Rethinking Global Investment

Summary: The South's political leaders are under illusion to believe that foreign investments will get them out of their development crisis. It is based on a total misunderstanding of where and how "capital" is generated in the first place, and what its real function is.

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What is the problem?

The world has become more unequal over the last 50 years than over the preceding one thousand. The OECD's 2011 study - *Divided we Stand: Why Inequality Keeps Rising* - revealed that globally the rich-poor gap has widened even further in the last decade. Between nations this is clearly evident. But even within advanced countries – including the "egalitarian" states such as Germany, Denmark and Sweden – the rich-poor income and welfare gap is growing. The OECD, typically, offers a superficial analysis of why this is so. Its suggested "solutions" are part of the liturgy of reformist illusions that have palpably failed over the last five decades. What it does not say (or cannot say) is that no possibility of "redistributive solution" exists within *the present system that is structurally engineered to produce inequality*. Why? Because, a.o. the hard fact is that the world industrial and finance system is run by banking kleptocrats and corporate plutocrats -an inescapable truth that the OECD cannot (or dare not) acknowledge. And that too is part of the problem.

Banking kleptocrats and corrupt corporations

There have been numerous banking scandals recently. But the mid-2012 Libor scandal is the biggest financial scam in world history. Big banks have *criminally* conspired since 2005 to rig $800 trillion LIBOR market (For comparison, note that the U.S. GDP in 2011 was $15.9 trillion). The Barclays Bank, for example, has agreed to pay $453.6 million as "penalty". And Barclays is not the only one. The American, Swiss and other European banks are part of the same *criminal syndicate*. The strange thing is that apart from shambolic "penalties" and "naming and shaming" by the media, the whole episode has been treated by the peoples' representatives in Western parliaments as no more than a passing cloud. The truth is that the ordinary people in the "democratic" West have very little say in ameliorating their worsening gini coefficients.

Can investments change the situation?

Obviously, the system has to change. You do not (cannot) improve national, much less global, gini coefficient through encouraging investments if the production and distribution of global material goods and services remain in the hands of criminal corporations and banks. Furthermore, if there are thoughts that the "emerging" economies of Brazil, Russia, India and China ((BRIC) will (or can) offer counter-strategies to this mania of capital accumulation that takes place relentlessly at the cost of the poor and powerless, then this illusion, too, must be cast aside.

Bilateral Investment Treaties (BITs)

Investments, typically, take the form of Bilateral Investment Treaties (BITs). BITs are agreements between usually developed and developing countries for the transfer of capital and technology. It is now widely acknowledged, even in government circles, that the BITs are an exercise in undermining the sovereignty of the capital-receiving countries. The BITs invariably provide for extra-territorial rights for the owners of capital, including, typically, protection from expropriation; free transfer of exorbitant profits and royalties; and litigation under the jurisdiction of either the capital-exporting countries or international arbitration. There are currently more than 2500 BITs in force.

At the time of writing, Uganda where I come from, for example, is being subjected to immense pressure by the U.S. government to sign a BIT. This is a "template" that the U.S. has used with many third world countries, and it contains some of the worst aspects of BIT provisions that, if signed, will effectively undermine the sovereign rights of the people of Uganda.

What, then, is the way forward?

There are three possible ways out of this kleptocratic capitalist quagmire. One is at the global level; the second at the level of the relations between the so-called "poor" and "rich" countries; and the third at the local, grassroots level of ordinary people.

a) At the global level

At the global level, it should be clear to all but the most dogmatic capitalist ideologue that the structural redistribution for global justice requires systemic transformation. Legal and institutional reform is insufficient, even misguided. Reform within the existing system can never achieve more than marginal redistribution, since structural and social (class) inequality is intrinsic to and necessary for the survival of the existing order. Hence the whole notion of investment needs to be redefined, away from the capitalist market logic.

b) At the "south-north" level

There is a seriously flawed logic in the mainstream notion that the "south" suffers from a "savings gap", which must be filled by aid or investments from the "north". This is based on a tautology, which limitation of space precludes us from examining in detail. However, take the famous equation:

$Y – E = S$ (1);

where Y and E are national income and expenditure, and S is national saving. Thus,

$S = Y – E$ (2)

The equation itself says nothing about any particular reality. In order to reach the reality, one has to look into the actual sources and amounts of national income and the sources and amounts of actual expenditure. An African country, for example, may have a huge income from the sale of its oil, but most of it could go into two major items of expenditure – military hardware and the profits taken out of the country by foreign companies exploiting the oil. The result could be zero or even negative (domestic) saving. The equation may thus be written as:

$Sd = Y – Ed – Ee$ (3)

where Sd is domestic saving, and Ed and Ee are domestic expenditure and externalised expenditure.

There are various ways in which externalised expenditure drains away the national income – among them, for example, transfer pricing by the multinationals, corruption by state and corporate officials. These could (and indeed do in the "south") lead to little, or even negative, domestic saving. A deeper, real-life analysis should lead to the conclusion that instead of looking for aid and foreign capital, it would be better to subject national policies to critical analysis. This is as much a political exercise as economic.

There is an additional aspect of investments that must be factored in our analysis. Investments, typically, take the form of Foreign Direct Investments (FDIs) often protected by Bilateral Investment Treaties (BITs). It is now widely acknowledged that the BITs are an exercise in undermining the sovereignty of the capital-receiving countries. The BITs invariably provide for extra-territorial rights for the owners of capital, including, typically, protection from expropriation; free transfer of exorbitant profits and royalties; and litigation under the jurisdiction of either the capital-exporting countries or international arbitration.

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c) At the local or community level,

Finally, at the local or community level, ordinary people in the long run have to make a conscious effort to innovate ways and means of "decoupling" from the market-based iniquitous value system. Decoupling is not the same as "autarchy". Autarchy is neither possible nor desirable. At the same time, globalisation is also not inevitable or desirable. At the heart of the contemporary civilisational crisis is the reductionist logic that values everything in terms of money. Everything, including the dignity of the individual - especially vulnerable women and children - is subject to the "law of value". Everything is commoditised.

However, in the interspaces of this globalised system there are heroic efforts by some communities to distance themselves from the system. These include innovative approaches, including production of goods and services based on exchanges without involving money. Also, where "money" is needed as a medium of exchange, communities have created "communal money" (a kind of voucher system) that is delinked from national currencies notorious, especially in our times, to fluctuations and speculations.

This, however, is too big a question for this brief essay.
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