europe, of course. Innovation and IP are becoming more and more global, creating new challenges for policy-makers and IP offices around the world. There is a worldwide backlog, for instance, of over 4 million unprocessed patent applications, resulting in delay costs of about €9 million each year in Europe, the US and Japan alone. The backlogs and enforcement issues have already prompted the IP offices of Europe, the US, Japan, China and South Korea to cooperate on streamlining rules and procedures. This will benefit businesses globally through less duplication of work, less costs and less red tape. Various EU bilateral trade agreements can also help to align global IP standards.

It is not only companies, of course, benefitting from a properly working IP protection system! There are substantial benefits there for the whole of the society. Europe is facing major societal changes from the growing need for healthcare to developing clean energy or improving the global food chain. Substantial R&D investments are needed to address these future concerns. But there are already positive results. For example: increasing e-waste patent activity will help deal with a rapidly growing mountain of old, redundant electronic devices that will reach 65.4 million tons by 2017. 53% of industry, already involved in water treatment innovation, use patents to deliver clean drinking water and wastewater treatment services. When it comes to climate change: since the end of 2012, 1.5 million documents, relevant to most climate change technologies are already freely accessible globally via the European Patent Office. The number of patent applications related to medical technologies at the European Patent Office has soared from 7,238 in 2004 to 10,668 by 2013.

When looking at the challenges ahead for European companies in terms of increasing our competitiveness, returning to a sustainable growth path and creating more jobs again we need to understand and appreciate the real value of IP better and act accordingly. There is no time to waste! ■

## IP GROWTH IN 2012



Source: [www.buinesseurope.eu](http://www.buinesseurope.eu)



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# Leadership for an ambitious climate agreement

**John Danilovich is Secretary General of the International Chamber of Commerce**

**E**ven in a period of economic and political instability, climate change remains one of the greatest long-term global challenges facing humanity. Only with determined and collective global action can we solve pressing global environmental, societal and economic issues, like climate change.

It is against this backdrop that global gatherings like the UNFCCC Conference of the Parties (COP) take place. Talks in Lima have the potential to provide a solid basis to achieve, for the first time in over 20 years of negotiations, a binding and universal agreement on climate change, from all nations of the world at COP21 scheduled to take place in Paris in 2015.

Global business is well aware that governments will have to seek agreement on a number of significant issues, including the Intended Nationally Determined Contributions (INDCs), in order to reach an ambitious and globally effective outcome in the framework of the UNFCCC by 2015.

## **Predictable policy frameworks**

Currently, the lack of clarity on the future outcome and uncertainty over how it would work in practice, curbs the pace of business investment and innovation, and decisions to pursue an economy with lower emissions.

The magnitude of the climate change challenge calls for an ambitious long-term public and private strategy to enable the rapid development and uptake of new and existing 'low-emission' technological solutions to address our production and consuming patterns. As the private sector has a central role to play, given that it is at the heart of innovation, job and wealth creation, the new agreement should fully engage the private sector over the short- and long-term.

Investment and innovation are critical to addressing climate change while meeting the world's growing demand for energy. Governments must craft policies that enable innovators and investors from the private sector to confront the dual challenges of climate and energy. Smart policies can unleash investment and innovation, while uninformed policies can ultimately stall them.

## **Incentives for the private sector**

According to a 2013 study by the Climate Policy Initiative (CPI), global climate finance flows have stabilized at US\$359 billion, or around US\$1 billion per day – and have fallen short of even the most cautious estimates of investment needs. This shows how important it is for policymakers to deliver precious public resources in ways that create incentives for private investors

to scale up and accelerate their investment in low-carbon and climate-resilient growth options. The study pointed out that the policymakers have to address the challenge that private investors invest their money when the returns on offer outweigh costs. It suggests that policymakers should develop enabling environments that encourage private investments.

Clearly, there is an urgent need to rebuild business' faith that investments – domestically and internationally – to low-emission solutions will deliver the promised savings and returns in time. The preference to channel climate finance domestically pointed out by the CPI study, stresses the likely impact of stable and trusted domestic incentives and regulatory frameworks in unlocking further private investment.

Global implementation of climate-friendly technologies is critical to the success of efforts to confront climate change. Developing country access to 'low-emission' technologies is central to this effort. In particular, it is vital to increase energy efficiency in developing countries, which are only one-third as energy efficient as developed countries.

Global business is working to develop climate change solutions across a wide number of areas, from energy- and resource-efficient technologies, wind and gas turbines and solar water heaters, to more resilient and efficient construction and infrastructure, to financial products that catalyze climate and environmental friendly investments.

## **Strengthen technology deployment**

Eliminating the barriers to trade in green goods and services would reduce their prices and enable their diffusion worldwide at the lowest possible cost. It would also provide incentives and expertise needed to enable developing countries to expand their production, use and export of climate-friendly technologies.

Enabling frameworks, including enhancing absorptive capacity and ensuring robust intellectual property rights, are critical for innovation, technology development and deployment. In the last 10 years alone, more than 200,000 patents have been registered worldwide for solar, biomass, fuel cell, wind, ocean, geothermal and other new climate-friendly technologies. These innovations would not exist without the legal certainty that intellectual property rights will be protected.

Governments have an important role to play in all of these issues – by keeping markets open for trade and investment, protecting intellectual property rights, fostering a sustainable innovation industrial policy, a coherent fiscal framework, and

creating a stable, predictable environment where companies can plan and invest for the future.

### **Towards a global level playing field**

Looking at climate change, trade, and competitiveness, urgent questions are being raised for the nations of the world. The International Chamber of Commerce (ICC) urges international climate negotiators in Lima to work with other international institutions such as the World Trade Organization (WTO) or international forums such as the G20 to facilitate open trade and coherent investment towards a 'green economy'.

Furthermore, ICC encourages all parties to contribute to a global level playing field by addressing both environmental targets and competitiveness, fostering efficiency measures and pursuing mechanisms that work with the market within the context of each country's respective national circumstances.

### **A role for business**

The 2015 climate agreement must include a recognized substantive role for representative business organizations, and ICC is ready to work with governments and the UN to develop such a mutually beneficial interface.

*“ICC encourages all parties to contribute to a global level playing field by addressing both environmental targets and competitiveness, fostering efficiency measures and pursuing mechanisms that work with the market within the context of each country's respective national circumstances”*

As the world business organization, with a global network reaching 6.5 million companies, chambers of commerce and business associations in more than 130 countries and primary business interlocutor and partner in key intergovernmental negotiations, ICC will contribute to constructive dialogue in Lima and beyond to help lead to a higher level of global policy coordination to address climate change impacts and lower emissions of greenhouse gases. ■





# Four species of sustainability

**Paul Driessen is senior policy analyst for the Committee For A Constructive Tomorrow ([www.CFACT.org](http://www.CFACT.org))**

Sustainable development and its permutations. Distinguishing the 'real deal' from agenda-driven varieties is key to business success<sup>1</sup>

**N**ewspapers and magazines are replete with articles and advertisements about sustainable development, sustainable business practices, and sustainability as an essential component of 'corporate culture.'

Companies, communities, hotels, restaurants, even colleges and religious institutions extol their commitment to it. Initiatives attempt to put the pledges into practice. Sustainability underpins, drives and justifies activist campaigns, United Nations conferences, and US Environmental Protection Agency (EPA) policies. And yet, there is no accepted definition of sustainability.

This oversight allows people and organizations to issue proclamations about what is or is not sustainable, without those assertions being logically or scientifically testable, in a context where it is difficult to question the accuracy of their claims, or examine the actual costs and benefits of proposed policies.

We can nevertheless say this much. True sustainability has three main components: science, economics and innovation. When we talk about a particular human activity, we are asked to judge whether it can continue for as long as humans want. If there truly is a limited amount of something on our planet, we can use it only for limited durations that are determined by particular rates of consumption.

It is a mistake to stop there, however. Humans use natural resources to add value to the natural world. Coal, for example, is worthless underground, but has enormous value when used to generate electricity or fuel factories. When people innovate, they often find new tools or resources that do a job more efficiently, at lower cost or with fewer negative side effects. They may then turn away from current options – to embrace natural gas instead of coal, for instance – or find ways to extend the lives of resources they had thought were being depleted.

This is true of any resource. Value is based on usefulness, and highly valued resources tend to be replaced when growing demand pushes their prices higher than available substitutes, other factors make current resources less attractive, or innovation changes the economics, technological needs or resource discovery and extraction methods.

Moreover, increasing scarcity tends to raise prices, which can spur innovation in the production or use of existing resources.

As oil and natural gas prices rose, for instance, previously uneconomical sources became producible, and technological advances like horizontal drilling and hydraulic fracturing opened vast new deposits that previously were inaccessible. Prices dropped as supplies increased.

Thus, a valuable and economically important way of using a resource need not be sustainable in perpetuity, but only until another resource or production method emerges. That means the sustainability of each natural resource changes constantly, as prices or rates of consumption change – or new sources, production methods, conservation practices or substitutes are discovered.

We can also say that true sustainable development means, or should mean thoughtful, caring, responsible, economical stewardship of land, air, water, energy, metallic, forest and wildlife resources, as well as financial and human resources. Understood in that way, it's clear that every person, company and institution can and should practice sustainability.

In fact, most companies, governments, families and other institutions today largely do strive to employ sustainable approaches – by conserving energy, water and other resources when it makes economic, technological, ecological and ethical sense to do so. Sustainability also entails reducing air and water pollutants and other industrial activities that endanger wildlife, environmental quality, and human health and welfare.

All this reflects principles of 'stewardship of creation,' *tikun olam* (a Hebrew phrase meaning 'repair of the world'), and the Boy Scout prescription that we should leave our world better than we found it.

## **Fallacies in the sustainable development mantra**

The basic problem is that sustainability is often not understood in this way. The concept of sustainable development has become ideological and political. Indeed, it has been that way almost from the outset.

An early landmark in the global sustainability movement was former Norwegian Prime Minister Gro Harlem Brundtland's 1987 report, *Our Common Future*. While it contained much faulty science and flawed economics, to its credit the report focused on achieving sustainable development while alleviating poverty.

In her foreword, Dr Brundtland emphasized that “sustainable development requires meeting the basic needs of all and extending to all the opportunity to fulfil their aspirations for a better life.” She added: “Meeting essential needs requires not only a new era of economic growth for nations in which the majority are poor, but an assurance that those poor get their fair share of the resources required to sustain that growth.”

Unfortunately, these important development concepts never became part of the definition that was ultimately adopted by activists and regulators who wanted to use sustainability to promote anti-development agendas. They devised the most frequently cited definition:

Sustainability means we may meet the needs of current generations only to the extent that doing so will not compromise the ability of future generations to meet their needs.

This may sound logical and ethical at first blush, but any attempt to apply it self-destructs.

No policy maker (or anyone else) ever predicted hydroelectric or nuclear power, for example, or that electricity would safeguard and enhance our lives in the myriad ways it does today. No one anticipated fibre optic cables replacing copper, or mobile phones with more computing power than a 1990 desktop computer. None expected the ‘fracking’ revolution. All of these things happened, however, and today the pace of technological change is dizzying.

And yet, sustainability precepts say we must empower governments to regulate all manner of activities *today* based on the wholly unpredictable technologies and living standards of *tomorrow*. We must also predict the raw materials (and their quantities) that future technologies will require, under constantly changing economic, exploration, drilling, mining, manufacturing and consumption conditions.

Even more absurd and disturbing, we are told that meeting the unforeseeable needs of *future* generations means we must ignore or compromise the needs of *current* generations – including the needs, aspirations, health and welfare of the most impoverished, energy-deprived, malnourished, politically powerless people on the planet.

In essence, we are told the needs of future generations must be sustainable, even if it means current generations themselves are unsustainable, even expendable. That is unethical, unjust and immoral.

The prevailing definition thus gives rise to four different forms of sustainable development.

### The four species of sustainability

**1. Public relations.** Thousands of companies boast of their commitment to sustainability in ads, annual reports and news releases. By claiming to operate sustainably, they seek to improve corporate images and sales, and inspire flattering coverage by the press. However, the statements are often superficial and devoid of real substance.

Bland assertions that a company is devoted to using renewable fuels, reducing its carbon footprint, or (in the case of Coca-Cola’s marketing partnership with the World Wildlife Fund) saving polar bears are generally little more than transparent attempts

to garner favourable press, court customers and appease radical environmental groups. They run the risk of alienating customers who see through the puffery and resent having their hard-earned dollars used to subsidize overly politicized advocacy campaigns.

Moreover, overtly environmental messages have lost much of their former appeal. Polls by GlobalScan Radar and others have found that, even by 2013, consumer concern about environmental issues had slumped to a 20-year low, and many people are put off by efforts to make them feel guilty about being consumers or not buying the more expensive, supposedly ‘greener’ product. Companies today are thus achieving greater success by emphasizing quality, value, the origins of certain ingredients or how their manufacturing processes reduce waste.

Little more needs to be said about this properly endangered PR species.

**2. True sustainable development.** In economic and scientific terms, true sustainability represents the use of steadily improving technologies and practices to conserve resources, reduce waste and pollution, squeeze the last possible ounce out of energy and mineral deposits, expand our natural resource base, and leave the world better than we found it. These practices also benefit consumers, while helping companies save money, maintain profitability and keep employees employed.

In agriculture, for example, it means wisely using fertilizer, biotechnology, and other modern high-yield practices to get the most crops per acre, while minimizing environmental impacts. Such practices also feed more people from less land and at lower costs for families, and ensure that more land is set aside for conservation.

**3. Political sustainability.** This species involves the use of concepts and ideas that arise from true sustainability to present pseudo-scientific justifications for political agendas that extend far beyond genuine economic or scientific matters. Political sustainability is frequently cloaked in altruistic terms, or concerns about resource depletion, biodiversity and precaution.

However, it is often used to justify expansive new government programs, and almost invariably involves government coercion and control, forcing people to do what may not be in their best interests. The statements and campaigns of many environmental pressure groups present excellent examples of the political species, as do recent Environmental Protection Agency regulatory initiatives that the agency says reflect its new-found mission: controlling unsustainable patterns of production and consumption, and encouraging the development of renewable energy and ‘sustainable communities.’

However, the results are often especially harmful to poor and middle-income families struggling to improve their social status and living standards. In many cases, such as wind turbines, the policies actually endanger wildlife and damage the environment more than their alternatives do.

**4. International sustainability.** This subspecies of political sustainability is even more harmful. It is employed to justify United Nations, developed nation and environmental activist policies and programs that delay or prevent energy, natural resource and economic development in poor countries. In so

*“Real, ethical sustainability will enable people of today to prosper, leave the world better than they found it, and sustain and improve the lives of current generations – instead of sacrificing today’s pressing needs to serve the imagined needs of future generations”*

doing, it denies those countries access to large-scale electricity generation and other modern technologies that would create jobs, dramatically reduce malnutrition and disease, and enable billions of impoverished people to rise up out of abject poverty.

Policies and programs like these are often justified by concerns that climate change or resource depletion could lead to armed conflicts over limited land, energy, mineral resources and food. In reality, such conflicts are much more likely under policies that purposely or unintentionally make resources less abundant or accessible, prolong poverty, and reduce people’s hopes and prospects for a better future. Pro-economic growth policies consistent with true sustainability would reduce or avoid these consequences.

Focusing on the differences between true sustainability and political/international sustainability, and examine why those differences matter, can also help avoid pitfalls.

#### **True sustainability: adding to human and planetary welfare**

Stewardship of creation includes personal actions that advance sustainability: keeping cars tuned up and tires properly inflated, using water, electricity and insecticides responsibly, and disposing of chemical and other wastes properly, for instance. Worthwhile government actions include computerized traffic light sequencing that reflects road use patterns during rush hour and other times, to improve traffic flow and reduce pollution and wasted fuel.

At the corporate level, countless programs promote sustainability. Incremental improvements in metallurgy and extrusion technology have made recyclable aluminium beverage cans more than 40% lighter than they were in the 1960s. The advances reduce material needs, energy requirements, and fuel used to transport lighter pallets of goods, while decreasing the likelihood of breakage and spills.

Improvements in tensile strength and architectural design mean high-rise buildings require 35% less steel than their counterparts did just a few decades ago. A 1,000-meter (3,280-foot) 24-fiber optic cable made from 45 pounds of silica sand (Earth’s most abundant element) carries thousands of times more information more safely and securely than a much thicker, 3,600- pound RG-6 copper cable, which cannot carry high-definition video signals.

Packaging protects valuable and often-fragile products that represent the contribution of thousands of hours, millions of dollars, large quantities of fuel and raw materials, the extraction and processing of ores, the manufacturing and shipping of

goods, and significant environmental impacts. However, packaging also represents up to one-third of the United States’ total waste stream and are the largest single component of municipal solid waste.

Companies thus manufacture packing material from wastes otherwise destined for landfills, and devise new ways to use fewer materials and less energy, reuse packaging components, and make lighter yet stronger packing products that require less energy to ship goods and can then be recycled or reused.

Waste disposal companies are turning batteries, chemicals, food wastes and fibres of every description into useful new products. Other material that once went to landfills is burned in high-tech, gas-fired waste-to-energy facilities that generate electricity for tens of thousands of homes and businesses, while emitting almost no pollution because fuel sources are burned completely in closed-cycle units.

Modern combined-cycle natural gas turbines almost double the efficiency of older electricity generating plants. In some cases, they also recycle formerly wasted hot air and coolant waters to heat buildings and even use still-warm water to heat hothouses for growing fruits and vegetables.

The flip side of conservation and recycling is finding new deposits and prolonging the life of old ones. Horizontal drilling and hydraulic fracturing does this while demolishing the ‘peak oil and gas’ mantra, by providing at least a century of new hydrocarbon supplies. Fracking opens new oil and gas fields, prolongs the life of old fields, and promotes sustained resource conservation by extracting far more of the original in-place fossil fuel resources than previously possible.

Fracking also uses far less water than commonly assumed. US Department of Energy data reveal that fracking typically requires 0.6 to 5.8 gallons of *fresh or brackish* water per million Btu of energy produced. By contrast, corn-based ethanol requires 2,510 to 29,100 gallons of *fresh* water – and biodiesel from soybeans consumes an astounding 14,000 to 75,000 gallons of fresh water per million Btu.

Oilfield technologies are now being adapted for hardrock metals mining, to find and extract previously inaccessible deposits far beneath the surface. Unmanned drones gather data that are processed by supercomputers to identify ore deposits. Seismic trucks and drilling rigs with electronic probes help delineate deposit boundaries, generating three-dimensional images to further narrow the search. Sophisticated fracking technologies may soon shatter deposits and inject liquid solutions that dissolve desired minerals and bring them to the surface.

#### **Sustainability as a political movement**

By contrast, political sustainability is primarily an environmentalist campaign theme and justification for expanded government powers and regulations.

Scottish scientist Alexander King and Club of Rome secretary general Bertrand Schneider argued the new environmental movement would prosper if it could create *“a common enemy against whom we can unite.”* In defining this enemy, they said, it was important to ensure looming disasters were presented as *“caused by human intervention in natural processes”* and say only *“changed attitudes and behaviour”* could prevent the disasters. In other words, the *“real enemy is humanity itself.”*

The Club of Rome's 1972 best-seller, *Limits to Growth*, used faulty computer models and neo-Malthusian precepts to promote the idea that 'unchecked' economic and population growth was rapidly depleting finite natural resources, setting the stage for imminent and unprecedented global calamities.

*"Building an environmentally sustainable future requires restricting the global economy, dramatically changing human reproductive behaviour, and altering values and lifestyles,"* argued Worldwatch Institute founder Lester Brown. *"Doing this quickly requires nothing short of a revolution."*

In his book *Earth in the Balance*, former Vice President Al Gore stated:

*"Minor shifts in policy, moderate improvements in laws and regulations, rhetoric offered in lieu of genuine change – these are all forms of appeasement, designed to satisfy the public's desire to believe that sacrifice, struggle and a wrenching transformation of society will not be necessary."* [emphasis added]

In its 2010 report, *Sustainability and the US EPA*, the National Research Council proposed 'sustainable development' as a new EPA mission:

Sustainable development... raises questions that are not fully or directly addressed in US law or policy, including how to define and control unsustainable patterns of production and consumption and how to encourage the development of sustainable communities, biodiversity protection, clean energy, environmentally sustainable economic development, and climate change controls.

Then-EPA Administrator Lisa Jackson said the report would help to usher in *"the next phase of environmental protection"* and the study's findings would affect 'every aspect' of EPA's work, including attempts to incorporate concepts of 'environmental justice' into the agency's pollution and climate change programs. Implementing the envisioned changes would require that EPA's jurisdiction penetrate even further into Americans' daily lives, as the agency seeks to control corporate and individual actions that do not comport to its vague sustainability paradigm.

These visions are nevertheless already being implemented – via the President's Council on Sustainable Development, the United Nations Economic and Social Council (ECOSOC), the UN Framework Convention on Climate Change (UNFCCC), Earth Charter agreements, Agenda 21 campaigns, multiple EPA programs, and countless other government agency and activist programs and campaigns.

The 1992 Rio Earth Summit showcased 'sustainable development' as the United Nations Environment Programme's gravest concern. When the US Senate rejected the proposed Biodiversity Treaty, activists shifted gears and settled on 'catastrophic global warming' as their new rallying cry.

When the global warming meme no longer resonated, 2012 Rio+20 Summit organizers repackaged global warming, species diversity, social justice and peak oil 'crises' under the sustainability mantra – at both the national and international levels. Now climate change may be back in vogue.

UNFCCC Executive Secretary Christina Figueres told delegates at the 18th Conference of Parties (COP 18), held in Qatar in 2012,

*"What is occurring here, not just in Doha, but in the whole climate change process, is the complete transformation of the economic structure of the world."*

Changes like these come with a price, however. Activists, politicians, and regulators feel little pain as they control and redesign other people's lives, with little or no accountability for errors, omissions or deliberate harm. Middle-income and poor citizens pay a heavy price, as do many wildlife species.

On a torrid August 2012 day, Great Britain's 3,500 wind turbines generated a mere 12 megawatts of electricity, 0.032% of the 38,000 MW the country was using at the time. Had it not been for barely adequate supplies of conventional fossil fuel power, the UK grid would have shut down, causing widespread chaos.

During winter months, thousands of elderly Brits now die annually from hypothermia, because 'green' energy programs have made adequate home heating unaffordable, *The Telegraph* has reported. Others stay warm by remaining in bed, riding heated buses all day, hanging out in libraries, or burning cheap books in stoves, as the books cost less than wood or electricity.

Tens of thousands of wind turbines supposedly supply environment-friendly 'renewable' electricity. However, they require extensive scenic and wildlife habitat acreage for turbines, access roads and ultra-long transmission lines from windy areas to distant urban consumers. The installations require enormous quantities of steel, concrete, rare earth metals, copper, oil-based fiberglass and other materials. 'Backup' fossil fuel generators (which actually supply some 80% of electricity attributed to intermittent wind turbines) require still more land and raw materials.

Studies of wind-related mortalities in Germany, Spain and Sweden reveal that these turbines kill millions of birds and bats every year: bald and golden eagles, hawks, falcons, owls, cranes, egrets, geese and other birds, and many species of insect-eating bats. In a number of areas, wind turbines have dramatically reduced bird and bat populations, and driven some species to the verge of extinction.

These realities may make wind power our least sustainable energy option. It would be more sustainable to build conventional power plants, and forget about wind power.

The situation is far worse for people in the poorest developing countries.

### **International sustainability: denying affordable energy to the world's poor**

Nearly 1.5 billion people still do not enjoy the blessings of electricity. In Africa alone, more than 700 million people (twice the population of the United States and Canada combined) have no access to electricity, or only sporadic and limited access. More than 300 million Indians, including one-third of the nation's rural population, still lack electricity.

Instead, they must burn wood and dung for heating and cooking, resulting in lung diseases that kill a million people every year. The lack of refrigeration, safe water and decent medical care also causes nearly two million people to die annually from virulent intestinal diseases.

Even in South Africa, the most advanced nation in sub-Saharan Africa, insufficient electrical power has meant frequent

**“Requiring the use of expensive, intermittent, unreliable wind and solar power will condemn poor families to greater deprivation, disease and premature death”**

brownouts that hamper factory output and force gold and diamond mines to shut down, because of risks that miners will suffocate deep underground during outages. The country also suffers from maternal mortality rates 36 times higher than in the US, and tuberculosis rates 237 times higher. Thousands still die each year from lung and intestinal diseases.

Nevertheless, in July 2009, President Obama told Africans they should refrain from using ‘dirty’ fossil fuels and focus instead on their ‘bountiful’ wind, solar, geothermal and biofuel energy. His Overseas Private Investment Corporation later refused to support construction of a 130-MW power plant in Ghana that would burn clean natural gas that is now being ‘flared’ and wasted, providing reliable, affordable electricity for this power-deprived nation.

South Africa encountered similar problems the following year when it applied for a World Bank loan to finish its 4,800-megawatt coal-fired Medupi power plant, which is being equipped with the latest in pollution control and ‘supercritical clean coal’ technologies. Claiming the project violated climate change goals and sustainability principles, the Center for American Progress, Friends of the Earth, Sierra Club and other activist groups pressured the World Bank and United States to deny funding. The United States ultimately voted ‘present’ and the loan was approved by a bare majority of bank member nations.

In June 2013, Obama announced his *Power Africa* initiative for a ‘sustainable’ African energy strategy that emphasizes wind, solar, biofuel, and geothermal energy. This year, the European Commission is funding a *‘SWITCH Africa Green’* project that the EC claims will “support African countries in their transition to an inclusive Green Economy” and a shift to “more sustainable consumption and production patterns and practices.”

It is ironic that the program is being implemented by a European organisation whose climate and energy policies have caused widespread job losses, financial hardship and inadequate home heating during winter months for Europe’s citizens. It is intolerable that the policies are being imposed on nations where the vast majority of people still do not have access to electricity, decent jobs or modern healthcare.

Ultimately, sustainable development and environmental justice rely on affordable energy. Today’s ‘renewable’ sources cannot

supply sufficient, affordable, reliable electricity for modern societies, and the emphasis on biofuels means using scarce water to turn scarce crops into fuel in regions where people are malnourished and starving.

*“[E]nergy poverty causes more harm to the poor than global warming,”* and cheap energy *“makes the poor vastly less vulnerable to climate impacts,”* Breakthrough Institute scholars Michael Shellenberger and Ted Nordhaus have emphasized. Electricity would *“dramatically improve their lives, reduce deforestation, and make them more resilient to climate impacts... This is not a low-energy program, it is a high-energy one. Any effort worthy of being called progressive, liberal or environmental must embrace a high-energy planet.”*

For now and the foreseeable future, that means coal, oil, natural gas, hydroelectric and nuclear power, as they are the only abundant, reliable, affordable sources of energy.

Requiring the use of expensive, intermittent, unreliable wind and solar power will condemn poor families to greater deprivation, disease and premature death. Telling destitute Africans to be content with little solar panels on their huts to power a light bulb, operate a one-cubic-foot refrigerator, and charge a cell phone is little more than unjust callous, lethal eco-imperialism.

**Conclusion: the future can be far better than some fear**

Earth still has vast supplies of energy, minerals and other raw materials. The Stone Age did not end because we ran out of stones, nor did the Bronze Age end because we exhausted copper and tin supplies. Neither will the current Fossil Fuel Age end because we run out of coal, natural gas and oil. Resource use changes constantly because innovators replace less-efficient technologies with better alternatives.

Wise resource use is consistent with sustainable development because creative human minds will continue to devise new technologies and new ways of finding and extracting important natural resources. Unless misguided activists, politicians and regulators place these resources off-limits, we will likely never lack the resources needed to continue improving lives.

Real, ethical sustainable development helps people improve living standards, instead of merely paying lip service to them. It gives them freedom to develop and use new technologies, and employ best practices that conserve resources, reduce waste and pollution, select the most efficient energy and mineral sources, and shift to new technologies and practices when better ones are found.

Real, ethical sustainability will enable people of today to prosper, leave the world better than they found it, and sustain and improve the lives of current generations – instead of sacrificing today’s pressing needs to serve the imagined needs of future generations. ■

Paul Driessen is author of *Eco-Imperialism: Green power - Black death* and co-author of *Cracking Big Green: To save the world from the save-the-earth money machine*

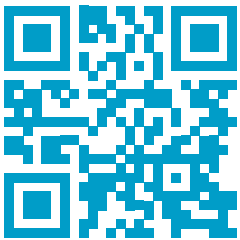
1. This article is adapted from his Heartland Institute report, which contains all sources for the article and is available at [http://heartland.org/sites/default/files/06-18-14\\_driessen\\_sustainability.pdf](http://heartland.org/sites/default/files/06-18-14_driessen_sustainability.pdf)



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# Single?

## Ready or not the holidays are here

**H**olidays are that special time of year when your senses seem to be heightened. A time when family and friends and loved ones get together. A time for celebrating the New Year with that special person in your life.

As festive as this wonderful time of the year is, if you are single and unattached this can be a lonely and a difficult time for many. It may seem that everywhere you go you see couples enjoying themselves. Couples getting cosy by the fireplace, holding hands ice skating, decorating their Christmas tree and couples arm in arm enjoying the window decorations downtown. Romantic couples love to dine in festive restaurants and fly to romantic destinations for the holidays. Everywhere you look you will find couples.

Maybe next year you will be ready to share the holidays with that special person... but how?

We have found one person who is an expert when it comes to matching couples.

Her name is Amber Kelleher-Andrews and she is the CEO of the top global matchmaking firm Kelleher International. Kelleher is the recipient of *World Commerce Review's Best Global Matchmaker 2015 Award*.

Her mother, Jill Kelleher, opened the doors to matchmaking 30 years ago in the San Francisco Bay area, and not long after, she and her daughter Amber became partners opening locations across the USA and Europe, making Kelleher International the leader in modern-day matchmaking.

*World Commerce Review* asked Amber to share some of her insights into when one should consider hiring a professional matchmaker.

*"For many accomplished individuals - celebrities, CEO's, successful professionals and entrepreneurs - it is easy to date, but very difficult to find a relationship with whom you share BOTH chemistry AND long-term compatibility. Successful dating takes serious time and effort, especially when you are looking for a true life partner,"* says Amber.



**“A skilled matchmaker is like a talented recruiter; we research and vet potential candidates with a time-tested approach to discovering someone who will be compatible for a lifetime”**

*“Matchmaking has come a long way and is much more acceptable now. More personal, discreet and a real time saver. To quote one of our clients who is a recreational pilot”:*

*“When I want to fly for fun, I’m certain I’m within my comfort zone, but when I want to fly cross-country through all kinds of weather and still arrive on time, I hire a professional to get me there. Why? Because the pros are specialists who fly all day long, every day, in all kinds of circumstances and I’m a generalist!”*

*“Successful people delegate their most treasured outcomes and valued services to trusted professionals with extensive experience and a proven track record. The choice of our life partner is perhaps the most important decision any of us will make. The price of a poor choice is high and the reward of a good match is priceless. As one of our elite clients laments”:*

*“When I count the cost of my divorce, financially and emotionally, the decision to work with Kelleher International was a no-brainer”.*

*“A skilled matchmaker is like a talented recruiter; we research and vet potential candidates with a time-tested approach to discovering someone who will be compatible for a lifetime”.*

**Here are Amber’s top ten signs - when it’s time to invest in a matchmaker:**

1. The people you are meeting and currently dating do not fit your criteria for a life time partner.

*“For even the most extroverted and open minded, sifting through new people can be daunting. Is he/she single and available? What kind of relationship does he/she want? What are his/her priorities? Is he/she representing herself accurately? If you find this difficult to discover in the setting where you are meeting people, matchmaking could greatly increase your likelihood of success!”*

*“You need someone who matches you perfectly, in mind, body and spirit – whereas, the random person you meet by chance or at the local pub is probably not going to fill most of your needs. A reputable matchmaking company such as Kelleher International has an expansive database of exceptional people. Kelleher takes the time to do the background research necessary to insure you only meet individuals worth your time.”*

2. Your career is demanding and you don’t have the time to devote to finding and screening out unsuitable candidates.

*“A matchmaker screens out incompatibility from the beginning, doing the work for you and carefully identifies only like-minded individuals so that you spend your precious time wisely.”*

3. You are frustrated by online sites, you require more discretion than most and have been deceived by online dating profiles.

*“Most online dating sites look the same. Same questions, same answers, all too familiar templates, boring to look at and tedious to fill out, one dimensional pull-down Q&A and limited options to select from. Worse, people misrepresent themselves, from their age to*



their profession to, in some cases, their marital status. If you are tired of skimming long-winded paragraphs of blasé words, attempting to discover who's behind the ink and tired of trying to discern if someone actually is who they appear to be, than matchmaking may be for you!"

"A recent survey undertaken by the Pew Internet and American Life Project found that 'half (54%) of online daters feel that someone they met seriously misrepresented themselves in their profile. And more seriously, 28% of online daters have been contacted by someone through an online dating site or app in a way that made them feel harassed or uncomfortable. A matchmaker is the go-between. It is difficult to falsify data when meeting a personal matchmaker. Our job at Kelleher is to screen our members, saving you time and energy. Kelleher International conducts personal interviews and background checks, insuring that members sit down with the actual person behind the profile described."

4. It is increasingly difficult to break away from your 'type'.

"Many people come to Kelleher with a description of their 'type'. It is important to know what you want in a partner but not to limit yourself by reducing people to 'types'. If you want something different than what you've had, you must sometimes do something different than what you've done! As professional matchmakers we spot limiting patterns and offer feedback you can apply immediately for better results."

5. You've tired of being vulnerable but feel that your true self is not coming across.

"Dating can be a full time job and you practically need a masters degree in sales and marketing in order to be noticed in the competitive dating market that exists today, online and elsewhere. If you wish to stand out amongst all the fish in the cyber seas, you not only have to introduce some serious vocabulary and humour into your profile, but be prepared to continually reinvent yourself so as not to lose yourself in the minutia of random and repetitive dating."

"Our expertise at Kelleher is to find a match based on compatibility, not marketing. Our research into who you are and who you are searching for is just the beginning. We match our members based on attraction, education, values, morals, age, geography, fitness levels, lifestyle, and so much more. Our job is to present our members with well-suited candidates who fit their specific and picky criteria, so the odds are high for discovering your soulmate!"

6. You are not particularly keen of blind dates.

"Blind dates can be stressful when they are random. Whether the set up is through friends with best intentions, someone that you found online or even someone you met in a pub. You're starting with limited information, accurate or not."

"When a matchmaker at Kelleher presents an introduction, this match is hand-selected out of thousands of eligible candidates. The information is gained from the initial phone consultation, a personal face to face meeting, background checks and members criterion. We get to know our clients personally and only chose to work with people that we feel we can passionately serve."

7. You want quality over quantity. You are becoming burned out or jaded. How many random coffee dates can one person endure?

"It can be easy to become burned out. A matchmaking service gives you the chance to meet the right people based on your own criteria. It's great because our clients enjoy romantic cocktails and dining over impersonal daytime coffee dates."

8. You need a discreet and trustworthy match, rather than someone who primarily values your looks, fortune or status.

"A discreet matchmaker can tell the difference and can recognize intention and motivation."

9. You've recently relocated to a new and unfamiliar location.

"A matchmaker can become a well-trusted contact in your new location. With deep rooted 'boots on the ground' experience, we can find you excellent local matches and recommend fantastic local spots to insure a successful and romantic date."

10. You highly prioritize your love life. Your happiness is a priority to you.

"Most people attribute their overall happiness in life to being in love. Kelleher International can help you find 'the one', so by next year you will be ready and excited about spending the holidays as a couple."

Kelleher International was founded on the belief that there is a great match out there for everyone. We look forward to working with you! ■

email us at [Kelleher International](mailto:info@kelleher-international.com) or call us at +1(415) 332-4111 today.

[www.kelleher-international.com](http://www.kelleher-international.com)



# **WORLD COMMERCE REVIEW**

## **AWARD**

### **Best Global Matchmaker 2015**

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*World Commerce Review is pleased to announce that Kelleher International has been awarded the Best Global Matchmaker 2015.*

*The selection panel took into account service innovation, on-going customer support and best practice criteria.*

*In addition, forward planning and CSR were seen as key areas for the award committee.*

*The World Commerce Review awards are recognised as the principal indications of professional conduct and excellence.*

# Private aviation: *'nulli secundus'*

The many virtues of private aviation are extolled as the transport of choice for the truly purposeful. David and Damian Briggs-Wilson of Hermes Executive Aviation Ltd, a leading private aircraft operations management company, write

Imagine if money is no object. Now choose between owning either a Rolls Royce with driver or using a hired one. Chances are you will favour ownership because it gives you control and independence. Now consider the myth that choosing cost effectiveness over need equates to the right decision. Not so.

Cost effectiveness is more about perceiving longer-term value and assessing the intangible versus the tangible, than saving money. That handmade suit perfectly tailored to your needs will be far more expensive than the factory produced but it is built to last, unique to you and will look extremely good. Similarly this is why private aviation defeats commercial as the transport of choice for the purposeful: second to none.

Contrary to popular view private aviation is more of a precision tool than a profligate luxury. The reason private aircraft are so immaculately equipped and furnished is principally to retain their value. But then again, why shouldn't they be if it can be afforded? High specification generates high capability, in turn delivering high reward. The aircraft is therefore less of a status symbol but more of an organic business capability: a commercial 'force multiplier' if you like.

So consider private aviation as a crucial aspect of an enterprise, much like a finger to a hand. Successful companies rarely subcontract their key capabilities such as finance or operations departments to third parties, so why should 'projecting' your company's key resource (its people) be any different? If control,



discretion and independence are important, then private business aviation is purpose developed for it.

Private aviation has high operational effect because it is nimble. It reaches ten times further and deeper than commercial by virtue of smaller, faster aircraft able to use shorter airfields with considerably lighter support demands. Critically this enables proximity. The user can access a wider network of smaller nodes as opposed to fewer large and busy hubs. Proximity means less travelling, therefore less cost and time, and thus greater productivity. Then consider agility. Private aviation delivers instant effect, reacting intuitively to changing circumstances because it is not fixed to the sluggish 'bus timetable' schedules of the commercial airlines.

Private aviation gets the user to where and when needed. The purposeful thus retain the initiative choosing their timings and moving freely where they want to. As the famous Heineken advert boasts, 'refreshing the parts other beers cannot reach', the same is true for business aviation.

Private aviation provides a high assurance of physical and commercial security. This is especially important for the high value individual and organisations that must keep their movements discreet. With access to small airport Fixed Based Operations (FBOs) where throughput is efficient, secure and hassle-free, business aviation provides this safe environment where the user can get on with their essential tasks without the inevitable distraction and delays encountered at larger international airports.

Combine this with known and trusted crews who are reassuringly familiar and reliable, there exists another security bubble to freely discuss matters of commercial or personal sensitivity (the flying meeting) without prying eyes or eavesdroppers.

*"Private aviation delivers instant effect, reacting intuitively to changing circumstances because it is not fixed to the sluggish 'bus timetable' schedules of the commercial airlines"*

Additionally the routine access to secure ground to air communications, including the use of Internet, ensures up-to-date situational awareness is available to the user. Thus the ability to change plans in-flight to meet the needs of potentially fluid situations on the ground is assured.

With today's complex business aircraft high levels of maintenance are vital. Additionally, the operating crew must be highly trained and work closely as a team. The fusion of these two integral elements assures an above average safety system is in place. Moreover, using trusted and salaried crew, who understand the aircraft, its history plus knowing the owner and family (over time becoming valued as extended family) adds another decisive dimension to the physical safety of the aircraft and its passengers.

Elevated levels of aircraft maintenance, crew training and qualifications assures a High Net Worth Individual or organisation the comfort of personal security and the knowledge that their asset maintains the highest residual value possible. A private operator has the resources to provide this as standard whereas the commercial operator has to balance maintenance, safety and shift pattern crew with profit margins.



**You can't ask for much more than a known and trusted crew**



Ready and waiting

A dilemma facing the aircraft owner is how best to operate the aircraft: private or commercial? A private operator is foremost service motivated, providing the owner with their own 'in-house' flight department delivering an exclusive 24/7 flight availability and flown by known and trusted crew. The commercial operator is foremost financially motivated, using the aircraft through provision of flights for hire and reward. Since the commercial operator makes money using a fleet, consisting of multiple aircraft owned by different individuals and organisations, it is challenging for them to give an owner that personal dedicated 'in-house' service that most owners crave.

Additionally, placing an aircraft into the fleet of a commercial operator can add tax risks as the revenue streams quoted by an AOC are more often than not exaggerated. To continue earlier analogies, why would you lend your Bentley to the local

taxi company to operate and hire out to strangers? Private operations equate to trust, loyalty, discretion, and the exclusive use of an asset as a business capability to precisely match the needs of an owner. Why settle for anything less?

The private operator brings a precision capability to aviation. Commercial aviation designed as a global public transport system is different, dictating its output by profit margin. Private aviation places service first, finance second. Hermes Executive Aviation Ltd is one such private operator that punches above its weight, providing a unique capability: reach, agility and critically an 'in-house' flight department the client calls their own. Sadly, the days of operational effect in private aviation are under threat, so perhaps it's time to start using it more, or think about taking your turn in the queue, slowly shuffling your way through security at a busy international airport miles from anywhere you want to be. ■



In safe hands



Hermes Executive Aviation - Private aircraft operations



# *Hermes Executive Aviation*

We exceed your expectations



## Our word is our bond

We are an exclusive private aviation management company offering a bespoke, discreet service fully tailored to our clients' requirements and expectations. Underpinned by customary values and eagle-eye attention to detail, nothing is too much trouble when it comes to providing the best possible service. Our team ensures that every detail of our clients' flight and aircraft management is handled with grace and efficiency ensuring that only the finest will carry our clients to their destination in safety, on time and in the comfort and style they deserve.

We are the complete service; seamlessly integrated into our client's own operations and needs; discreet, professional and unassuming; we put the pleasure back into their privilege. Our name may be new, but our team has decades of experience in the aviation industry. We are absolutely dedicated to providing the finest aircraft management service in the world to the client.

[www.hermesexecutiveaviation.aero](http://www.hermesexecutiveaviation.aero)



# Aircraft registry in the Cayman Islands

**PH Richard Smith, MBE FRAeS, is Director-General of Civil Aviation at the Civil Aviation Authority of the Cayman Islands (CAACI)**

**T**he Cayman Islands Aircraft Registry is well known for maintaining a high reputation for providing a safe, stable and credible flag for registration of aircraft which makes it the registry of choice for many owners, operators and financiers for personal and corporate aircraft. Even though the standards to register an aircraft are rigid and specifications must be exact in order to qualify, this has led the Cayman Islands registry to be highly recognized and respected throughout the aviation industry globally.

The Civil Aviation Authority of the Cayman Islands (CAACI) works in close partnership with a specialized group of legal and financial firms as well as Cayman Islands Government

authorities to ensure that registrants have the most comprehensive counsel on every avenue of law, custom law, tax and insurance. CAACI dispatches highly qualified surveyors and inspectors to conduct inspections of the aircraft at the home base or the designated maintenance facility for ease and convenience of operators. The normal registration process takes about five weeks to complete followed by annual airworthiness inspections to ensure compliance with regulatory safety standards. Many C.I. registered aircraft are currently based and operated throughout Europe, Singapore, Hong Kong, Indonesia, Australia and Saudi Arabia with the majority being based in the Middle East region.



Corporate ownership: a majority of registrants are owners of corporations who prefer the ease of travel between international destinations, with relative anonymity, which is afforded to Cayman Islands registered aircraft. The clientele also enjoy personalised service from each division of the CAACI and are assured of fast and efficient service for provision of required documents or responses to queries regarding the aircraft's operation.

**Reduced tax liability:** the Cayman Islands is renowned as a leading offshore jurisdiction, achieved through its tax neutral environment with a highly developed legal system based on English legal principles. Applicants to the registry are encouraged to work with one of the local legal and financial partner firms who are versed in aircraft registration and can provide legal advice pertinent to clients' individual circumstance.

**Access 24-7-365:** CAACI has launched a new electronic data management system 'VP-C Online' to manage all registry applications, certificates and authorizations electronically. The new system will make it easier for registrants and operators to apply for the various approvals that are required for both initial aircraft registration and for continuing airworthiness including the renewal of documents. It is designed to streamline processes within the CAACI and allow more efficient service provision. Authorized users are able to utilize online smart forms for submission of applications including electronic submission of all supporting documentation required by the specific application. The custom designed, intuitive user screens will also provide clients online access to their certificates at their convenience. ■



# Looking for the right

## *Blue Sky Bermuda has it all when it comes to your wish list*

**F**or companies looking to establish a presence in Bermuda, the country boasts several attractive features, including a world-class telecommunications and technological infrastructure with state-of-the-art cloud computing services that complement the island's robust legal and regulatory framework. Indeed, Bermuda is a technically sophisticated jurisdiction with a diversity of telecommunications and IT service providers who consistently and reliably deliver leading edge technology solutions to the local and international markets.

A significant game-changer in the ICT industry globally, and certainly in Bermuda, is cloud computing. This technology is changing the way businesses form and operate, rapidly becoming the preferred method to boost enterprise performance and productivity. Clear trends are showing that on-premise in-house deployments for new business software are steadily on the decrease while pure cloud deployments are on an upward movement.

The reason for this surge in popularity is simple: cloud computing providers offer attractive solutions to start-up companies. Cloud computing eliminates the need for their customers to acquire capital-intensive IT platforms and enables them to operate at a predictable monthly cost that is based on the utility computing model. This preserves cash-flow and provides the start-up with a rapid-deployment solution that can grow on demand along with the business itself.

In small jurisdictions such as Bermuda, new companies that are incorporating on the island - including top international businesses and Fortune 500 companies - often need to establish a robust local infrastructure with urgency. These companies choose their investments wisely both in terms of staffing and in capital investments.

For organisations looking into cloud computing, the island offers several benefits including numerous tier-3 designed data centres and multiple options for cloud-based services. In

addition, since having data and data processing in Bermuda is often an essential requirement for regulated industries, local ICT solutions providers present companies with the advantage of hosting their IT systems and corporate data right on-island.

Even where data residency is not mandated, many senior executives prefer to know where their essential data is located and to have a direct business relationship with the hosting provider. As such, local cloud options are essential tools to 'keep the operations here,' widening the 'stickiness' of corporate tasks that can be cost-effectively performed in Bermuda.

### **Security and redundancy**

There are other clear benefits to establishing a presence in Bermuda, which include having access to a number of state-of-the-art providers in cloud computing.

As security concerns are paramount, Bermuda's Quo Vadis operates an internationally-recognised Certificate Authority (CA) providing managed Public Key Infrastructure (PKI), SSL, Qualified eID, and digital signature solutions. Founded in Bermuda in 1999, Quo Vadis not only focuses on data protection and disaster recovery, it is also a leading offshore provider of managed data centres, co-location, cloud hosting and disaster recovery services. Its data centres (one of which is located in central Hamilton) provide state-of-the-art power and cooling solutions for customers that require rack colocation solutions, file-level managed backup services, local and global real-time data replication solutions for IT, and a high-performance Infrastructure-as-a-Service (IaaS).

The services that QuoVadis offers ensure that customers who choose to establish a presence in Bermuda can launch ICT operations cost-effectively, securely, and quickly. The company has a track record of being first to market in Bermuda with leading-edge technologies and solutions, and maintains its commitment to offering globally competitive technical solutions. QuoVadis also upholds its promise of transparency: it communicates openly with its customers on operational

# cloud location?

*“For organisations looking into cloud computing, the island offers several benefits including numerous tier-3 designed data centres and multiple options for cloud-based services”*

matters and provides detailed SLA reports to evidence operational performance.

For global cloud clients who rely on significant capacity and resilient connectivity, LinkBermuda operates a highly advanced network of diverse fibre-cable systems. This allows the company to deliver an extensive, quality range of customized end-to-end solutions, including a broad array of enterprise-grade cloud computing solutions. Its ultra-secure Tier 3 standard data centre supports a wide choice of dedicated hosting solutions and disaster recovery options.

The company has provided trusted telecommunications services to Bermuda for more than 120 years. A proven leader in the delivery of voice, data, Internet and IT services to enterprise and customers in Bermuda and many locations throughout the Western hemisphere, it utilises an extensive network of facilities and carrier partners.

While LinkBermuda currently owns and operates extensive and robust telecommunication assets on the island, it is also constantly investing in expanding and improving its infrastructure and technology, to the advantage of its local and international customers.

## **A supportive environment**

For companies who are interested in locating and doing business in Bermuda, the full complement of traditional ICT services and support is available right on our shores. International companies in Bermuda avail themselves of banking, trust, accounting, custodial, and legal services that are equivalent to those to which they are accustomed globally.

It would be fair to say that Bermuda's strategy has always been to create an environment that would allow the island to leverage the opportunities brought about by the digital age. Regarding the ICT sector, Bermuda provides a sophisticated regulatory and technological infrastructure that not only supports e-business, but also offers a state-of-the-art, supportive environment that allows organisations to thrive. To help achieve that, Bermuda

was among the first in the world to adopt an Electronic Transactions Act in 1999 and a Code of Conduct which provides minimum standards for e-commerce service providers, and which has the force of law. That piece of legislation is being reviewed to ensure that it remains progressive and relevant to the sector.

The Certification Service Provider Regulations (CSP) were passed in 2002. They delineate clear guidelines for CSP providers and issuers of Accredited Digital Certificates. They also allow reliable security and authentication, an important tool in our hyper-connected business community where the security and integrity of the flow of data and transactions is crucial.

The island plans on introducing privacy legislation shortly that meets best international practice and recognizes the complexities and concerns of the digital age and the global environment in which we operate. Keeping data safe and secure continues to be paramount for both cloud operators and their customers. The legislation is intended to address these challenges while being suitable for a small jurisdiction to administer.

Last but not least, the independent Regulatory Authority, which was established in 2013, further enhances the industry through its supervisory role over the telecommunications sector. Its purpose is to continue to benefit businesses and consumers by increasing competition, speed, and service offerings.

For organisations contemplating establishing a presence in Bermuda, the island provides a strong regulatory environment and a sophisticated ICT infrastructure. It is an excellent test bed environment for mobile applications and other technologies with global marketability. This ensures that the island continues to provide a robust launch pad for ICT innovation.

Also, as in the case of cloud computing, organisational newcomers will find a booming e-business environment that allows them to thrive, whether on- or off the island. ■



# IMCCA UPDATE TO RECENT CHANGES IN THE WORLD OF UNIFIED COLLABORATIVE COMMUNICATIONS



**David Danto is Principal Consultant Collaboration, Video and Multimedia at Dimension Data (Americas) and IMCCA's Director of Emerging Technology, and Carol Zelkin is the IMCCA Executive Director**

In our article in the *World Commerce Review* March issue this year we focused on the importance of business outcomes and user segmentation and explained about a new category of low-cost systems. In this pre-ISE article we will update further developments in low-cost systems and update some big industry trends.

### Technologies to choose from – the cost of entry coming down

In March we detailed the entrance of a number of collaborative hardware product offerings in the sub \$1K US range. Tely Labs, Logitech and Google had just released systems with varying degrees of value. This trend continued this year with two significant new entries:

- Cisco SX-10 – This Unit, released in March, is Cisco's answer to the new class of video unit – but it upped the game in a number of substantial ways. It is built to fit on or under a display, connect with only two cables (HDMI and RJ45 with POE) and can be ready to go in two minutes. It has an HD camera - but instead of a webcam (that performs poorly in medium to large rooms) it is a full Pan/Tilt/Zoom unit. It comes with a remote control but can operate from a smartphone app for those that hate the remote. Most importantly though, it is a fully monitorable hardware appliance completely compatible with existing systems. Firms can now have all the advantages of a low priced, all-in-one, set-top system and have it fully compatible with their service management processes and more expensive systems. This device redefined the low-cost market, cutting the legs out from many of the other more limited offerings.



Cisco SX10

- High Five – This new start-up announced their new set-top product with great fanfare in October. They call it a 'simple, set-top, all in one videoconferencing device that will democratize videoconferencing for the masses at only \$799.' With financial backing from such firms as Andreessen Horowitz, General Catalyst Partners and Google Ventures it received tremendous press coverage. The coverage was regrettably unaware of the history of the product space and embarrassingly touted it as a breakthrough despite the other entrants in the market.

The problems with this product release are substantial, but can be summed up by understanding that the prior set-top units have not set the enterprise market on-fire, mostly because enterprises want systems that are compatible with what they already own - as part of a single ecosystem - and can be managed by the same platforms and/or providers they have today. It is difficult to understand why the product was released when the product class was already outdated by the Cisco SX10 launch seven months earlier.



As we explained when we covered this emerging space the last time, it is important to keep in mind the following rules of thumb:

- Webcams are good at capturing images of people sitting directly in front of their displays, however they are generally completely inappropriate for capturing the images of three or more people sitting in a room. Don't let the marketing pictures or stories from even the most reputable firm deceive you into believing you'll see anything but a wide shot of tiny people.
- Low end appliances will generally produce better images than software alone, but are almost universally not monitorable (except for the new SX10.) If you want to know the status of the video systems on your network in case someone has kicked-out a plug or experienced some other failure than these are just not for you. If you're

deploying a collaboration device in a critical area of for a VIP spend a little more money at the front end instead of spending a lot more time on the back end explaining how you couldn't tell that it had failed before the user tried unsuccessfully to use it.

- Ensure that you understand the interoperability strategy of any low-end system. In some cases they only work with other units from the same manufacturer. In other cases the manufacturer provides an 'off-ramp' for interoperability, but using it may result in poor experiences, additional use charges or both. Don't assume that a system that meets an organization's needs today will be able to grow with that organization in the most cost effective manner.

### Ding-dong the dial plan and web conferencing are dead

Just like a set of dominos, the major manufacturers and service providers in the

*“Going one step further, this will likely be seen as the year videoconferencing as a stand-alone modality died”*

collaboration space have fallen in line with the concept of Virtual Meeting Rooms as the new primary collaboration modality. Partly due to the prevalence of cloud based services, partially due to the fact that firms using the strategy are significantly winning market share.

As background, visual collaboration has always been considered difficult to use by non-technical individuals. Dialling by ISDN number/E.164 address/IP address/SIP URI has always been confusing - and with the inherent difficulties getting calls into and out-of organizations using strict firewalls - it has also been problem plagued. A number of years ago audio conferencing and web-conferencing firms solidified on meet-in-the-middle process known as the virtual meeting room or VMR. In that model everyone connects to the same place and identifies themselves with a pin to join the group collaboration.

BlueJeans was the first firm to go-to-market with a model like that for interoperable conferencing enabling voice, web-type video and screen share (often called web conferencing) and room based systems all to join the VMR. Now nearly all the big players in the video world have adopted such a model. With the announcement of LifeSize Cloud back in June and Cisco's recent re-launch of WebEx with CMR (collaboration meeting rooms) it is definitely time to say goodbye to siloed, stand-alone audio conferencing and web conferencing. With market forces overwhelmingly adopting this standard 2014 will be seen in retrospect as the year the video dialplan died.

Going one step further, this will likely be seen as the year videoconferencing as a stand-alone modality died. In the future, people to people collaboration will no longer be identified by the technology involved, and the technologies and tools used for those meetings with a paradigm that will be irrelevant to any prior coordination. Can you be at a meeting in person - then go? Can you be in a room with a high-quality video system - then use it. Are you stuck on the road - then use a laptop, tablet or smartphone. Video, data share and audio going forward will just be assumed, as people meet in these virtual rooms.

### Join the IMCCA at ISE to participate in discussions of these trends

The trends in collaborative conferencing are both exciting and disruptive. The IMCCA will be facilitating a number of discussions on these



Figure 1: Low Cost Systems – Top to bottom: Tely HD, Logitech CC3000e, Google Chromebox for Meetings

topics at the upcoming Integrated Systems Europe conference in Amsterdam in February. The Unified Communications Theatre (Hall 9) will host case study sessions focusing on the user experience of successful collaborative conferencing solutions. The Commercial Solutions Theatre (Hall 8) will highlight new and disruptive technologies. ■

Free Show Registration Code: 830109

IMCCA Free End User Membership: visit booth 9- A150 in Hall 9

Visit the Unified Collaborative Conferencing Vendors and IMCCA in Hall 9

#### ABOUT THE IMCCA

The IMCCA is a non-profit industry association resolved to strengthen and grow the overall conferencing and collaboration

market by providing impartial information and education about people-to-people communication and collaboration technology and applications. Founded in 1998, the IMCCA membership is open to end users, vendors and other interested professionals who wish to share their disciplines and knowledge for the benefit of members and the interested general public. The IMCCA offers an open and interactive environment for these activities, including participation in trade shows and industry events and the IMCCA website. If you are interested in more information about the IMCCA please visit our website [www.imcca.org](http://www.imcca.org) or contact the Executive Director, Carol Zelkin at +1 516 818 8184 or [czelkin@imcca.org](mailto:czelkin@imcca.org)

David Danto, the IMCCA's Director of Emerging Technology, has over three decades of experience providing problem solving leadership and innovation in media and unified communications technologies for various firms in the corporate, broadcasting and academic worlds including AT&T, Bloomberg LP, FNN, Morgan Stanley, NYU, Lehman Brothers and JP Morgan Chase. He now works with Dimension Data as their Principal Consultant for the collaboration, multimedia, video and AV disciplines. David can be reached at [David.Danto@Dimensiondata.com](mailto:David.Danto@Dimensiondata.com) or [DDanto@imcca.org](mailto:DDanto@imcca.org) and his full bio, blogs and articles can be seen at [Danto.info](http://Danto.info).



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# NIMBLE MALTA



In an interview with *World Commerce Review* Dr Edward Woods, Chairman of the Malta Communications Authority, outlines the ingredients behind Malta's past successes and how Malta is gearing to transform the current wave of disruptions into an economic opportunity.

# GLOBAL DISRUPTION IN COMMUNICATIONS CREATES AN OPPORTUNITY

**Malta is a small island state with a population of just 400,000, yet it has a vibrant competitive telecommunications market equal to that of much larger markets. What are the ingredients behind its success?**

We may be a small island state, but in telecoms we regularly out-perform many far larger countries. The full liberalisation of the electronic communications sector in 2003 transformed the Maltese telecommunications landscape. Increased competition spearheaded a robust and efficient supply of networks and services to the industry and the consumer. This supply has continued unabated, offering enhanced quality, efficiency and resiliency.

Foresight and timely policy decisions have ensued into substantial and continued capital investments made by the telecoms operators. Malta boasts four nationwide broadband networks, two of which serve the market through next generation access networks. All households in Malta have access to high-speed broadband services with speeds reaching at least 100 Mbps, placing Malta amongst the frontrunners in Europe with regard to nationwide availability of such services. Whilst our operators continue to invest and upgrade their networks in order to cater for emerging technologies, our consumers are also hungry for innovative and higher speed services – our mobile penetration rates have long exceeded the 100% mark, mobile data usage is on the up year-on-year and subscriptions to high-speed broadband services are following the same upward trends.

Malta's location in the heart of the Mediterranean also renders the need for robust international connectivity imperative for its economic development. Connection to mainland Europe is currently guaranteed through four cable links. Additional connectivity is in the offing in the coming months. This will ensure uninterrupted services for our consumers and businesses.

**Communications is more to an economy than just infrastructure. How is Malta dealing with the bigger picture?**

ICT features high on our national agenda as it is a key enabler for economic and social development. The *Digital Malta Strategy* launched earlier this year aspires to synergise the work of public authorities and other stakeholders in order to really drive the ICT across all strata of society and business communities. The focus is on sustaining economic growth by exploiting opportunities, enhancing quality of life and social cohesion and making public administration more efficient and transparent.

Whilst our regulatory framework has ensured sufficient network rollout and the proliferation of innovative products and services at the right price for consumers and of the highest quality, we have also focused our energies on the efficient and seamless integration of such technologies into other sectors that are highly dependent on ICT, such as education, investment, health, transport and tourism, amongst others.

**Malta aspires to continue building its economy on high-value technology services. Why should an investor choose Malta over other destinations?**

Malta offers a harmonious blend of economic and regulatory stability, investment friendly incentives, strategic policy making, as well as a rich culture, great climate and respectable work ethics.

However, investors will also be seeking the advantage that ultimately tips the balance in favour of Malta as their destination of choice within the European Union. Malta's attractive corporate and employment taxation regimes are the ingredients that are most likely to tip the balance. Furthermore, operating costs tend to be considerably more advantageous, whilst European delivery standards are guaranteed.

Investors seek expertise, talent and the availability of fundamental ancillary services. The strong growth in the financial, ICT and iGaming sectors over the past 10 years is testament to the attractiveness of the Maltese Islands as an investment destination.

**Globalisation, technology convergence and market consolidations: a threat or opportunity for Malta?**

There are always two sides to the same coin. It is easy to focus on the threat, however this comes at the expense of lost opportunities. We strongly believe that disruption can open up many opportunities for Malta. Malta's agility to adapt and react to developments in short order is what attracts many investors to Malta. Being small in size has its advantages. Our size allows us to adopt progressive regulation quickly, which can give substantial opportunity for those who are creative enough. Needless to say, in the current environment of technology led disruption, I dare to say that such nous is very valuable if not the basis of a whole new, unparalleled business strategy.

Malta's ability to attract the iGaming industry to its shores is but one example. Malta pioneered a regulatory regime that favoured single market principles. This made Malta a favoured

*“Investors seek expertise, talent and the availability of fundamental ancillary services. The strong growth in the financial, ICT and iGaming sectors over the past 10 years is testament to the attractiveness of the Maltese Islands as an investment destination”*

destination for the industry as it offered the legal certainty that others were hesitant to allow.

Furthermore, for a small economy like Malta, no investment is too small to attract attention and support.

### **What is in the future for the Authority?**

Undoubtedly, our regulatory work shall continue unabated to ensure that our markets remain competitive. However, we shall be working with other stakeholders to see how technology can be applied to sustain past successes and take us to the next level by promoting and facilitating innovation in communications. We are also aggressively promoting Malta as a test-base for new technologies. Malta being small, but yet very densely populated offers great opportunities for the nationwide testing of new technologies and services, with relatively limited investment. Our licensing regime facilitates access to spectrum for technologies and services that are still at the developmental stage by introducing an accelerated licensing procedure and attractive licence conditions and fees.

Few people are aware of the fact that Malta has one of the largest registries of merchant vessels and an ever-growing aircraft register. Besides ensuring appropriate licensing according to EU and international standards, the Authority is actively exploring how ancillary communications related services can be developed and linked to Malta.

We are currently establishing our position with regard to satellite technologies and how best to exploit opportunities whilst maximising on our own satellite spectrum and space assets. In fact, the MCA, on behalf of the Government has published an international call for proposals intended to seek parties interested in exploiting space assets through commercial activities that can benefit the Maltese Islands and place Malta on the global satellite transmission map.

Beyond technology, we are eager to support companies aspiring to serve the digital single market and beyond, through eCommerce, OTT services, or other internet based modes. We are certainly open for business. ■

*If you want to learn more about Malta and how to base a communications business in Malta, visit the Malta Communications Authority website on [www.mca.org.mt](http://www.mca.org.mt) or email [info@mca.org.mt](mailto:info@mca.org.mt)*



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# Destination Sm@rt City

## Hamburg takes its urban qualities to a new level

**A** maritime flair and a healthy economy, combined with an open mindset and a high quality of life: these are the strengths that have characterised Hamburg for centuries. What is more, Hamburg's ability to keep reinventing itself makes this city on the Elbe so attractive to residents and visitors alike.

Hamburg's merchants have always been known for their financial prudence, and this talent still proves beneficial when it comes to creating an innovative, sustainable infrastructure. To achieve this, stakeholders from business and science are forging new alliances, and the Hamburg Senate has committed itself to fostering smart urban development.

Being a city with both strong global networks and a strong local impact, Hamburg has always been open to new ideas from abroad. Hamburg's dense transport network with its short distances, its innovation-friendly business environment and its exciting academic landscape make the city an ideal destination for meetings and conventions. Hamburg's main hotels and conference venues – among them the Congress Center Hamburg (CCH) with its favourable location adjacent to the green belt of 'Planten un Blomen' – and three long distance railway stations are situated in the very heart of the city. The international airport can be reached within 30 minutes from the city centre.

### smartPORT

Hamburg's port is the beating heart of the regional economy and plays a key role as a driver for innovation. The Hamburg

Port Authority has set itself the goal of transforming the city's port into a smartPORT.

In the port environment, where the efficient use of railways and waterways is essential, dynamic links between all transport flows increase operating efficiency and ensure safety. The flow of goods is continually optimised by providing relevant information in the right place at the right time. But the port of Hamburg also relies on wind power and solar energy, which to an increasing extent is being generated on site. An intelligent network of production and consumer systems provides smart solutions to reduce emissions.

### Smart 21<sup>st</sup> century lifestyle

With the HafenCity district, Hamburg is setting the bar in urban development. This new quarter on the banks of the River Elbe offers a unique combination of work spaces, residential units, retail, recreation and culture. Europe's largest inner-city development project offers countless opportunities for smart building construction, sustainable heating energy supply and innovative solutions in the field of e-mobility.

Once completed, the HafenCity district will provide residential units for more than 12,000 people and service industry areas with more than 45,000 workspaces. At the same time, a 'knowledge quarter' is also emerging in the HafenCity – with the HafenCity University (HCU) at the heart of this quarter. As well as providing teaching and research in the area of built environment, the HCU also focusses on future urban development. In close proximity to the campus, the 'Intelligent Quarters' project is currently



being planned. The new building ensemble will meet the highest sustainability standards and can be reached via two underground stations.

In addition to rail and bus routes, pedestrian and cycle paths play an important role in the HafenCity's traffic concept. With its central location, Hamburg's new district encourages residents to leave their cars at home: in the HafenCity, pedestrians will have two and a half times more kilometres of path at their disposal than motorised users.

### Smart moves

Hamburg is an attractive metropolitan region to live, work and study in, and it is also hugely popular as an international travel destination – not least in the business segment. In 2013, over one-fifth of overnight stays in Hamburg were attributable to individuals attending meetings, incentives, conventions and events. As the city's population and the number of guests continues to grow alongside the need for eco-friendly living environments, new transport concepts are becoming ever more topical.

While Hamburg's public transport network has been making use of hybrid buses for many years, car sharing models for electric vehicles have been introduced more recently. 2009 saw the launch of the StadtRAD Hamburg bike rental system, which soon became the most successful project of its kind in Germany. As Hamburg's residents have always been weather- and wind-hardened, the bicycle has long gone from being a means of sports and leisure and is now firmly established as a vehicle for business purposes.

### Smart alliances

Being one of Germany's prime locations for the digital and creative industries and hosting a strong start-up scene, Hamburg has positioned itself as a city of the future. And this is where the Hanseatic merchant spirit comes into play: Hamburg's entrepreneurs are renowned for combining fresh ideas with business acumen. The list of successful young brands from Hamburg includes Xing, Jimdo, Bigpoint and Goodgame Studios among many others.

Technology partners such as Cisco, T-Systems, Philips and Worldsensing have already signed up for Hamburg's Smart City

*“Being one of Germany's prime locations for the digital and creative industries and hosting a strong start-up scene, Hamburg has positioned itself as a city of the future”*

pilot projects. The city's centralised Innovation Contact Service (IKS) provides a network of all of the city's research institutions, allowing Hamburg businesses to find cooperation partners from the science sector.

In the field of renewable energies, Hamburg hosts an impressive range of industrial companies and service providers, and the market continues to grow. In 2011, the cluster network 'Renewable Energy Hamburg' was launched as a means of strengthening this industry from within. By pooling the expertise of companies, organisations and research institutions, professional dialogue is being promoted and new interfaces are created. After all, smart networks can achieve so much more.

### Smart meetings, conventions and events

Hamburg offers a rich choice of climate-neutral, sustainable deals for meetings, incentives, conventions and events. In 2011, the Hamburg Convention Bureau obtained the Green Globe sustainability seal, and numerous hotels and event service providers in Hamburg have followed suit. The Hotel Scandic Hamburg Emporio, for instance, is a pioneer in environmental protection and sustainability: the hotel kitchen uses almost entirely organic products sourced from the region, as well as numerous Fairtrade-certified products.

In many respects, the city's hospitality sector stands out for its innovative approach. The Smart City continues to offer new, unique locations and formats for side programmes, providing the city's guests with diversity and quality in every respect. ■

*Hamburg Convention Bureau*  
[www.hamburg-convention.com](http://www.hamburg-convention.com)





# Perspectives on tourism in the Black Sea area

**Dr Zefi Dimadama is Director General of the International Centre for Black Sea Studies (ICBSS)**

Over the decades, tourism has experienced continued growth and deepening diversification to become one of the fastest growing economic sectors in the world; it has become one of the major players in international commerce and, at the same time, represents one of the main income sources for many developing countries. Today, the business volume of tourism equals or even surpasses that of oil exports, food products or automobiles. It is one of the world's largest and most diverse industries, accounting for up to 5% of global GDP and providing more than 25% of the total global service trade. Many scholars and policymakers have unanimously acknowledged the significance of direct and indirect effects of the tourism industry on a country's economic growth, GDP, and employment, all of which are crucial for its economic development.

These dynamics have turned tourism into a key driver for socio-economic progress. The tourism industry has been the largest provider of employment all over the world. Jobs generated by this industry are not limited to direct service sectors, but spread to wider areas as well, namely to infrastructure, farming, manufacturing, telecommunications, transportation and retail.

From an ecological point of view, tourism is also more acceptable and preferable than any other industrial activity, as it is environmentally friendlier than most other industries. Tourism industry is more likely to be committed to preserve the natural environment, local cultures and landscape, as they are all parts of its attractive virtue.

The Black Sea countries possess remarkable cultural and ethnic diversity, rich historical and architectural heritage and diverse natural resources, aspects which are blended over the millennia to shape unique communities, languages, religions and trades, a namely distinctive and attractive match to travellers. Realizing the aforementioned, tourism protrudes not only as a great chance for regional sustainable development, but also as a motivation for closer regional cooperation in every field, such as culture, environment, transport and youth.

It is apparent in the will of the Organisation of the Black Sea Economic Cooperation (BSEC) that tourism constitutes an important area for joint efforts to foster dialogue, good partnership and development for the people of the Black Sea. In particular, in the Summit Declaration of BSEC, in 1992, tourism is included in the key areas for further development; while the Declaration adopted by the Ministers of Tourism in November 2010, recognizes *"the importance of tourism in promoting economic development, mutual understanding, goodwill and close relations among peoples"*, and reaffirms the will of BSEC *"[...]to*

*stimulate as well as strengthen the image of our region as a unique and attractive destination [...] and to ensure tourism promotion within a broadest strategy of sustainable development"*.

Black Sea region tourism:

- 127 million international arrivals (22.5%), out of the 564 million international arrivals registered in European destinations in 2013.
- 74 billion of USD receipts (15%) out of the 489 billion for the whole European region.
- 12% of international arrivals as a whole (1,087 billion in 2013) and a mere 6% of world tourism receipts.
- By 2022, the GDP will exceed \$450 billion, namely over 7% of the overall economy.

Within this framework, the ICBSS, a BSEC related body and its acknowledged think tank, dedicated its 7<sup>th</sup> International Black Sea Symposium on 'Perspectives on Tourism in the Black Sea area', in an effort to bring together experts, stakeholders and academia to explore and discuss the perspectives of sustainable tourism in relation to its social and economic impact on the Black Sea countries. Through the 7<sup>th</sup> IBSS, the ICBSS aimed at offering an assessment on the sector's potential with respect to development and regional cooperation that could serve as working platform for the BSEC Member States and regional and international stakeholders. Special emphasis was put on cooperation for common sustainable tourism strategies, policies and practices, social and cultural linkages, youth and inclusive employment in tourism.

Through a fruitful and interactive dialogue, it became apparent that tourism provides the Black Sea countries with an excellent opportunity for social development and economic growth that should be further explored in order to reach its full potential in a sustainable manner. Undoubtedly, over the years the quality and quantity of tourism services in the Black Sea region have improved significantly, nonetheless, the sustainable development of the sector along with the regional cooperation allow room for improvement.

In this respect, in order to design and implement an advanced model of tourism in the area, based on sustainable development, we need to show great respect to the environmental protection and cultural preservation and enhancement, as well as to take into account the social structures of the region, in parallel with its future economic development.



The Black Sea region, with its diverse and unique landscape, cultural wealth, historic heritage and wide variety of opportunities for leisure, stands among world's most beautiful tourist destinations, attracting millions of tourists from around the world.

It is therefore to our benefit to develop and implement a targeted strategy on tourism, one that incorporates all the special features of the region alongside its future potential. It is important to foster closer regional cooperation on the field in order to produce a mutually beneficial outcome that will promote competitiveness at a regional and international level. Information sharing, working groups and training sessions for the professionals and the entrepreneurs should be included in a short term plan of action, as a first step to further development of the sector.

*“The Black Sea region, with its diverse and unique landscape, cultural wealth, historic heritage and wide variety of opportunities for leisure, stands among world's most beautiful tourist destinations, attracting millions of tourists from around the world”*

From our part, the ICBSB will work on this direction in order to foster the creation of a dynamic hub between the BSEC Organisation, regional and international stakeholders, with a view to multiplying the effects in the wider Black Sea area. ■



## Closing in on *beyond GDP*

**Dr Jana Stöver is a Senior Researcher at the Hamburg Institute of International Economics (HWWI). As an environmental economist, she works on issues related to sustainable development, green growth, renewable energies, and the role of institutions.**

**A**t first sight, the debate on ‘beyond GDP’ seems to centre around a fuzzy concept. And it is not the GDP part that makes the concept somewhat hard to grasp, but the ‘beyond’ in the expression. The concept of GDP alone is easy to define: it is the total market value of all final goods and services produced in a country in a given year. This seems relatively easy to measure in monetary units, to communicate and to compare over time and across countries, three main reasons for the concept’s popularity.

As a basic measure of a country’s overall economic health GDP reflects the value of what has been produced in physical or produced capital in an economy. But, as GDP growth simply reflects the change in production of goods and services, it obviously cannot suffice as an indicator for people’s well-being or quality of life. Clearly, there are other factors that should be included, and these should not to be treated as also-rans but constitute major parts of what affects people’s lives: the World Bank estimates that more than three quarters of a country’s

## “To constitute a measure of well-being or comprehensive wealth, GDP as such is thus not suitable”

wealth is embodied in other forms of capital than what is measured by GDP. This is where the first part of the expression, the ‘beyond’, comes into action.

A major reason and starting point for much of the discussion addressing issues ‘beyond GDP’ is to better understand, model and measure the well-being of individuals and economic entities (such as households and countries), eg. in order to improve policy advice on ways to improve life rather than GDP. Unfortunately, it is less clear what this ‘beyond’ implies in application. My approach to narrow down the term is to take a closer look at the word’s literal meaning(s) in the hope that this leads to a more accurate understanding of what could be embodied in the concept ‘beyond GDP’. For this, I picked a dictionary and looked up the word ‘beyond’. It offers four meanings and three expressions:

### beyond (bi’jond) preposition

1. out of the range, power etc of. *beyond help.*

If we agree on the relatively uncontroversial notion that there is more affecting human well-being than just money, accurately measuring well-being is clearly **out of the range of GDP** and, in fact, out of the range of any single number. In this respect, it has several additional shortcomings.

Factors that are not measured by GDP are products and services not traded on the market, such as home care, parental care, housework, subsistence farming and any kind of informal employment. Additionally, any kind of follow-up costs that occur in the future because of actions taken today, as well as changes in the stocks (eg. of environmental goods) are excluded from measurement. Changes in quality are also not taken into account. And, by construction, GDP cannot measure anything related to distribution. Yet all these factors influence how we are, i.e. they all have an impact on our well-being.

Instead, if a product is repaired or replaced, eg. in the aftermath of a natural disaster, this will count as a positive contribution to GDP. GDP also increases when people feel less secure and spend more money to protect themselves from perceived or objective dangers or environmental risks. To constitute a measure of well-being or comprehensive wealth, GDP as such is thus not suitable.

2. on the farther side of. *My house is just beyond those trees.*

Is there some other, better suited concept **on the farther side of GDP**? This would mean that there exists another entity of which the GDP may or may not be a part. If we tried to measure this thing, it would need a self-contained theoretical basis. Also, we would clearly need additional data. To stay in the picture, this ‘something’ sitting beyond GDP could most likely be uncovered if the GDP would just step aside and make room, ie. it would be easier to develop and use if GDP was not so wildly popular.

Although the GDP has been criticized since its invention by a number of people whose names read like some form of who’s who in economics (among them Galbraith, Kuznet, Samuelson, Tobin, Nordhaus, Sen, Daly, Stiglitz), the alternative concepts developed, though essential and admirable, gained only moderate attention outside academia for a long time. But this has changed (again) recently: most prominently, the process initiated in 2008 by the so-called Stiglitz-Sen-Fitoussi commission has revived and propelled the discussion and put it prominently on the political agenda.

3. farther on than (something) in time or place. *I cannot plan beyond tomorrow.*

The process initiated by the commission triggers the hope that there will be something else than GDP **farther on in time**. Indeed, many people are working on this ‘something’: currently, there are a number of high-level international initiatives working on developing concepts and indicators and applying them, among them the OECD’s *How’s life? and Green Growth Initiatives*, the World Bank’s *Inclusive Growth* strategy and the WAVES initiative, UNEP’s *Green Economy Indicators* and the European Commission’s *GDP and beyond* initiative.

The Stiglitz-Sen-Fitoussi commission named limitations of the GDP as an indicator for economic performance and social progress and identified additional data necessary for an appropriate measurement. Subsequently, the European Statistical System Committee launched a program on *Measuring Progress, Well-being and Sustainable Development* to improve available statistics as well as their use. The commission also evaluated the feasibility of alternative indicators.

4. other than. *What is there to say beyond what’s already been said?*

The obvious question arising when criticizing GDP as a measure of well-being is about alternatives; are there indicators **other than GDP**, which are better suited? Luckily, there are, but they come with their own strengths and weaknesses. Usually, these indicators fall into one of three groups. They are either some form of corrected GDP measure, happiness indicators or synthetic indicators.

As the name suggests, indicators falling in the first group use the GDP as a basis and augment it, eg. for environmental or social aspects. Examples are the indicator Adjusted Net Saving or other green accounting indices. Indicators based on the GDP share the advantage that they are (at least partly) based on economic theory. Unfortunately, they also have in common that the link between their level and welfare is often loose and problematic to establish.

The second group of indicators under the appealing name ‘happiness’ aims to directly measure people’s happiness instead of using a proxy, eg. by measuring their consumption. Examples are the Gross National Happiness index and other measures of subjective well-being. This approach has the obvious strength that it really measures what we are ultimately interested in, ie. it asks people how they are (and variations thereof).

As such, it can account for important aspects that are excluded or neglected in the other approaches, such as eg. social relations. Unfortunately, this major advantage comes at the cost of different problems, such as the challenge of comparability

between individuals, or between populations as well as that of including people do adapt and adjust to the situation(s) they find themselves in.

Synthetic (or composite) indicators, which constitute the last group, aim at merging different factors that influence well-being into one single number. The most prominent example for this group is the UNDP's *Human Development Index*, which combines economic (income), health (life expectancy) and human capital (education) aspects of human development. While they have the appealing advantage of making comparisons between countries and over time possible and of being easy to communicate, indicators in this group share the challenge of weighting the different factors that they combine. Merging different components into one number always implies weighting them against each other and also requires them to be measured in the same units. What seems obvious in theory is no trivial task in practice. Additionally, many composite indicators are only very weakly based on theory.

### **beyond expectation**

*much more or much better than expected. The plan succeeded beyond all expectations; the hotel was beyond our expectations*

One could argue that having spelled out and discussed all options on the table at length and with much media coverage is **much more** than what could be **expected** at the time when the Stiglitz-Sen-Fitoussi commission was established. The topic 'beyond GDP' has made its way into mainstream thinking and the fact that GDP is insufficient for measuring well-being seems to have arrived in day-to-day communication. But, as none of the alternatives proposed is strictly better than all others, the way forward is not as clear-cut as one would wish for.

### **beyond compare**

*having no equal. His achievements are beyond compare*

So far, GDP seems to **have no equal** in measuring the physical capital part of well-being. As a consequence, many of the

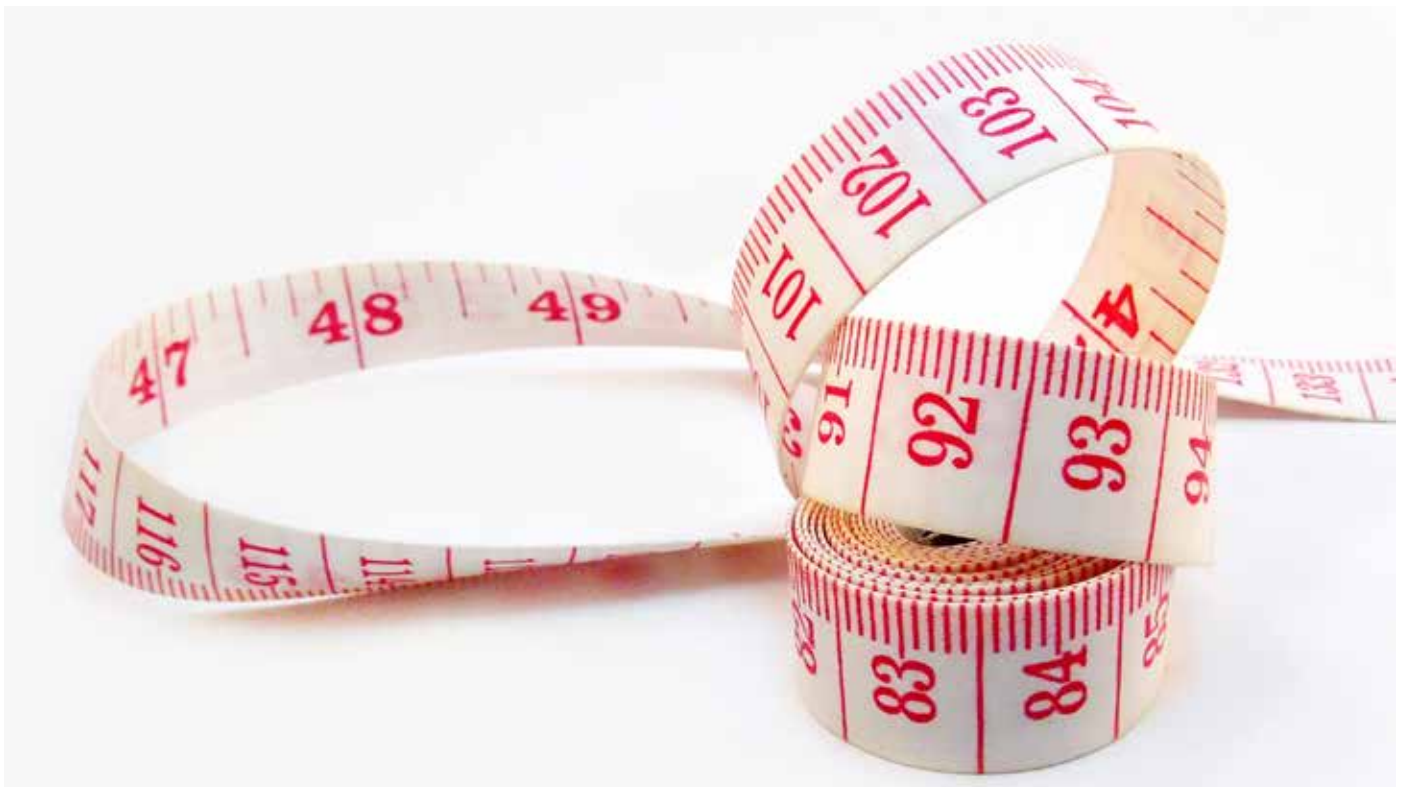
suggestions on how to improve measuring well-being are based on some form of GDP as an integral part. In developing alternative indicators, one should obviously be careful not to throw the baby out with the bathwater: Material well-being can indeed be used as a starting point for broader measures of well-being. Some even argue that GDP is able to measure well-being better than expected as it is closely correlated to measures of well-being up to a certain income level. Clearly, GDP and other income measures can be part of the story on well-being.

Nevertheless, a number of changes called for by the Stiglitz-Sen-Fitoussi commission should be implemented in order to improve the measurement beyond GDP. These include a shift of the focus from production to consumption, an inclusion of distributional aspects, as well as an inclusion of non-market activities into income measures. Additionally, the commission stressed the role of both subjective and objective measures of well-being, and the important role of statistical offices in the process was emphasized. The commission's recommendations lead to a working agenda of considerable length and depth, which still requires many different actors to participate and cooperate over a long time.

### **beyond one's means**

*too expensive(ly). A painting by Picasso is beyond my means; He lives well beyond his means (= he spends more money than he earns)*

Yet it can't be **too expensive** to develop something more useful than GDP to measure how we are doing. Of course, there remains a lot to be done and this will have to continue to be financed with actual money, time and effort. But the process and long-term outcome can potentially outweigh the costs by far; since it is what we (can) define, measure and put a name on that makes it to the headlines and stays in our focus. And shifting this focus from solely material well-being to how we really fare, after all seems like an aim worth pursuing - well beyond this article. ■





# The risk of OTC derivatives

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## Overview

Over-The-Counter (OTC) derivatives had a clear role in spreading out volatility and risks in the recent world-wide financial crisis. The broad approach to reform that G20 countries have taken to achieve financial stability is sound, but the relatively low transatlantic coordination on new financial regulation might decrease its effectiveness. Moreover, the trading of OTC derivatives by non-financial operators is not often covered under the new regulatory umbrella. This lowers the incentives to centrally clear OTC contracts, increases counterparty risks, and reduces financial stability and resilience. The G20 Turkish presidency should recommend monitoring the trading of OTC derivatives by non-financial operators and enhance their accounting and risk management procedures.

## Financial derivatives

The global regulatory framework has not yet intervened on the trading of Over-The-Counter (OTC) derivatives, by non-financial operators, that constitute a source of systemic risks. In fact, in the Brisbane Summit (2014) leaders state that *"critical works remain to build a stronger, more resilient financial system"*; further reforms on OTC derivatives should be swiftly implemented. Since 2009 global leaders are revising the global financial architecture to better cope with evolving risks and to effectively promote growth.

As most economists agree, the financial crisis has been not only the product of an excessive credit and assets bubble, but also of *"poorly designed liberalization, ineffective regulation and supervision, and poor interventions"*. Financial derivatives had a clear role in spreading out volatility and risks, but their beneficial role for economic growth does not compensate for the shortcomings in their trading infrastructures.

Under the auspices of the Financial Stability Board (FSB), the G20 nations have moved to regulate the use of OTC derivatives by financial operators (ie. banks and financial intermediaries), since they trade around 90% of the global derivatives markets. At the heart of the international regulatory effort is an attempt to build resilient, continuous, and transparent OTC derivatives markets to strengthen the resilience of the global economy and the stability of the financial system.

Regardless of the reduced global economic performance, the derivatives market continued to grow and reached \$691 trillion by mid 2014<sup>2</sup>, as measured with the notional amount outstanding<sup>3</sup>; the corresponding gross market value declined

to \$17 trillion, below its 2013 level (\$20 trillion), mostly because the global path of interest rates contracted (Charts 1, 2, 3). The notional dimension of derivatives largely exceeds that of most financial products; as of December 2013, the global capitalization of the equity markets reached \$64 trillion, and the bond market reached \$22.4 trillion<sup>4</sup>.

The BIS<sup>5</sup> studied the macroeconomic impact of the new regulatory framework for OTC derivatives by comparing the economic benefits and costs of planned reforms, and identified that the long-run benefit is the reduced probability of economic and financial crisis which positively affects growth. The (short and long term) costs of planned reforms are relevant for the global financial system, but the lack of data on detailed bilateral trading exposure, together with the uncertainty over the final regulatory scenario, limited the extent of the analysis. The probability of achieving stronger and more stable long-run growth under the new regulatory system strongly depends on the level of coordination among financial systems and the ability to recognise and close the gaps left open in the past in the global financial system at the roots of the crisis.

Generally speaking, the EU and the US are well advanced in adopting the new rules with respect to other G20 countries, but that comes at the detriment of consistency and coherence between the European and the American systems<sup>6</sup>. In particular, divergent rules on capital, liquidity, derivatives and banking structure create regulatory misalignments that provide incentives for beggar-thy-neighbour and race-to-the-bottom policies in terms of competition and price at the detriment of financial market stability<sup>7</sup>. This has non-trivial effects on growth and development for all G20 countries because of deep financial linkages.

## Non-financial operators

So far, non-financial operators trading has been exempted from the new regulatory framework because of the relative small size and the supposed simplistic nature of products, but the relatively small dimension should not overshadow the potential risk involved, since a domino effect could spread, thanks to deep interconnections in the financial system. The trading of OTC derivatives by governments, local administrations, and non-financial firms accounted for 12% of the total global OTC market in mid 2014 (BIS 2014A), a size that recalls that of subprime mortgages in 2007<sup>8</sup>. The supposed simplistic nature of OTC contracts traded by non-financial operators is

not confirmed in their accounting data and the literature. The exemption together with the model risk limits the possibility of effectively achieving financial stability.

The BIS<sup>9</sup> (2014C) analysed the incentives to centrally clear OTC derivatives contracts under the new regulatory system and, with respect to non-financial operators, states that: “if an end user of OTC derivatives is not subject to capital requirements for counterparty credit risk, its incentive for central clearing is reduced; if the end user is not subject to the margin requirement on non-centrally cleared derivatives, or that fall below the margin required thresholds, the impact on incentives to clear centrally is not straightforward” (p.19).

**Governments and local administrations**

After 1990 many sovereign states employed OTC financial derivatives to hedge their debt, and to smooth its costs (eg. foreign-currency denominated bonds) basically with interest rate and foreign exchange swaps. The successful experience of US states (eg. California, Texas), Denmark, and Brazil confirm that OTC derivatives contracts are powerful risk management tools, although the small disclosure of data on such contracts fuelled criticism<sup>10</sup>.

Local administrations’ experience with OTC derivatives strongly depends on their financial independence from the central state. Since the state is ultimately responsible for all obligations underwritten by local administrations, the UK prohibited the use of derivatives by local administrations back in 1988; on the other side, Italian Regions have outstanding OTC derivatives worth €10,784 million in 2013 under no clear domestic regulatory framework<sup>11</sup>. In the recent past some public administrations went bankrupt because of financial mismanagement involving derivatives contracts; the \$2 billion Orange County (California) default in 1994 and the \$4 billion default of the Jefferson County (Alabama) in 2011 were, in fact, caused by excessive financial

*“The regulatory frameworks in the EU and in the US are not fully consistent with each other; the inconsistency can be reduced by means of greater regulatory coordination by the G20”*

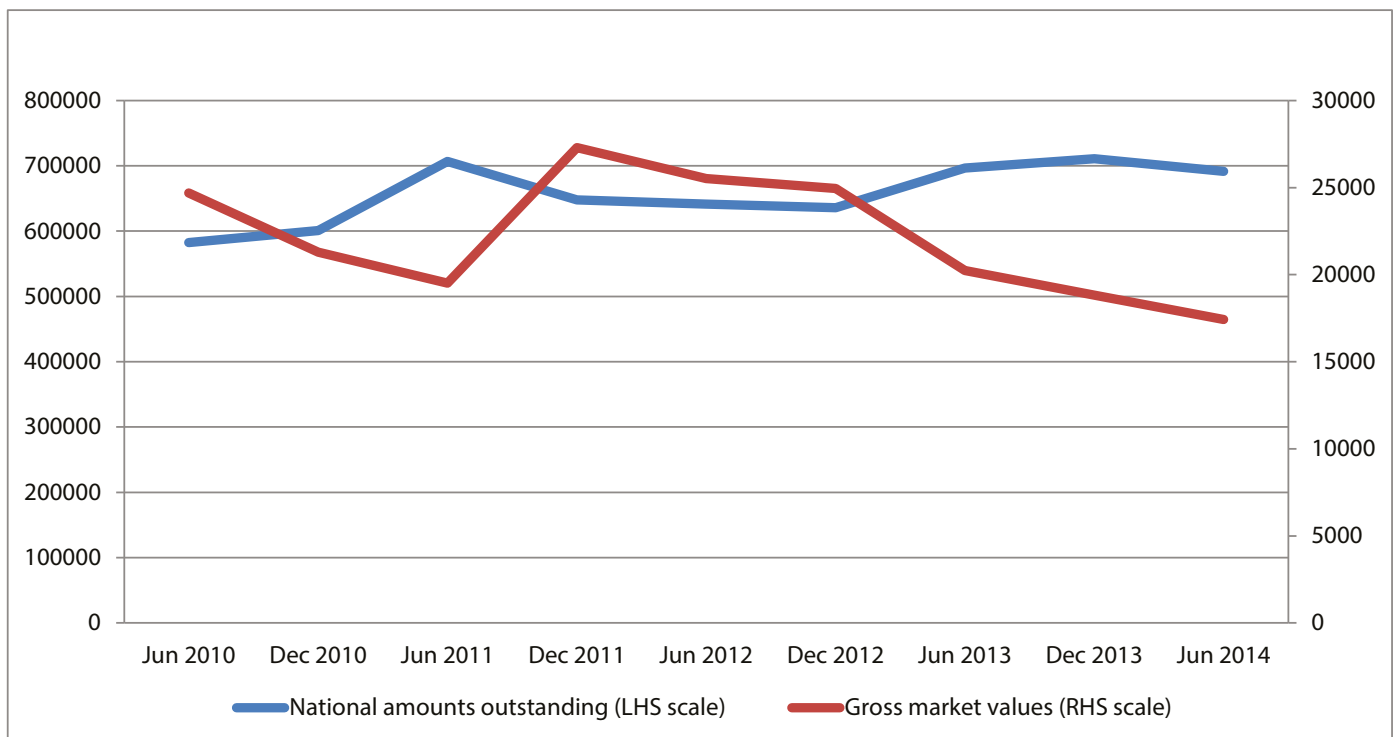
risks<sup>12</sup> and not by reduced resources available, like taxes or government funding<sup>13</sup>.

The US Governmental Accounting Standard Board (GASB) issued Statement No. 53 in 2008 that “addresses the recognition, measurement and disclosure of information regarding derivatives entered into by state and local governments”; it establishes disclosure requirements such as a derivatives summary, information about hedge effectiveness, fair value, management’s objectives, significant terms, and risks. Its aim is to “improve financial reporting by requiring public administrations to measure derivatives at fair value in their economics resources measurement”. The standard has been effective since fiscal year 2010, but very few countries conform to that of the US and provide information on financial transactions limiting the empirical analysis of risks and costs.

**Non-financial firms**

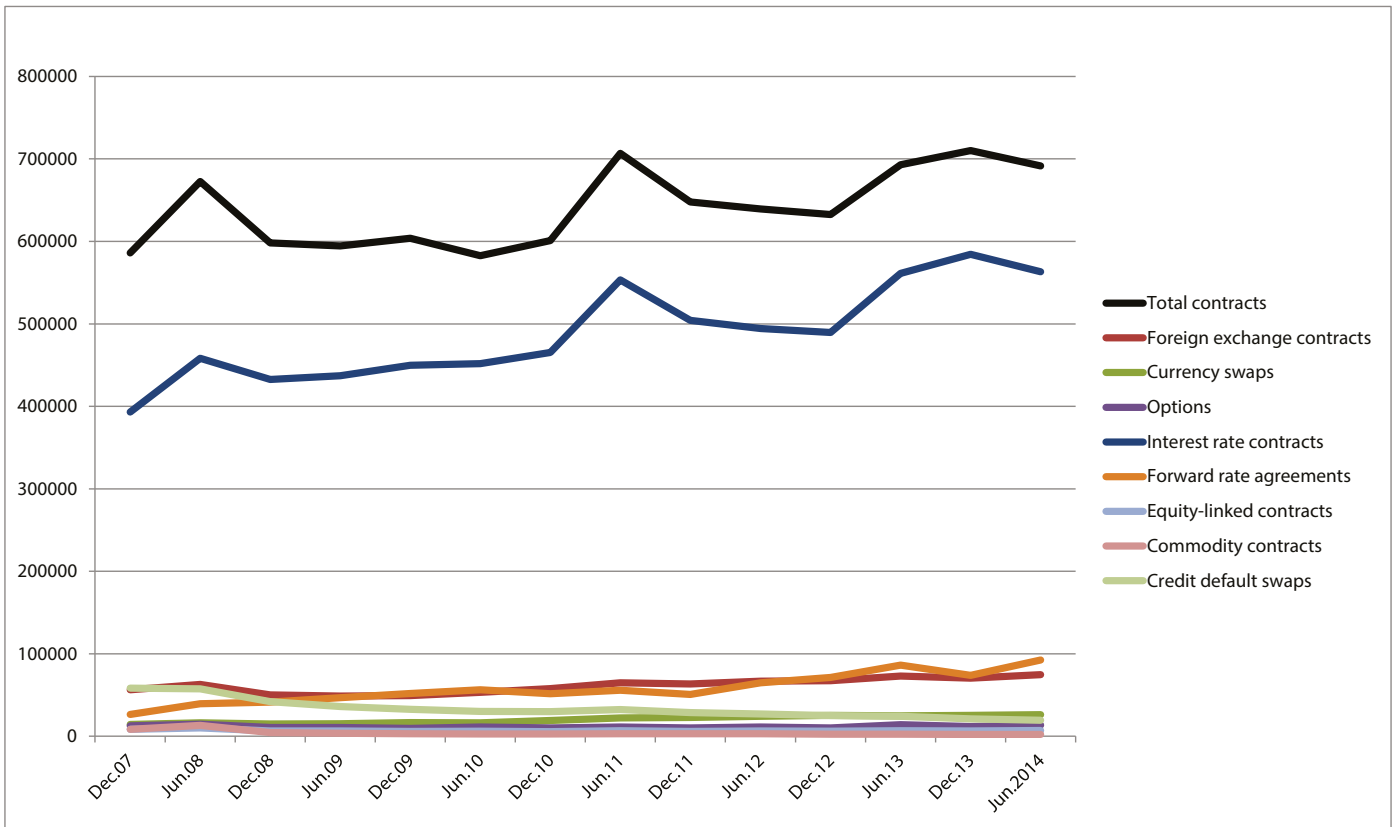
Non-financial firms trade OTC products to hedge and to speculate, and can purchase almost any type of OTC product. According to a very recent study<sup>14</sup>, one third of Canadian non-financial firms listed on the Toronto Stock Exchange engage in derivatives trading; derivatives are swaps, options, futures and forward written on almost any underlying asset (interest rate,

**Chart 1. OTC derivatives US\$ billion**



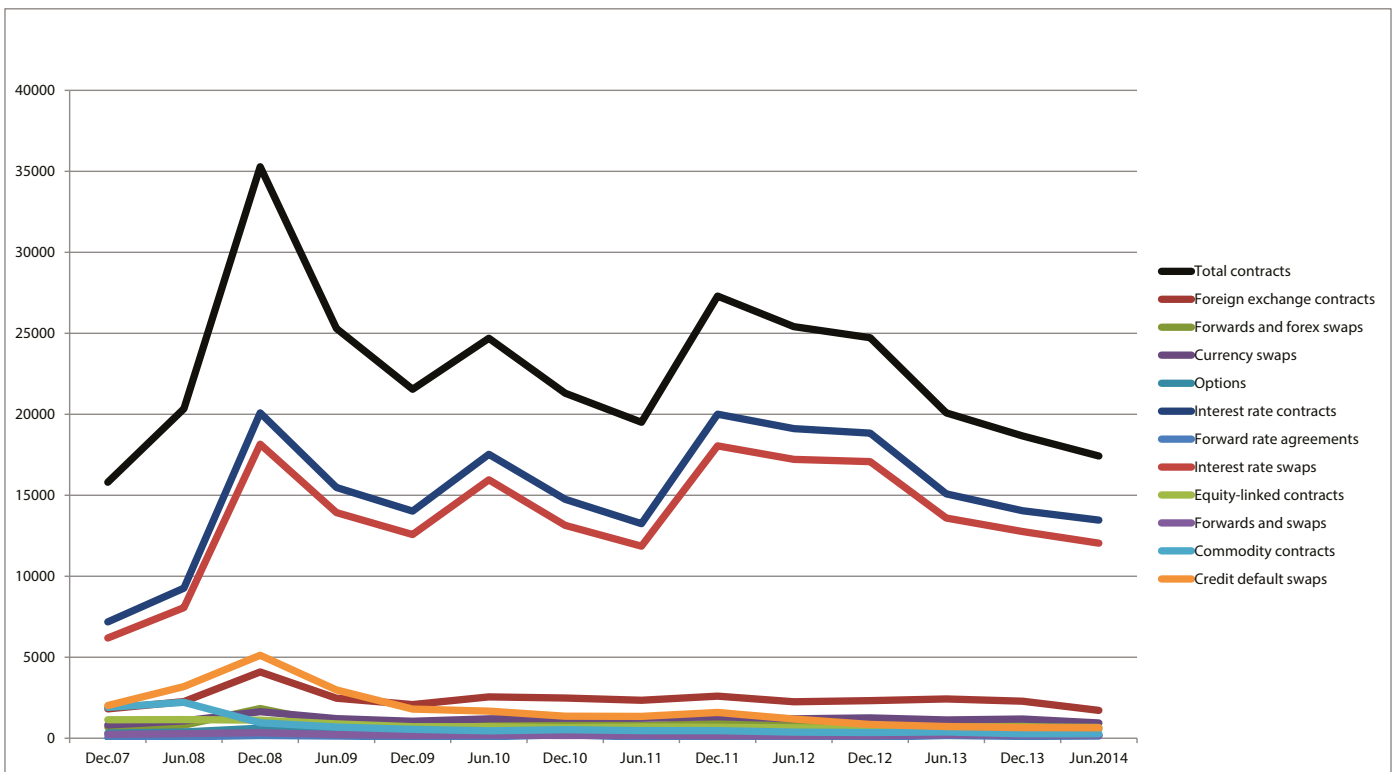
Source: BIS Quarterly Review November 2014

**Chart 2a. Notional amount outstanding of OTC derivatives by risk category and instruments in US\$ billion**



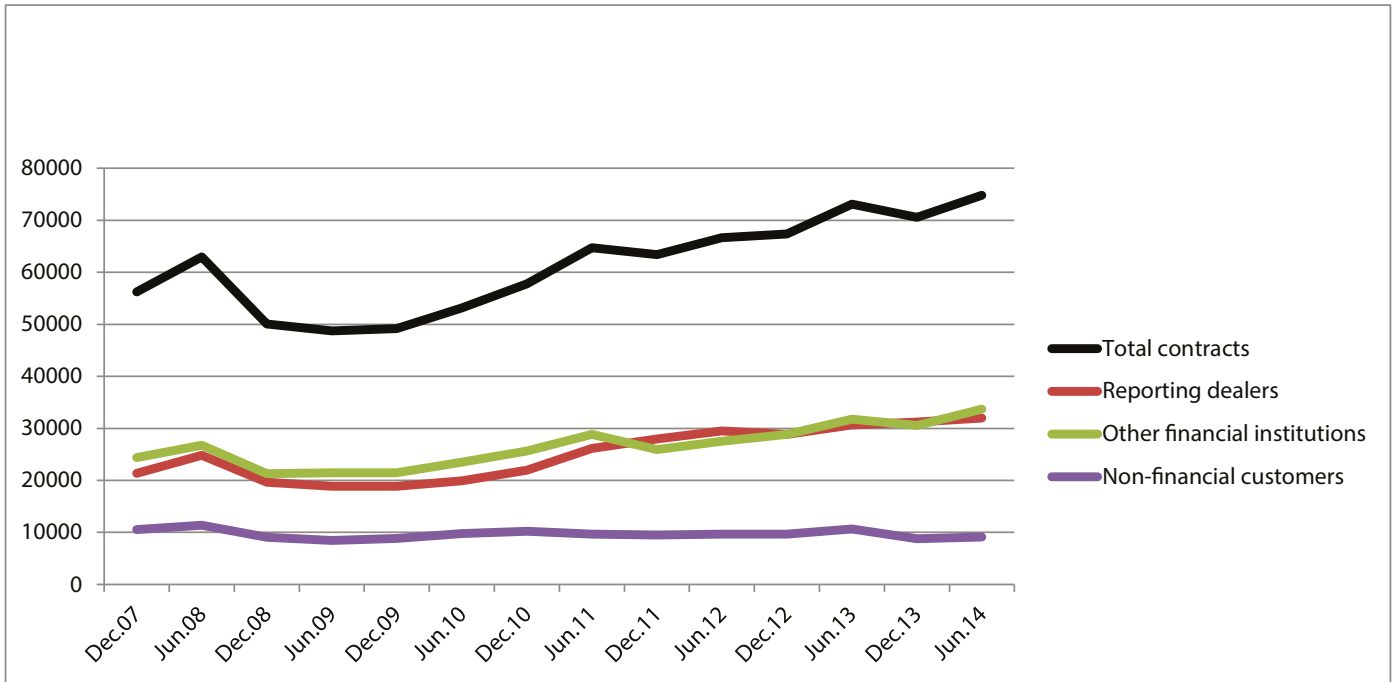
Source: BIS Quarterly Review November 2014

**Chart 2b. Gross market value of OTC derivatives by risk category and instruments in US\$ billion**



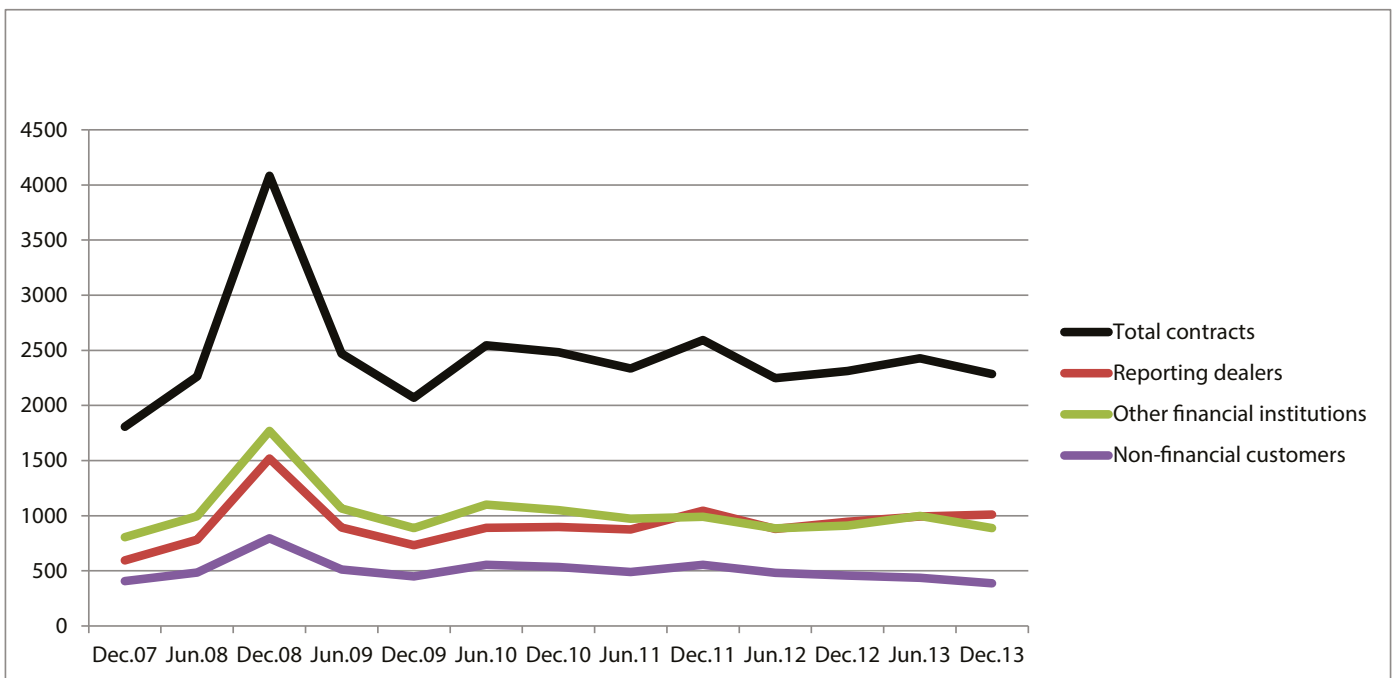
Source: BIS Quarterly Review November 2014

**Chart 3a. Amounts outstanding of OTC foreign exchange derivatives by counterparty in US\$ billion**



Source: BIS Quarterly Review November 2014

**Chart 3b. Gross market value of OTC foreign exchange derivatives by counterparty in US\$ billion**



Source: BIS Quarterly Review November 2014

asset price, probability, foreign exchange) and the use of such products is widespread in all sectors of the economy. This result is in line with the literature referring to other G20 countries before and after the financial crisis<sup>15</sup>.

However, the lack of accounting data on OTC contracts separate from other hedging contracts (eg. insurance) represents a barrier toward a comprehensive assessment of risks involved. While financial firms must also comply with capital and margin requirements, non-financial ones are free to engage in potentially risky contracts without any requirement and under little supervision. In July 2014, the International Financial Reporting Standards (IFRS) issued standard n.9<sup>16</sup>, which replaces the International Accounting Standard (IAS) statement n. 39<sup>17</sup> on the use of OTC derivatives by financial and non-financial firms after 2018. The IFRS introduced fair value measures to derivatives exposure, and requires firms to provide information on the type of derivatives, scope and relations with the core business. The evolving financial system structure and increased complexity led to this new comprehensive standard.

### Model risk: the known unknown

Uncertainty over the pricing model of derivatives is referred to as model risk. In 1997 the Nobel Prize in Economics was awarded to Myron S Scholes and Robert C Merton for their contribution to the pricing of financial derivatives. In 1997-1998 the hedge fund they managed, the Long Term Capital Management (LTCM), was hit by the Asian and the Russian bonds crises, and finally crashed. The collapse of LTCM was due to the complex risk models employed and to the over-reliance on these models.

Many economists and market players believe that derivatives pricing models have been used wrongly prior to the subprime crisis and that they are still used wrongly today<sup>18</sup>. Derman<sup>19</sup>, back in 1996, introduced six simple rules of thumb to mitigate model risk, but they can be succinctly summarised by one: prefer simple models to complex ones since the 'devil is in the details'.

Board members of non-financial firms and managers of public administrations should take this principle into consideration.

Enron is a prime example the potential risks involved in derivatives trading. Most often, however, firms follow Warren Buffett's approach: he stated in his 2002 shareholder's letter that derivatives are "financial weapons of mass destructions", but by looking at Berkshire Hathaway's balance sheet, it is clear that Buffett actively uses them, taken with a grain of salt. Nevertheless, the exact 'size' of the grain is not easy to identify.

### OTC derivatives and the G20

The regulatory frameworks in the EU and in the US are not fully consistent with each other; the inconsistency can be reduced by means of greater regulatory coordination by the G20. The trading of OTC products by non-financial operators (governments, local administration and non-financial firms) often occurs in the absence of capitalization, proper financial accounting criteria and adequate monitoring or supervision. In order to promote growth and stability, the G20 under the Turkish presidency should consider the following recommendations:

- Other member countries should scrutinize G20 governments' trading of OTC derivatives.
- Local administrations might retain a certain degree of freedom to engage in sophisticated financial products, like OTC derivatives, but they should be monitored by the central state.
- Non-financial firms OTC trading is not under intense monitoring and scrutiny, and should be compelled to adhere to the centralized counterparty system and to the collateralized systems of trading, to enhance their accounting and risk management procedures in order to effectively deal with financial risks. ■

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# The EU and immigration

**Robert Oulds is the Director of the Bruges Group and the author of *Everything you wanted to know about the EU: But were afraid to ask* published by Bretwalda Books. These ideas are due to be expanded upon in a booklet on Brexit to be published by the Institute of Economic Affairs**

**A** core principle of the European Union is the free movement of peoples between member states of the EU. This is one of the main areas where people will see the effects of EU membership. The rules governing this are contained within EU Directive 2004/38/EC.

Under its rules deportation can only happen when *'The personal conduct of the individual concerned must represent a genuine, present and sufficiently serious threat affecting one of the fundamental interests of society.'* It also states that, *'Previous criminal convictions shall not in themselves constitute grounds for taking such measures.'*<sup>1</sup>

Other areas of controversy concern the economic impact of migration. One and a half million non-British citizens of other EU member states work in the UK. This constitutes around 5% of employment in Britain.

According to the respected think tank specialising in issues relating to immigration, Migration Watch UK, an immigrant will have to earn approximately £27,000 to make a positive financial

contribution to the British economy. This figure is based upon the average earnings in Britain, with an additional amount added on to make up for the cost of the additional infrastructure to support the new entrants into the UK. The need for extra provision in housing and education are particular issues. Naturally, an increase in demand without a corresponding increase in supply will drive up both rents and house prices. Immigration also has an effect on depressing the average wage of existing British residents.<sup>2</sup>

The less well-off existing residents lose the most from immigration. For each 1% increase in the number of working age immigrants there was a 0.6% decline in the pay packets of those in the bottom 5% of the pay scale. The lowest paid ten per cent suffered from a 0.4% decline in their wages.<sup>3</sup> What is more, the least skilled existing British workers had a reduction of 0.5% in their salaries.<sup>4</sup> Over time salaries should increase, as inflation does.

Another cost of immigration is the transfer of money that migrants have earned in the UK back to their country of origin.



According to the World Bank each year \$1.2 billion is sent from Britain to Poland alone.<sup>5</sup>

This is money that is leaving the UK and benefitting another state. This transfer of funds out of the UK to family in their home state, or to fund investments in their country of origin, is of enormous economic importance to many who reside in Eastern Europe.<sup>6</sup>

The economist Professor Tim Congdon estimates that the influx of 700,000 new workers from Eastern Europe had displaced some British born workers, costing the UK economy 1% of its economic output.<sup>7</sup> This is not a great figure, yet for those that have a lower chance of employment the effects can be devastating.

Much of these costs, however, rely on the immigrants being economically active. According a report by the European Commission the number of non-working immigrants from the EU had risen from 2006–2012 by 42% to more than 611,779. According to the same report between 2008 and 2011 there was a 73% increase in the number of people from the EU coming to Britain without a job.<sup>8</sup> Of the more than six hundred thousand economically inactive EU migrants to Britain, approximately 10% of them are claiming job seekers allowance.<sup>9</sup> Yet, there is still a cost to their residency in the UK. It has been estimated in the Commission report that they are costing the British National Health Service £1.5 billion per year.

Dry economic numbers are not the only considerations when assessing the impact of immigration from the EU to the UK. There are also social considerations, in particular matters of community cohesion. The former Labour Home Secretary, Rt Hon David Blunkett MP, warned on 11<sup>th</sup> November 2013 that the influx of Roma from Eastern Europe may cause riots on the streets.<sup>10</sup>

Though there is much discussion about migration from the rest of the EU to the UK, 1.8 million UK citizens live in other EU states. They take advantage of the free movement of persons - a right enshrined in EU treaties. Those that have established a residency, which will include both living and owning property, in an EU member state will have their rights protected upon withdrawal.

This entitlement is known as an 'executed right'. Article 70b. of the Vienna Convention states that the withdrawal from a treaty '*Does not affect any right, obligation or legal situation of the parties created through the execution of the treaty prior to its termination.*' This view is supported by the constitutional expert Lord McNair. He concluded that such rights established by a treaty will remain in force even if the agreement is terminated by Britain's exit. In law they are considered to be executed by the treaty and "*have an existence independent of it; the termination cannot touch them.*" Their status will be guaranteed as a result of the "*well-recognised principle of respect for acquired [vested] rights.*"<sup>11</sup> Furthermore, it is a legal norm and the *Oxford Journal* in its year book on international law argues that 'acquired rights are customary law' and therefore take precedence over national law at the international level. And this will be regarded as such by the International Court of Justice in The Hague.

Indeed, any attempt to cancel the right of French and German citizens already in the UK to live and work in Britain would be diplomatically contentious. London is now the fourth largest French city. According to a November 2013 report by the Centre

*"Dry economic numbers are not the only considerations when assessing the impact of immigration from the EU to the UK. There are also social considerations, in particular matters of community cohesion"*

for Research and Analysis Migration, between 2001 and 2011 immigrants to the UK from the EEA contributed 34% more in taxes than the British state spent on supporting them.<sup>12</sup>

Therefore the impact of Britain leaving the EU will not be that great for those EU citizens already resident here, or for British citizens living abroad. The difference will be felt by those who move to a different state after British withdrawal.

These issues surrounding immigration are used by both sides in the on-going debate as to whether or not Britain should remain in the European Union. Some argue that Britain should leave in order to control immigration from Europe; on the other side the issue of the free movement of persons is intrinsically linked both politically and legally to free access to the EU's Single Market. That has been made clear by the German Chancellor Angela Merkel and should Britain choose to leave the EU free movement will be a condition on any new free trade agreement.

Yet there is another way. Britain can leave the but keep full access to the EU's Single Market by re-joining the European Free Trade Association and remaining in the European Economic Area. This will also allow for some action to be taken to control immigration.

Liechtenstein, an EEA member with less potential influence than Britain, continues to use clauses in the EEA agreement to restrict the movement of persons. Article 112(1) of the EEA Agreement reads: '*If serious economic, societal or environmental difficulties of a sectorial or regional nature liable to persist are arising, a Contracting Party may unilaterally take appropriate measures under the conditions and procedures laid down in Article 113.*' The restrictions used by Liechtenstein are further reinforced by Protocol 15 (Article 5 – 7) of the EEA agreement. This allows Liechtenstein to keep specific restrictions on the free movement of people. These have been kept in place by what is known as the EEA Council.<sup>13</sup>

There will also be greater latitude to restrict non-British EU citizen's access to benefits and to deny residency to those who are deemed to not have sufficient resources to support themselves. The current debate in Britain on immigration largely ignores the role of the European Court of Human Rights and the European Convention.

The EEA relevant rule relating to freedom of movement has qualifications, conditions and limitation.

(10) Persons exercising their right of residence should not, however, become an unreasonable burden on the social assistance system of the host member state during an initial period of residence. Therefore, the right of residence for Union citizens and their family members for periods in excess of three months should be subject to conditions.

(12) For periods of residence of longer than three months, member states should have the possibility to require Union citizens to register with the competent authorities in the place of residence, attested by a registration certificate issued to that effect.

(22) The Treaty allows restrictions to be placed on the right of free movement and residence on grounds of public policy, public security or public health.

Article 7, 1 b)

(b) have sufficient resources for themselves and their family members not to become a burden on the social assistance system of the host member state during their period of

residence and have comprehensive sickness insurance cover in the host Member State.<sup>14</sup>

No right is absolute, and neither is freedom of movement within the EEA. What is more, EEA rules only apply to EFTA nations after they have assessed the relevant legislation and applied it according to their own interpretation of what freedom of movement means.

Much can be done unilaterally. As an EEA member outside the EU, the UK will also have the ability to re-write EEA relevant rules. Whilst they must still broadly conform to existing legislation it will grant some latitude to make sure that British interests are better served. ■

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## Do we have to be afraid of the future world of work?

**Werner Eichhorst is the Director of Labour Policy Europe at the independent Institute for the Study of Labour (IZA) in Bonn, Germany, the world's largest research network in labour economics with more than 1,300 economists from over 50 countries**

**T**he current public debate in many developed countries about the future of paid employment is characterized by strong feelings of uncertainty. Studies emphasizing the potentially deep and severe impact of globalization and automation have nourished fears of significant job destruction in the future. Furthermore, in labour markets that have become increasingly flexible, at least in certain areas of employment, issues such as precarity, unstable employment or low pay have gained attention, in particular in the aftermath of the recent global economic crisis.

At the same time, many of those who are employed perceive work as increasingly stressful and demanding, or psychologically overburdening due to ever growing pressure on performance and work intensification. So what can we

expect from the future, based on an assessment of the current and most plausible future developments?

From past and current experience, we know that outdated, simple jobs are threatened by offshoring or outsourcing to foreign locations with lower labour costs, or by automation. Companies and sectors shrink or disappear. However, this process seems to be becoming faster and more radical, especially in the age of information and communication technology where opportunities of digitalization are constantly increasing, sometimes at an unexpected speed.

Thus, many see an expanding threat on a fundamental level to existing jobs and firms in developed economies and a massive imminent disruption of employment trends through the digital

revolution. This process of the elimination of jobs on the one hand, with the creation of innovative new ones on the other, has long been known as creative destruction.

Occupations that will be most relevant in the future are those that rely on non-routine cognitive, interactive or manual work performed by human beings, ie. dealing with complexity, decisions, teaching, but also care and personal interaction. In these areas, human beings are crucial and will likely remain indispensable. And humans shape these jobs based on qualification, experience, motivation and collaboration. Many jobs of the future will rely on this human factor, creating a huge potential of making these jobs 'richer' and more intrinsically interesting or rewarding than the jobs in the past, which were often characterized by more routine and repetitive tasks.

While new technologies enable mobile working and technologically assisted interaction, we can see that communication between humans is still vital in many respects, in particular in services tailored to individuals. Given market pressures and competitiveness considerations, there is an increasing tendency to address human creativity and motivation more systematically via organizational and human resource practices. However, on the downside, this can be more invasive to individuals and bring about more external control, not least via contract-based work and stricter monitoring.

Today's labour markets are heterogeneous. They offer a multitude of employment options along a broad continuum ranging from permanent full-time employment to part-time work, fixed-term contracts, temporary agency work, freelance, zero-hour contracts, on-call work and many others, sometimes including combinations of different forms or multiple jobs.

We see from the current picture that the type of employment relationship varies greatly between occupations. This has direct implications for the working conditions that employees and self-employed or freelance workers face. Working conditions in terms of employment type, contract stability and remuneration depend on skill demand and skill supply with contracts resulting from negotiations between actors always searching for the best deal.

Clearly, firms or contractors tend to externalize economic risks and shift the burden of adaptation to those in a weaker position. Job quality and flexibility is a question of negotiation and bargaining power. Certainly, not all will be self-employed as there is still an advantage to have permanent employees in the firm that make up a stable, core work force which can develop specific skills and knowledge that cannot be bought on the spot.

However, even within firms, flexible employment practices flourish, sometimes blurring the boundaries between internal and external project partners. Flexible, performance-oriented practices are also spreading within firms, affecting the work done in formally stable employment relationships. But all-in-all, there is no general tendency towards more precariousness for all workers, although large and increasing heterogeneity in the labour market is likely to occur. It would be wrong to overestimate problematic and rapid changes in some limited pockets of the labour market by assuming the extension of these challenges throughout the entire labour market.

Public policies can be seen as productive investments in the economic and societal future. The main elements have already

*"... human creativity and inventiveness are strong and will always find ways to cope with new situations, including creating new job profiles in the future. We have been living with technological progress, globalization and structural change for decades and will continue to do so in the future"*

been on the agenda, but what is needed is more coherent action. This is particularly true in the area of policies to facilitate and stimulate innovation, especially at the interface of research, education and business. Education and training have been top priorities over the last decade or so in many developed economies, and they need to be developed further, leaving no one behind, making vocational training and further training over the life course more systematic and universal, ie. affordable and accessible, to enable working-age people to participate in the labour market. This will require the mobilizing of social partners, employers, and individuals.

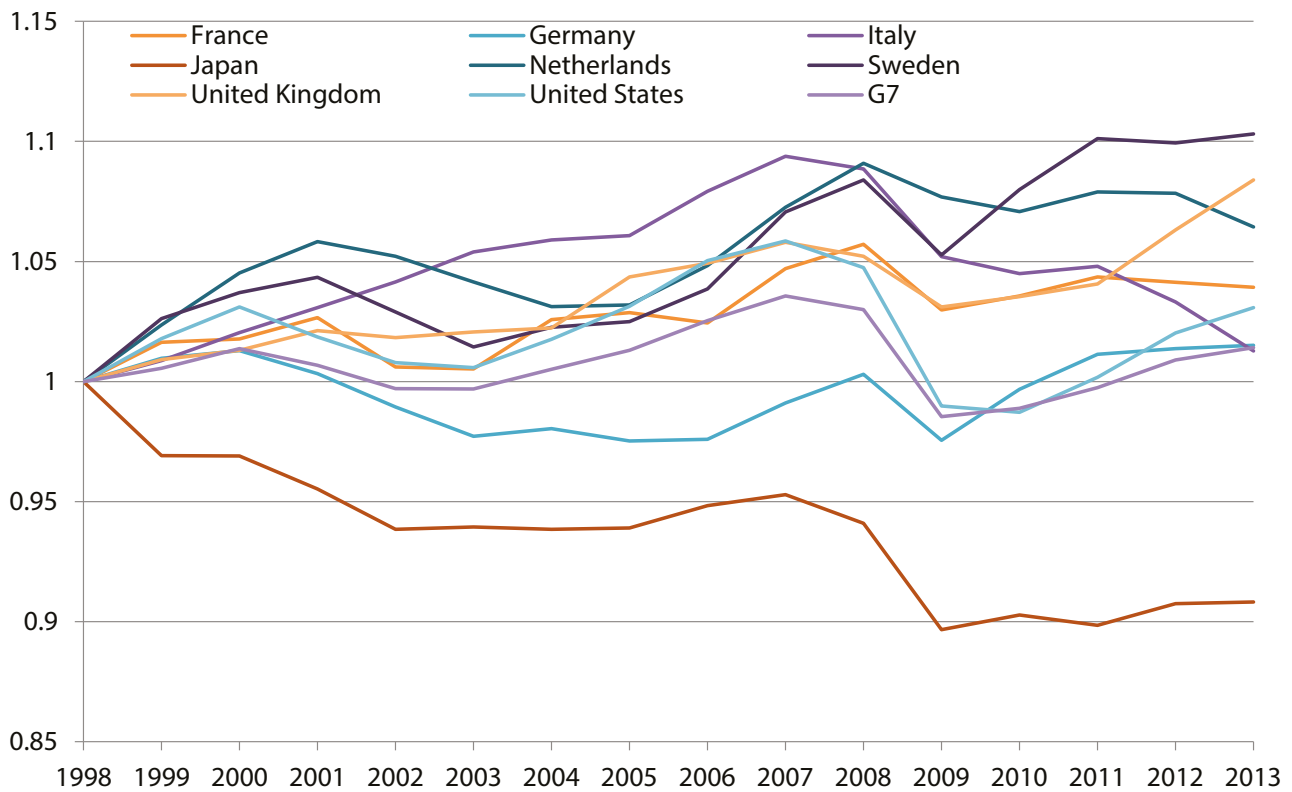
Policies can either encourage or discourage labour market participation for all. With demographic ageing, better and more substantial labour market participation becomes ever more important, in particular with respect to women, older workers – requiring a broader definition of the working age – and the unemployed or inactive people. This requires supportive services and investment in skills on the one hand, but also a quite flexible labour market on the other. Labour markets of the future should be open to facilitate entry and to encourage mobility between jobs, firms and activities, as well as longer working lives.

Given that the future of work will be characterized by diverse job options, a certain amount of heterogeneity in terms of working conditions is inevitable and should not be suppressed by heavy regulation. This would actually encourage exclusion of some groups or the circumvention of regulation and other negative side effects. In particular if skills in the workforce are diverse, entry positions and low pay are necessary. This calls for a rather open and flexible regulatory framework setting fairly wide boundaries, but also some outer limits to acceptable forms of employment.

The reconciliation between employer and individual objectives is probably one of the core issues regarding the future of work. In fact, the future of work will mostly be shaped by corporate practices aiming at productivity, innovation and speed for the sake of competitiveness. But at the same time, demands on workers cannot be increased indefinitely. Physical and mental health issues have gained importance as has the search for solutions to ensure a proper work-life balance under new economic circumstances.

Hence, human resources policies and organizational innovations that help reconcile productivity and attractiveness of the workplace will contribute substantially to the success of firms when competition on markets, including the market for talent, is strong. To attract qualified people, work needs to be attractive regarding the fairness of effort and reward, as well as the willingness of employers to negotiate flexibly with potential

## Total hours worked in major developed countries, 1998-2013



Source: OECD, base year 1998 = 1

and incumbent workers on their working conditions, including working time patterns, mobile working, individualized career paths, etc. This provides considerable scope for flexible, negotiated solutions at the company, department or individual level. However, as of yet, this tends to be a privileged situation for those whose skills are scarce. Finally, while allowing for differences and diversity, firms also need to observe overall fairness in the treatment of all of their workers.

The future world of work will certainly be demanding, maybe more than in the past, for individuals, but it will also offer many opportunities. All jobs are potentially subject to change and can become obsolete. Hence, there is no absolute security of employment, but rather a permanent situation of trial, probation and assessment. Future jobs can be long-term and permanent, of course, but there is no guarantee for that.

Furthermore, current and future work will be fluid, unlimited in many cases, in its interaction or integration with the rest of life, with a stronger emphasis on subjective involvement, requiring self-organization, professionalism, articulation and communication. This is particularly relevant for knowledge- and project-based work. To be able to cope with these demands, education and training matter, not only formally, but also informally, such as those skills acquired during practical experience in non-routine work like this. These jobs

are potentially rewarding as they allow for a personal shaping of tasks according to talent, taste or style. However, while full engagement and identification are seen as desirable and competitive assets, this raises psychological issues in terms of stress, exhaustion and mental health. The demands of the new world of work require a more in-depth discussion of these issues.

The changes we have discussed are more incremental than disruptive. This means that we can expect that actors have some time and capacity to adapt and negotiate solutions. Clearly, we do not really face a situation of massive joblessness in developed market economies beyond the cyclical and partially structural unemployment observed currently. But there can be no doubt that the world of work will be different from what we know today.

Still, this is no reason to be afraid. As history has shown, human creativity and inventiveness are strong and will always find ways to cope with new situations, including creating new job profiles in the future. We have been living with technological progress, globalization and structural change for decades and will continue to do so in the future. There is no big master plan, but there is a great deal of micro-level action, with public policies setting a more or less favourable framework for market actors. ■



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# It's not about 2020... you've got to think farther. It's about 2050

Barbara Singer Cheng is the founder, president, and CEO of Executive Core

**W**ith large numbers of unemployed youth in Europe, Southern Europe recovering slowly from the economic tides, and a renewed pressure to become more competitive globally; you've got an ideal window to find some of the most remarkable young talent - especially women. Products, services, or research alone don't differentiate an organization - your people do. Many of your products, services, and research will be obsolete in four years. In 50 years, they might be forgotten. But the people you develop, the women you accelerate into top jobs, and the legacy you leave behind might matter more. And it's not something we think about well when large numbers of people are unemployed. The mantra we use in business today is that I can always hire someone.

Today's it's an employer's market for finding talented young people. But once we hire someone talented, what are we doing to make sure they are a well-rounded business thinker. Most international women's organizations (public and private) today have set the goal for 50% female by 2050. In Germany, women in senior management positions still are under 10%. And in most business schools, female MBA's make up less than 35%. Families are more likely to invest in advanced degrees for men. A European colleague recently commented to me, "Maybe I

*should be more socially aware. It's just that I feel like I can do so little about it."*

Numerous studies today demonstrate people are better at articulating what good leadership is but are not as good at developing good leadership. Executive search firms are quietly being tapped less and less to find corporate top talent. Leaders who have large networks in their industry know who the rising stars are and chances are they can access them through LinkedIn and other social networks. Leaders who take charge of developing talent will have powerful teams at their disposal. And if you focus your efforts on finding young, talented females (especially those with science, engineering, and technical backgrounds), you might find you grow enterprise leaders who are self-aware, nimble, adaptable, and dynamic. Imagine what you could get done in your organization with an aligned group of high-energy young professionals who can think across each of the major business functions plus think outside the organization toward the common good.

In one international firm we served, senior leaders invested in an internal consulting arm designed to develop young-professionals who could act as internal consultants solving complex problems they had previously hired McKinsey & Co. to solve. Once the high potential talent succeeded in influencing various business units to fix an expensive problem; they sent the young leader out into the field to help execute the solution. We've tracked most of them who started with the project and the many of them lead a business function today. It's true the initiative was expensive.

The corporation invested millions in developing leaders who could think broadly across the functions. They reasoned that their talent would be the most versatile and best at making strategic decisions. Today this corporation remains one of the most successfully privately owned international conglomerates. They also have very little loss in high potential talent. Leaders who can mobilize diverse groups of people to unify around a common agreement will be in demand. Leaders who can recruit and develop these kinds of talented people - especially women - will be celebrated.

Chances are the aggressive, results-at-all-cost leaders are not the leaders who will mobilize virtual groups of people working toward a common goal. At three of the world's largest technology companies for the last decade, investments have been made in finding top talent who collaborate well across the functions. One CEO in a *Fortune 100* company told us it was his goal to grow leaders who solved complex problems with their colleagues in other functions - those who in the past were more



© Executive Core



likely to compete for resources. In the end, he expected them to have relationships as strong with their colleagues and suppliers as they did with their direct reports.

In a recent article by Nick Petrie<sup>1</sup>, after conducting a year-long study of leadership development at Harvard while on sabbatical from the Center for Creative Leadership, admitted that the ways HR and leadership development firms have approached talent just don't work anymore. As an active member of the Executive MBA Council I can tell you prominent business schools on every continent are grappling with the same thing.

Business schools are being challenged like never before to develop a diverse slate of leaders who can integrate their perspectives across the entire business. One progressive business school we work closely with has received a large grant to work with their young, high potential tenured professors to teach integrative thinking across the functions so that their students learn how to solve complex business problems more holistically.

If a plant in central Europe is under-performing, how can they leverage what is working in LATAM? If a sales team thought like the finance function, what products and services might they be selling more of to increase profitability long-term? In another prominent university, department heads across the university participated in their own two-year leadership development initiative with included deans. The Vice Provost said to me, *"If we can't demonstrate our own brand of leadership, how can we grow it in our students?"*

What can you do to build yourself and build young leaders/ especially female management candidates to become even more:

*"Many of your products, services, and research will be obsolete in four years. In 50 years, they might be forgotten. But the people you develop, the women you accelerate into top jobs, and the legacy you leave behind might matter more"*

1. Tenacious in building strong relationships while at the same time taking on the most challenging issues
2. Thoughtful across the enterprise and understand the complexities of each of the major functions
3. Less concerned about themselves and more concerned about the greater good
4. Representative of the faces of the people our organizations serve - our leadership teams need to match the faces of the global citizen in 2050. These faces are more likely to be 50% women and people from emerging markets.
5. Self-aware enough to take charge of their own development. Leaders who seek out stretch assignments for themselves that make them more versatile, adaptable, able to work seamlessly in new regions, and provocative in how they think.



Are we ready for 2015? Are we getting ready for 2050? Leaders of tomorrow have to think bigger in a smaller and more connected world. At Notre Dame University, Executive MBA students and undergraduates alike are being expected to demonstrate that they are involved in projects that benefit society beyond their business roles. As business results continue to improve across Europe, new ways of doing global business will be discovered. Leaders will be asked to think about sustainability and finding business solutions that are 1) matched to the complex needs of their customers, 2) matched to the needs of the environment, 3) matched to the needs of furthering human rights and dignity among all and, 4) take into account the global commons - the oceans, the atmosphere, the internet, public safety, etc.

At the University of Toronto, their *Women in Business Initiative* has become celebrated as one of the best in the world. When I teach there, we remind women that 'ambition is not a dirty word.' Their MBA program is one of the few in the world that has already achieved 50% male and 50% female status. Each day, women and men in the business school grapple with new ways to communicate strategy that takes into account all of the functions of the enterprise.

Think of eight people around you whom you could help develop to think more holistically across the enterprise: sales, research & development, accounting, finance, human resources, operations, manufacturing, supply chain, M&A, strategic alliances, government relations... Identify at least two additional women who would benefit from knowing your

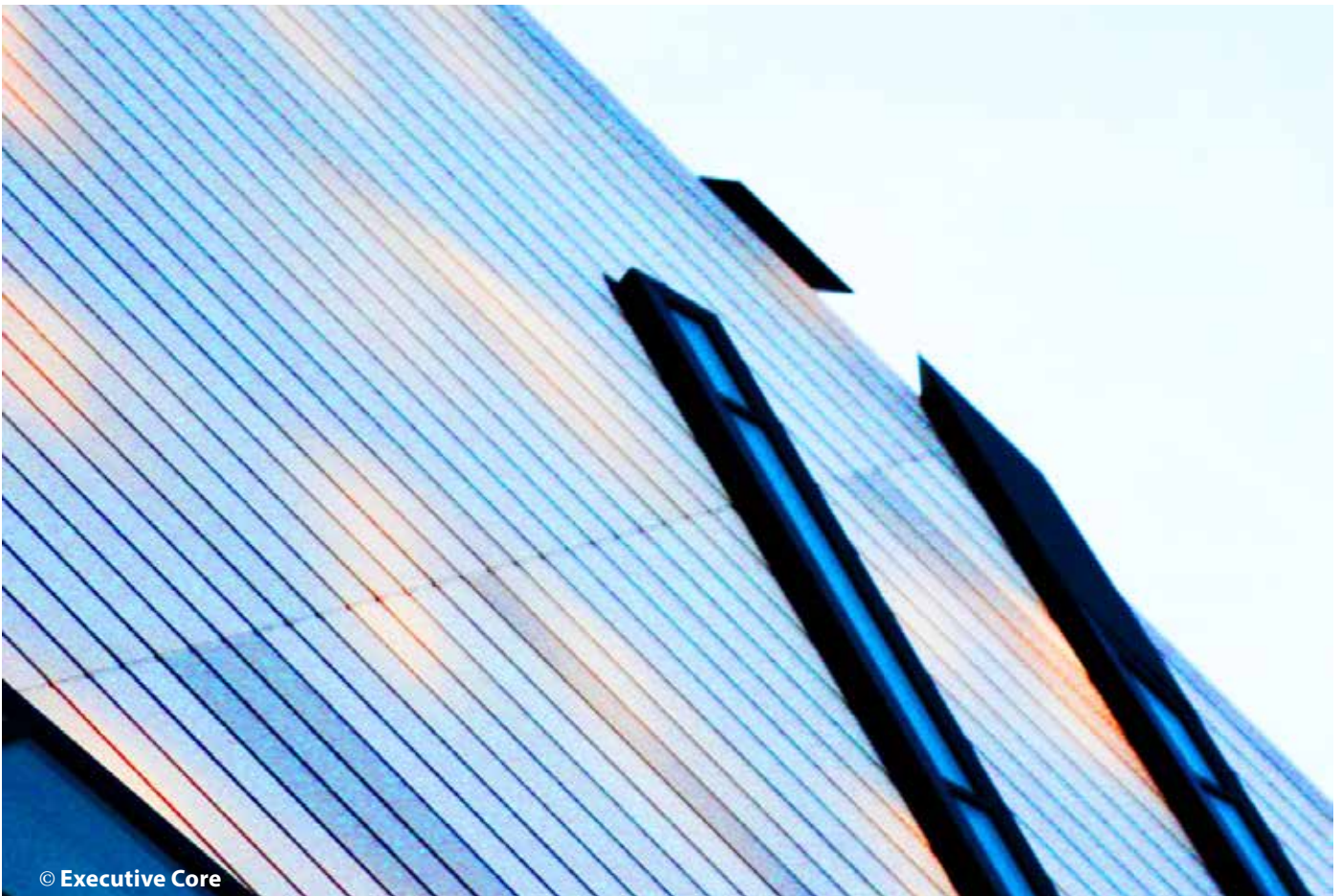
network. How well have you inspired them in the last thirty days? Find a group of twelve young, diverse high potential employees. Invest your time in their development. Give them real challenges to solve. Ask them to identify new products or services that are just emerging. Coach, consult, and champion their careers.

Our professionals have been helping accelerate high potential talent for twenty years. We can all tell stories of a number of highly supportive and influential people who developed key talent in their organization. In one case, I can think of two CEOs, over 20 SVPs, and a dozen VPs in a particular field who at one time all worked for the same leader. While that leader is retired, few business dinner pass without a story involving Ben D and how he championed their careers. Isn't that the kind of legacy you'd like to have? ■

#### ABOUT THE AUTHOR

*Barbara Singer Cheng has been studying influence globally for 20 years and works top FTSE and Fortune 1000 companies on developing talent. Barbara is the founder, president, and CEO of Executive Core and leads a group of 100 global professionals whose mission is to more quickly innovate professional development globally. In the last 15 years, Barbara has worked with thousands of high-potentials leaders around the globe at critical turning points in their careers. She often consults and coaches top management teams. In 2013, she was recognized as a thought leader and pioneer in Executive Coaching by the Association of Corporate Executive Coaches*

1. Petrie, Nick. "Future Trends in Leadership Development." Center for Create Leadership White Paper Series, 2014. <http://www.ccl.org/Leadership/pdf/research/futureTrends.pdf>



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# A shift to a new leadership level

Vlatka Hlupic is a Professor of Business and Management, Director of the Emergent Leadership and Development research group and Director of the Executive Coaching and Leadership Development Programme at Westminster Business School

The business model is in crisis. It is not only the banks that have engaged in a reckless short-term quest for profits, often in unsustainable ways. Mis-selling and accounting controversies appear almost weekly. Even away from scandals, the picture is troubling.

Corporate performance has declined, whether measured through Return on Assets or Return on Invested Capital. US firms' Return on Assets has dropped 75% since 1965<sup>1</sup>. Life expectancy of Fortune 500 companies has plummeted from 75 years to just 15 years in the last half a century. Surveys show that only around 25% of the workforce is passionate about their work.

The maxims and metrics that have held for the past few decades – maximizing shareholder value, quarterly reporting, people as resources – are no longer fit for purpose, if they ever were.

Yet breaking with old habits is proving very difficult. This is because it often requires a quite fundamental rethink, and new behaviours and disciplines, at both the personal and the corporate level.

Individually, as well as moving on from 'command and control' ways of operating, focused on short-term accounting targets, we need to move on from 'command and control' ways of thinking, being and doing. I've been able to demonstrate, along

## EMERGENT LEADERSHIP

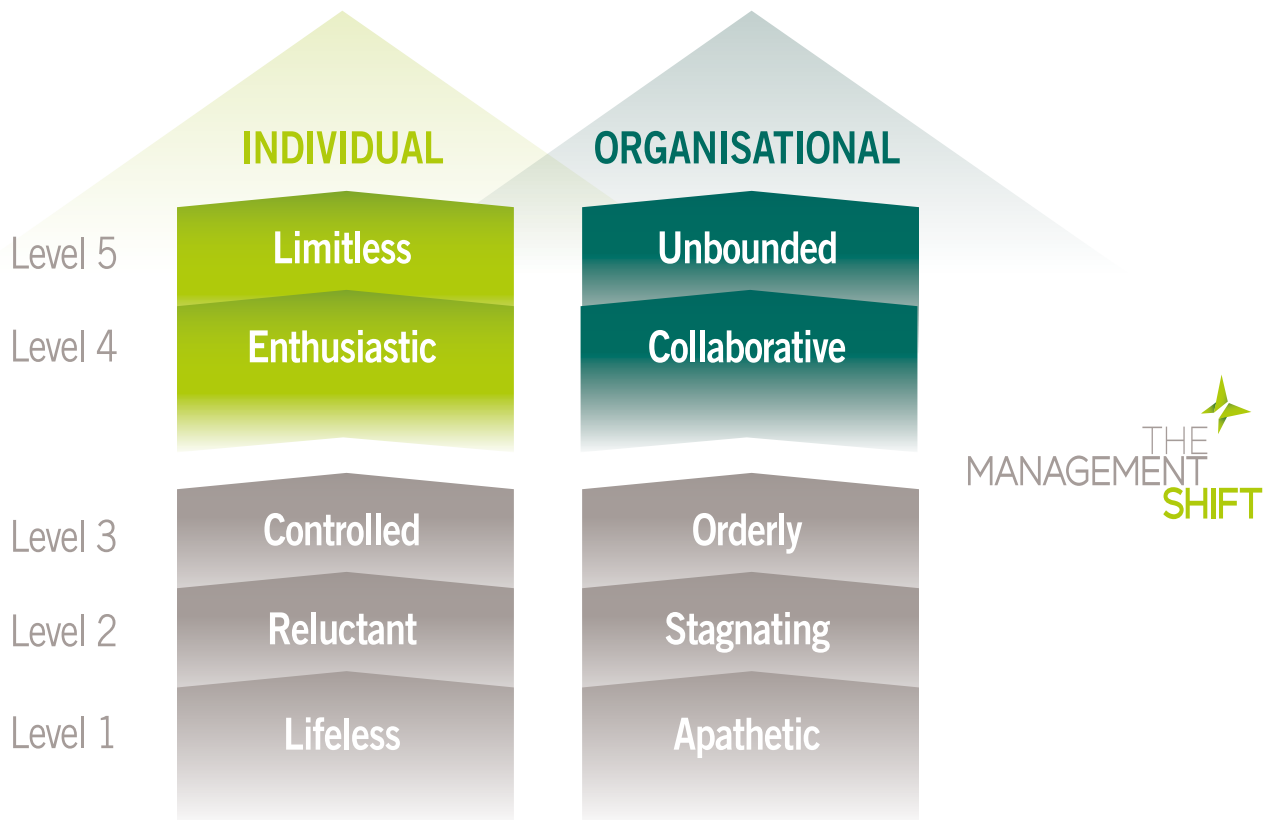


Figure 1. The Emergent Leadership Model

with other thinkers and coaches, that a more engaging style of leadership leads to superior engagement, focus, service and performance, leading directly to better customer experience, business growth and profits.

The approach I've used defines five Levels of organizational climate and performance, captured in the Emergent Leadership Model (see Figure 1), as described in my book *The Management Shift*<sup>2</sup>.

Level 1 is the lowest level of staff engagement. The atmosphere is toxic, there is apathy or even sabotage by employees. At Level 2 there is a low level of energy, and often high absenteeism. Level 3 defines a competent but unenthusiastic climate – the obedient 'command and control' climate where people do the minimum efficiently, but little more.

The really radical transformation comes when moving to Level 4, which features an enthusiastic and engaged workforce, where people work as teams and go out of their way to help customers. For moments in time, it's also possible to achieve Level 5 – a super-engaged, inspirational way of operating, where unthought-of achievement becomes possible.

The gains from operating at Levels 4 and 5 are multiple: better customer experience, word-of-mouth recommendations; enthusiastic and motivated staff, reduced marketing spend, enhanced margins, enabling better rewards to feed back to employees, and so on. Such organizations tend also to be better at innovation and adapting to changes in technology and demography. A virtuous circle is created.

But to effect this transformation, leaders genuinely have to behave in different ways: to listen to staff, including production and sales staff, and not just issue instructions; to devolve power where possible, but in a responsible way to effective local leaders; to practise and demonstrate high values in their own behaviour.

The evidence for this approach is no longer in doubt, but application is difficult. Not only is personal change in attitudes, beliefs and behaviours a challenge, but it's also the case that enthusing employees is not enough to regenerate a business on its own. People could be engaged behind a flawed strategy, for example. In the most effective organizations, strategy, operations and people are all considered as parts of a joined-up whole.

At the corporate level, one of the legacies of the 20<sup>th</sup> Century corporation is its compartmentalization into silos – the giant departments of finance, marketing, HR, operations and so on. Separation and specialization were emphasized. While an element of specialization is necessary, too often we have compartmentalization of thinking. For example, employee engagement is too often just left to the HR department to sort out; financial responsibility is hived off to the finance department; brand and reputation to marketing, and so on.

*“The maxims and metrics that have held for the past few decades – maximizing shareholder value, quarterly reporting, people as resources – are no longer fit for purpose, if they ever were”*

This is inadequate. In the model that I've developed and now tested at 20 employers, large and small in different countries, we look at all dimensions simultaneously, across the board.

This learning has resulted in a six-dimensional approach to business leadership, that I have branded the 6 Box Leadership Model. Three of the boxes refer to people and their development: Individuals, Relationships and Culture; and the other three to the process-related matters: Systems, Strategy and Resources.

A questionnaire-based analysis helps business leaders identify how far they have progressed. The 5 Level method for improving personal leadership and engagement can then feed into a comprehensive approach for improving organizational development across all the crucial disciplines. People can see the links: how moving to a Level 4 leadership style, allied with attention to excellence in strategy and processes, can transform a business's performance. The old silo mentality is left behind and the organization is understood for what it is – a thriving, innovative, living entity, not a half-dead collection of structures and commands.

The changes that my research strongly shows to be necessary are comprehensive. I have called them collectively 'The Management Shift' (based on research published in the book with the same name). This is a transition:

1. From a controlling mindset to an empowering one,
2. From setting rules to establishing principles,
3. From issuing instructions to creating teams,
4. From overseeing transactions to building alliances,
5. From a focus on short-term profits to serving all stakeholders.

The 5-Level Emergent Leadership Model is also used as a basis for personal and professional development of MBA students at Westminster Business School. As a part of the Personal and Professional Development Module, students are familiarised with the model and characteristics of each level and overall principles of 'The Management Shift'. They are then provided with a range of developmental and learning opportunities to help themselves and others to get anchored at Level 4 where engagement, creativity and performance are thriving. ■

1. [http://edgeperspectives.typepad.com/edge\\_perspectives/2010/11/2010-shift-index-passion-and-performance.html](http://edgeperspectives.typepad.com/edge_perspectives/2010/11/2010-shift-index-passion-and-performance.html)

2. *The Management Shift: How to Harness the Power of People and Transform your Organization for Sustainable Success*, by Vlatka Hlupic, is published by Palgrave Macmillan, November 2014.

# SOLVING THE GLOBAL TALENT EQUATION

$$h = v_i t + \frac{1}{2} g t^2$$

**Mike Johnson** offers some thoughts on the challenges facing business leaders tasked with managing our organisations today and tomorrow

**P**eter Lorange is angry. This well-seasoned academic, innovator and business leader thinks that it is high time a lot of his contemporaries woke up to the fact that the organisation has changed irretrievably – and do something about it!

Lorange's concern is that too many organisations are not moving fast enough to keep up with the changes taking place in global society – most often driven by the digital explosion. *"If we are going to be effective we must be able to really understand the modern consumer and come up with innovations that they value,"* he says. *"This is not easy."* Lorange isn't the only one who observes that we need to get a whole lot better at this.

Global people provider Manpower Inc say that we are at the dawn of what they term 'The Human Age'<sup>1</sup>.

Manpower think that *"in the Human Age, companies must align their talent strategies with their business strategies to ensure they have the right people in place to grow and succeed."* However, getting that right isn't going to be easy either.

So far, many organisational observers think that we have failed to do very much. Rudi Plettinx, Managing Director of Management Centre Europe in Brussels, notes that *"although we've had all the processes in place time after time, in truth our developmental programmes have failed."*

He adds: *"HR has never, ever become a real partner of the executive team – although there are a few exceptions. As long as senior executives have been paying lip service and see these vital initiatives as just another HR process rather than a strategic leadership strategy process, I'm afraid that effective talent management won't really be on the radar screens of our C-Suite managers."*

Plettinx speaks for many frustrated leadership experts when he continues: *"HR failed to make this a strategic business issue with top management and so it has festered in the inner circles of an organisation's HR community. Talent is not just about having the appropriate recruitment and retention strategy, it is also about an effective development strategy."*

### **The arrival of 'talentism'**

Manpower's idea of a Human Age demands that the collective group of stakeholders collaborate to find new, innovative ways to operate in a world where people with the right skills are the scarce resource and 'talentism' is supplanting capitalism.

It may be a lot to swallow in one go, talentism taking over from capitalism, but Manpower haven't finished yet. They further their case by noting that, *"when a third of employers globally cannot fill positions, it's imperative that stakeholders expand their view of talent sources and incorporate strategies for attracting individuals with needed skills from across international borders"*.

And they conclude: *"To win in the increasingly volatile world of work, all stakeholders must work together to find sustainable ways to unleash human potential, no matter where it comes from."*

But if we are to prosper in this highly complex environment where all stakeholders need to be – dare we say – manipulated, isn't this just piling up more and more pressure on those at the top?

The answer to that would seem to be a resounding 'yes'! And as Dave Altman and Roland Smith, two senior consultants from the

Center for Creative Leadership, have pointed out, *"globalisation has enhanced the complexity of the challenges faced by leaders at every level."*

Altman and Smith report that in talking with senior leaders around the globe they rank the top four complex organisational challenges as:

- The ability to lead and influence across multiple groups and challenges
- How to define and communicate a clear direction for the future and create organisational alignment
- Talent management: the recruitment, compensation, development, succession, human capital restrains and downsizing
- Business operations and organisational performance

All this indicates that a lot of senior business heads know of the problems, they just haven't quite stitched it all together.

But complexity is now the name of the game, possibly why the loudest voices out there are advising us that we can't do it alone – even big corporations can't do it themselves. You've got to link up, you've got to partner. You've got to seek new solutions.

### **It's a VUCA World**

The challenging global environment that Altman and Smith's research reveals has often been termed the V-U-C-A world. A world that is volatile, uncertain, complex and ambiguous. Professor Paul Kinsinger of Thunderbird Management School in Arizona says that the keys to leading in a VUCA-driven world will be:

- The ability to create a vision and make sense of the world
- Understanding one's own – and others' – values and plans.
- Knowing at all times what you want to be and where you want to go – even while staying open to multiple routes to get there
- Seeking clarity and sustainable relationships and solutions
- Practising agility, adaptability and buoyancy (able to right yourself when you capsize!)
- Develop and engage social networks. To recognise fully that the days of the single great leader are past. In the new world the best leaders are the ones who harness leadership from everyone

Swiss entrepreneur Peter Vogel, whose new book *Generation Jobless* will appear in April 2015, thinks that corporations, just like Altman and Smith suggest, have got some of the talent equation wrong already. *"Today, highly educated top talents are less focused on a region. They search for their professional challenge in a global context these days, that's why companies must fight harder to win and keep their top talents."*

And Vogel continues with a thought that may have some far-

*“When a third of employers globally cannot fill positions, it’s imperative that stakeholders expand their view of talent sources and incorporate strategies for attracting individuals with needed skills from across international borders”*

reaching consequences if he’s right. *“To me this is the reason why the war for talent broke out, people looked around and had a lot more choice. The level of education is higher than ever and the war broke out because of the global context. Today, it has become a whole lot harder for a company to present itself as an attractive employer.”*

But it’s not just about choice. There’s another word out there that adds a lot of spice to the talent recipe mix – pressure.

Here’s Luc De Jaeger, the managing partner of the organisational consultants Nexum in Brussels on the talent issue. *“Today, my feeling is that in some industries a lot of effort has been made to become lean. This means that companies are asking more, much more, of fewer people. To achieve this, conversely, you need the very best people. At the same time younger employees are getting into top positions very quickly as a consequence of the erroneous idea that experienced people cost more while being less productive. This is another part of getting the talent equation all wrong.”*

### **The acceleration trap**

If living in a VUCA world where the boundaries are constantly shifting is the big global, macro picture show, then the acceleration trap is the opposite – what individual companies face up to. It’s a real trap and one that many organisations fall into. And it’s all about pressure – the wrong kind.

Professor Heike Bruch of the University of St Gallen in Switzerland says it is a journey, *“between high performance and exhaustion.”*

*“Faced with intense market pressures, corporations often take on more than they can handle. They increase the number and speed of their activities (raise performance goals, shorten innovation cycles, create new organisational systems). For a while these succeed but all too often the CEO tries to make this furious pace the new normal.”*

Bruch says that the acceleration trap catches out many an unwary business. *“Not only does the frenetic pace sap employee motivation,” she says, “but the company’s focus is scattered in various directions, which can confuse customers and threaten the brand.”* As a consequence, *“exhaustion and resignation begin to blanket the company and the best employees defect.”*

But this ability to let the organisation run away with itself and possibly self-destruct can have its origins in the fact that when it comes to leadership and talent we are still making the most basic of mistakes.







the US, reckons that one of the key problems is that organisations continually fool themselves that all is OK when it is not.

*"There's an awful lot of bad ideas around," he says, "and we often miss out on what I call the 'human factors' of candidates because of that."*

Search professional McAlister says that *"all too often hiring becomes necessary as a result of a failure or an unplanned event. So what organisations need is a way of improving their bench strength against those bad days."* McAlister suggests that *"talent management is an art not a science. The idea is simple; it should work like shark's teeth – when one falls out another from the row behind moves into place."*

And that does offer yet another difficulty. For as he points out, *"I have yet to come across a talent management programme that analyses external talent. Given that between a third and a half of all senior placements are from the outside of an organisation, this is extraordinary."*

Shay McConnon is the founder of People First and the creator of the online programme, *An Even Better Place to Work*. He uses his one-man shows to make people think more about not only their role in an organisation but the effect they have on their co-workers. McConnon's view is that it is some of the very basics that we are still getting wrong that lie at the heart of organisational failure.

*"All the evidence suggests that we are not good at our relationships, in either our personal or professional lives. The greatest source of inefficiency for most organisations lies in working relationships – conflict, mistrust and lack of collaboration,"* he argues.

McConnon believes that it is the failure of top management to recognise these basics that is holding us back. It isn't the complexity of today's business that most worries him, it is the inability of individuals and teams to work together effectively. *"To minimise wastage in working relationships, we need to be talking to each other – simple as that,"* he explains.

### **A list for action**

The implications for how businesses organise themselves to engage and motivate employees in the workplace of tomorrow are huge. And it would seem it can be tackled in a variety of ways. Truth to tell, it probably will have to be. These complex structures that we are now having to manage (and they don't have to be giant employers these days either) are going to need a lot of very careful management and leadership.

Many, it would seem, think that a lot of today's leaders need to go further, try new ideas, engage with the people inside and outside the organisations better. Whether we can do that or not will certainly decide who succeeds and who fails in the worldwide workplace of tomorrow. ■

### **ABOUT THE AUTHOR**

*Mike Johnson is a future-of-work author, commentator and consultant*

Search professional Anthony McAlister, of Thorburn McAlister, a boutique executive recruiter based in London, is disparaging about the way people are chosen to lead organisations. *"Real talent management is tracking internal and external prospects simultaneously,"* he says, *"so when someone leaves you, not only do you know who you want, but you have reduced the time and cost of the process."*

McAlister continues by suggesting that a real part of the problems organisations face is that they are lazy about the talent process, often opting for second or third best because it's just too easy to do that.

### **A lot of bad ideas**

London-based consultant and coach Richard Savage, who has had a long career in human resources in both Europe and

*This article is an edited extract from The Worldwide Workplace: Solving the Global Talent Equation by Mike Johnson, published by Palgrave 2014 <http://www.palgrave.com/page/detail/the-worldwide-workplace-mikejohnson/?K=9781137361264>. This article was originally published in EFMD Global Focus, Volume 08 Issue 03, 2014. [www.efmd.org](http://www.efmd.org)*

1. See *Moving People to Work. Leveraging Talent Mobility to Address the Talent Mismatch in the Human Age*, Manpower Inc 2013.



**Amber Wigmore Alvarez and Boris Nowalski describe current changes to the way companies and business schools manage talent**

Corporate Human Resources Officers (CHROs) should think differently about how they attract and develop talent.

As we meet with CHROs worldwide, in almost every industry and sector, it is intriguing to see how they have the same issues on their agendas, be it in Mexico City, Lagos or Moscow. They want to:

- align their position and skills, and subsequently those of their teams, with the overall goals of their companies
- connect with talent wherever it is located, a concept driven by globalisation, technology, mobility and education. If individuals are continuously being educated, so is the company
- utilise analytics to better understand talent needs and trends
- sustain the talent experience in order to attract, maintain and cultivate top talent as work environments evolve

In today's fiercely competitive global markets, companies strive to hire the best possible talent they can in order to run their businesses successfully. There is very strong competition for finding and sourcing these talent pools around the world.

Business schools have been considered for many years as the perfect partner for many companies when it comes to hiring the best, as they compete among themselves to attract only the strongest candidates in the market.

Using rigorous admissions criteria, including standardised tests, academic records and personal interviews, business schools select the best students to pursue their programmes. This process allows companies to have an automatic first filter ready-made for them.

Many schools have developed strong career centres that act as a liaison between corporations, students and alumni.

With diversity being one of the hallmarks at our own school, IE in Madrid, Spain, where more than 90 nationalities are represented on-campus, we are witnessing how our community of 50,000 alumni are forming a global talent market across a growing number of fields and disciplines.

This phenomenon poses a major challenge for our team in Career Services from the student/alumni perspective. However, for our recruiters, the result is innovation in which we are seeing new ways of acquiring, developing and managing talent and work. In many cases this involves us working side by side with them to assist in creating customised internships, business case competitions and management development programmes.

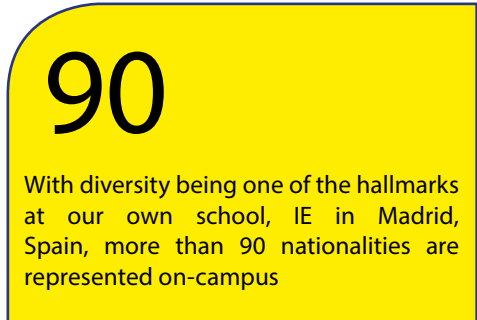
With more than 20% of our students across all programmes securing employment outside of their countries of origin, we are witnessing the end result that occurs when there is an open exchange of ideas, technologies, practices and human capital.

In the IE Career Management Center (CMC), we are no longer looking solely at historical data to devise our strategy but rather we are using data analytics to identify our students' preferences and draft a roadmap for our approach to employers. Employers are similarly using analytics to mine large pools of employee and business data.

At IE we understand that applying these analytics in a meaningful way provides both our institution and corporate partners with a competitive advantage and thus we have implemented the appropriate technological platform and created roles to provide such support.

Talent acquisition among companies has become so competitive that numerous companies organise events for admitted students prior to their arrival on-campus so they can have the first mover advantage in picking the best.

However, the talent services that we offer at IE, in terms of talent acquisition, are such that we are capable of sourcing most profiles companies are seeking for their talent pipeline. Thanks to being a fully integrated university we are able to offer graduates fresh



90

With diversity being one of the hallmarks at our own school, IE in Madrid, Spain, more than 90 nationalities are represented on-campus

*“Business schools have been considered for many years as the perfect partner for many companies when it comes to hiring the best, as [business schools] compete among themselves to attract only the strongest candidates in the market”*



from our undergraduate university programmes or our Master in Management. In addition, we also have experienced managers from our MBA and Executive MBA programmes ready to tackle leadership jobs in organisations.

Finally, by allowing our alumni to use our job-posting platform, we are able to locate senior experienced managers a company may be searching for.

One of the biggest problems top global companies have is talent retention. Companies use many strategies to try to retain their talent. One of these strategies is the continuous training and development of the work force.

By implementing training programmes for employees, companies maintain a motivated and engaged work force, hence reducing the risk of losing valuable talent. But not only is executive development crucial for talent retention, it also improves the personal capacities that make executives more effective in positions of leadership. The systematic development of management skills is vital for the improvement of processes and organisational effectiveness.

Business schools have proved to be very effective partners to corporations in this area, thanks to the variety of programmes and learning opportunities they can provide.

Talent development is one of the cornerstones of IE's talent services. Our corporate engagements start with an evaluation, in partnership with the internal directors of training and development at the companies, to map the talent architecture of the organisation. Once the mapping of the talent

architecture is done, we are able to propose specific solutions to the client either through our existing portfolio of programmes or by customising a programme.

In order to produce lasting results and have a meaningful impact, a learning intervention for high-level executives must connect with the individuals not only on an intellectual level but also on a behavioural and emotional level.

Research has shown that executives learn in different settings: traditional classroom, coaching and on-the-job learning. Therefore, an effective learning design must integrate multiple methodologies to ensure its impact on participants' behaviour at their workplace and thereby maximise the contribution to the corporation's success.

Technology is the key foundation from which our students can learn, share and work anywhere in the world, allowing them to break free from physical geography and defined markets.

Executives today are finding more opportunities to work where they want, making career moves potentially more frequent and seamless. Our corporate partners in turn expect them to be more productive while mobile, requiring them to hone prioritisation skills, while access for their employees to corporate MBAs, in-company and executive education programmes facilitate vertical moves.

IE has invested heavily in the application of



# 20%

More than 20% of IE students across all programmes secure employment outside of their countries of origin – this is the end result that occurs when there is an open exchange of ideas, technologies, practices and human capital



new technologies for executive education by developing and offering programmes that blend a combination of online and face-to-face training.

As opposed to other on-line methodologies, which are self-taught with a massive number of participants, blended programmes replicate the classroom experience in a virtual setting. This methodology allows companies to have global training programmes without having to constantly fly executives around the world, therefore making it less costly while being continuous and flexible.

Today, business schools around the world are key partners of global corporations. By providing talent services, both acquisition and development, business schools are able to help companies solve some of their crucial talent problems: attraction, acquisition, retention and development.

One of the major trends we have identified is that managing talent no longer involves the same certainties as the past, when organisations would send standard job descriptions to business school career centres for publication.

Increasingly, companies provide us with insight as to the profile they are seeking and we conduct highly personalised selection processes, leveraging analytics related to students' geographical, sectorial and functional preferences, cross-referenced with years of experience, work permit authorisation and other factors.

Interestingly, this move towards less strictly defined job descriptions resonates well with what our Executive MBA students seek and thrive in, companies where employees are able to customise their careers and align their personal goals with those of the company. We find our students and alumni to be more motivated under this approach, rather than being forced down a traditional career path.

Changes on a global scale are changing the face of talent services, with talent and employers now seeking each other out from anywhere in the world. These are times of mobility where employees move with greater ease to new roles, ignoring geographic and organisational barriers.

Recruiters and corporate partners expect new hires to be ready to hit the ground running, contributing immediately to the triple bottom line of social, environmental and financial components.

For the HR leaders with whom we collaborate, this means challenging assumptions about how people are hired, how they work with one another and how to develop their full potential – and understanding that the structure of talent and work is changing.

It also finds us meeting more frequently with those in roles related to employer branding and collaborating with them on numerous initiatives as they work to update their talent brands and connect people who relate to the company in fundamentally different ways. This is the new talent experience. ■

#### ABOUT THE AUTHORS

*Amber Wigmore Alvarez is Executive Director of Career Services at IE Business School in Madrid, Spain. Boris Nowalski is Director of Corporate Relations at IE.*

*“Talent acquisition among companies has become so competitive that numerous companies organise events for admitted students prior to their arrival on-campus so they can have the first mover advantage in picking the best”*

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# The new AMBA community – the ultimate MBA power club

**Christian Douglas-Bailey is Digital Content & Community Manager at the Association of MBAs (AMBA)**

## The new initiative

Every generation, one million MBAs graduate from AMBA's 220+ Accredited Schools around the world. AMBA's ambition is to build the association into a dominant, membership-attracting organisation to stand out from any other as the single best membership organisation in the industry.

Culture has a significant impact on how effective AMBA is with this ambition, as the environment and experiences AMBA creates for its members are influenced by our personality as an organisation. They are especially influenced by the organisation's executives and other managerial staff because of the role in decision making and strategic direction. Culture matters because younger generations are driven by personal happiness. They refuse to engage in a culture that isn't open to them. This is why we must continually evolve and adapt to suit the needs of our audience.

AMBA is known as the trusted, positive, go-to resource, which has set itself apart as the expert in the field, providing ample resources within its areas of expertise. The areas we will focus on for producing quality MBA experiences for our members are: Networking, Career Development, Events and Learning, Support and Tangible Benefits and Corporate Social Responsibility.

AMBA's unique value comes from the global relationship it creates between individuals, schools and employers. These relationships must be built and maintained using the same technologies that global companies use to conduct business worldwide. The need for improved value online is also evident in a now mature online MBA market, which continues to gain traction in a number of school areas as we see students switching from full-time to blended learning programmes due to accessibility.

## The new AMBA community

To truly make the most out of our unique position of having a network of thousands of the best quality MBAs around the world, we needed to move further into the digital world to create something new and spectacular that we could use to pull and promote content from all of our fantastic sources; while being a place for our network to communicate with each other and be a platform to profile themselves to a wider audience.

And so, the AMBA MBA World Community was born within the AMBA network. The community was launched in October 2014, hand in hand with AMBA's new fresh brand image which incorporates the prestige and quality of an AMBA accreditation – Like a diamond, an MBA is forever.

The Community is split in private groups for each of the audiences within our network; the main group is the MBA Community – which is the private group for the students and graduates of our AMBA accredited schools. We also have the business school networks separated into private groups for Deans, MBA Directors, Heads of Marketing, Heads of Accreditation, Heads of Alumni Relations and our Employers Network. The public areas open to all include the Prospective Students community, the AMBA Accredited Schools group which profiles all of our accredited schools, and our public blog where numerous thought leadership, industry related, and informative articles are published on a weekly basis.

## Benefits

The new membership scheme provides an abundance of fantastic benefits, including:

- Access to our Employers network – who are dedicated to MBA recruitment;
- Access to our Global MBA-level jobs database;
- Access to our many exclusive career resources including aptitude tests, tutorials, training podcasts, assessments, CV builder and more;
- Access to our social networking community platform connecting students, graduates and business school staff from our 220+ AMBA accredited schools;
- Interactive face-to-face CPD certified learning sessions;
- Free online webinars, discussion forums and live Q&As;
- Latest industry news and thought leadership articles;
- The opportunity for our members to promote themselves and their achievements through our network;
- The opportunity for members to sign up to our Global AMBAssador programme: offering unique and progressive career opportunities for the ambitious individual.

The last benefit deserves a bit more clarification and attention as a fantastic opportunity for those willing to take their MBA to the next level. The new Global AMBAssador programme is a unique concept which introduces a 3 Tier advancement scheme based on contributions within the AMBA Global

network and community. Each tier; single diamond, double diamond and triple diamond, adds new and improved benefits for those who reach it. We give AMBAssadors the platform to promote themselves above the rest, being spokespeople on our community, blog and at events.

Global AMBAssadors are the champions of AMBA and their Schools, and they reinforce the excellence of our global network and inspire the next generation of MBA graduates. They represent their school as thought leaders, entrepreneurs and innovators and are forerunners within our global leadership network. They work with AMBA to maintain the reputation we hold and to embody the enrichment of the MBA.

**Membership**

Membership options depend on the audience type and are outlined below:

Students of AMBA accredited MBA programmes are eligible for free membership for 2 years. This allows them to build up their online profile, presence and a list of connections while they are studying – it is also a platform for them to highlight their achievements, promote their skills, learn new skills and ask questions to other students or graduates. By the time they have completed their MBA they could have a robust online profile of their achievements, an influential presence on the community, a large list of useful MBA connections and contact with various employers from our employers network.

*“Our new slogan states ‘Be in brilliant company’ and this is achieved by bringing together the world’s AMBA-accredited MBAs into one large network”*

Recent graduates of AMBA accredited MBA programmes are eligible for free membership for 1 year. This will promote their qualifications and achievements as well as give them the chance to connect with our employers network and make use of any of the other benefits they wish to, such as events, career resources or participation in our Global AMBAssador programme.

Business school staff of AMBA accredited schools can also register on the community. One member of staff from each group listed above can register an account and they will then have access to their specific group. For example, Deans will have access to the Deans group which they will share with the other Deans of our 220+ accredited schools to network and exchange best practice.

# Like a Diamond, an MBA is Forever

Ensure it's AMBA-accredited.

Crafted with world-class expertise

The high standard of AMBA-accredited MBAs is certified by highly experienced Business School Deans and Directors - Experts assessing Experts.

Be in **brilliant** company  
MBA students on AMBA-accredited programmes are required to have at least 3 years prior management experience, making for quality networks and applied learning.

Be part of a **priceless** network  
AMBA-accredited MBA programmes require a minimum of 500 'contact' hours, ensuring face-to-face learning and strong relationship-building.



Access to the **highest quality** experts in academia and industry.  
Faculty at AMBA-accredited programmes are internationally-diverse and at least 75% must have a relevant postgraduate qualification.

Invest in education that stands the **test of time**  
AMBA-accredited schools have educated MBAs to AMBA standards for a minimum of 3 years and usually over 10 years.

# Welcome to MBA World

The network that brings together the world's MBAs



Are you an MBA student or graduate?

Are you considering an MBA?

Are you business school staff?

Are you an employer?

Looking to be inspired?  
Read our blog

Not registered?  
Register to join MBA World today

## Follow us on Twitter



## Follow us on LinkedIn



## Latest Blogs

Emotional Intelligence - The Indian Context

MBA Insights - An overview of expectations

Employers have their own corporate membership opportunities, which will grant them many benefits including access to our extensive MBA graduate network, opportunities to profile themselves in front of our MBA community and highlight jobs on our network.

### The ambition

The Association of MBAs stands for quality, intellect and gravitas. Our new slogan states 'Be in brilliant company' and this is achieved by bringing together the world's AMBA-accredited MBAs into one large network. Pulling resources from our global network, we will provide our members with thought leadership and cutting edge content from our own insights to the top minds in the industry. Our new community will provide a platform from which to organise meet ups, network and have visibility of all the happenings within our global network.

As we promote our new brand image as a quality symbol, we also create the context for our members to have the very best MBA experience possible and to be in brilliant company.

### How to get involved

If you are already part of our global network, either as business school staff of one of our schools, or as a student or graduate of an AMBA accredited MBA programme then all you need to do is register on the community<sup>1</sup> to start experiencing all the benefits we offer. If you are not already part of our network you can still register<sup>2</sup> on our community as either a prospective student to view and contribute in our public areas – or if you are an employer and want to get involved you can read more on our employers<sup>3</sup> hub. ■

1. <http://community.mbaworld.com/>

2. <https://www.mbaworld.com/community/Signup.aspx?ReturnUrl=%2F>

3. <http://community.mbaworld.com/p/employerhub>





## OULU BUSINESS SCHOOL AND MARTTI AHTISAARI INSTITUTE

### INTERNATIONALLY ACCREDITED BUSINESS AND ECONOMICS STUDIES IN THE NORTH OF EUROPE

#### Petri Sahlström is Dean of Oulu Business School and Professor in Accounting

##### Oulu – Finland – Nordic Countries – High-tech – Where was it again?

This is a typical line of thought, when meeting someone around the world and starting a discussion. Yes, we really are far north. Just think about the fact that you only have to drive an hour, and you are already approaching the Arctic Circle. So, it can be cold during the winter time. But, to balance the winter, there are warm and luminous summers.

Oulu region with its 250,000 inhabitants is called the Capital of Northern Scandinavia. The city is especially well known for its highly developed ICT sector and top quality educational institutions, ranging from kindergartens to the University of Oulu. The city has lately received much international recognition, such as being nominated among the Top 7 Intelligent Communities in the world in 2013.

##### The University of Oulu and Oulu Business School

The University of Oulu was founded in 1958, as a multidisciplinary research based university. It is an international university with 16,000 students and 3,000 employees, covering an exceptionally wide academic base in ten faculties: Biochemistry and Molecular Medicine; Education; Humanities; Information Technology and Electrical Engineering; Science; Medicine; Technology; Mining; Architecture, and Business. University of


Oulu is continuously ranked as one of the best four hundred research universities in the world.

The life span of Oulu Business School (OBS) dates originally back to the early years of the university. Economics as a discipline was established at the university in 1959, and business subjects were introduced in 1991. OBS gained the status of a faculty in 2000, and we have since experienced rapid growth to our current 1,600 students and 120 faculty and staff.

OBS was recently awarded the AACSB International Accreditation, as the fourth Nordic business school. As only 5% of the world's business schools are AACSB Accredited, we have officially claimed our position among the leading business schools.

Our main research focus areas are: Sustainable Corporate Governance; Sustainable and Efficient Economic Development; and Complexities of Organizational Activities. These topics reflect the expertise of our researchers and teachers. Research is conducted in Accounting, Economics, Finance, Logistics, International Business, Management and Marketing, which form also our educational portfolio. We offer a Bachelor's degree programme in Finnish and Master's and Doctoral degree programmes in English.





## Nordic Spirit – International Heart

### **OBS mission, vision and values**

We recently renewed our mission, vision and values statement. This process involved all the most central stakeholders, leading to compact, yet distinguishable and action-oriented operation guidelines.

An especially fruitful discussion concentrated on the concept of leadership. Can leadership qualities be taught or can they only be learned through experience? Whereas simple answers were not found, an important outcome was that not a single stakeholder would want to leave out the element of ‘fostering the development of leadership qualities in our students’.

Another discussion was related to the value statement concerning ‘responsibility to self and others’. This was considered a very crucial feature in our education, and a fundamental value in our society. A common understanding amongst stakeholders was that responsibility is a quality that can be fostered during studies in many ways, by e.g. exposing students to learning situations, where it’s impossible to succeed without taking responsibility for also another person’s progress.

### **OBS mission**

We generate business competencies in cooperation with the scientific community, business partners and the larger society. We strive to develop expertise, and foster the development of leadership qualities in our students. Through our actions and global mindset, we participate in the development of the economy, especially in Northern Finland.

### **OBS vision**

As part of the University of Oulu, we aspire to be an international, multidisciplinary, research based business school.

### **OBS values**

In all our activities we follow the fundamental values of expertise, responsibility to self and others, and a pioneering spirit.

### **Martti Ahtisaari Institute: internationalisation, global business and economics**

The Martti Ahtisaari Institute of Global Business and Economics was founded with the support of Finland’s former President, Nobel Laureate Martti Ahtisaari in the spring of 2008. The institute’s main role is to support and enhance the

internationalization processes of Oulu Business School, as well as to run research and education activities in the area of global business and economics.

The Institute hosts the Martti Ahtisaari International Doctoral Scholarship Programme, currently supporting nine young doctoral candidates. In addition, the Institute runs an Executive MBA Programme.

The Institute’s current research activities focus on the challenges that companies face while operating in the global arena. These include growth and development, good corporate governance, service business relationships, software and information systems, as well as the functioning of global energy markets. The fundamental aim of the research activities is to produce new knowledge of the functioning of global economies, and to support the development of growth companies especially in northern Finland.

These aims are supported by the Institute’s two joint research professorships with VTT Technical Research Centre of Finland and SYKE Finnish Environment Institute, as well as four research groups that operate in the Institute.

The Institute also serves the surrounding community and the development of Northern Finnish economy for instance by organizing a Top Level Seminar Series that brings together representatives of business and industry as well as universities and public organisations. The keynote speakers have included President Martti Ahtisaari, the current President of Finland Sauli Niinistö, EU Commissioner Olli Rehn, as well as chairman Antti Herlin and CEO Matti Alahuhta of KONE Corporation.

### **Want to experience our Nordic spirit?**

Whether you are interested in high-level research, accredited education or corporate collaboration, we are the right partner for you. ■

### **More about OBS**

University of Oulu: [www.oulu.fi/english](http://www.oulu.fi/english)

Oulu Business School: [www.oulu.fi/oulubusinessschool](http://www.oulu.fi/oulubusinessschool)

Martti Ahtisaari Institute: [www.maigbe.fi/en](http://www.maigbe.fi/en)

QS World University Ranking:

[www.topuniversities.com/universities/university-oulu/undergrad](http://www.topuniversities.com/universities/university-oulu/undergrad)

Oulu Business School at the University of Oulu is an international research and educational institute for economic sciences. Oulu, Finland, a modern growth centre, creates an inspiring and stimulating environment for business studies, work and leisure. [www.oulu.fi/oulubusinessschool](http://www.oulu.fi/oulubusinessschool)



*Nordic Spirit – International Heart*



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