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2017 -- a thunderous clash of politics, economies and policies

By Martin Khor

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Yet another new year has dawned. But 2017 will be a year like no other.

There will be a thunderous clash of policies, economies and politics worldwide. We will therefore be on a roller-coaster ride, and we should prepare for it and not only be spectators on the side-lines in danger of being swept away by the waves.

With his extreme views and bulldozing style, Donald Trump is set to create an upheaval if not revolution in the United States and the world.

He is installing an oil company chief as the Secretary of State, investment bankers in key finance positions, climate sceptics and anti-environmentalists in environmental and energy agencies and an extreme rightwing internet media mogul as his chief strategist.

US-China relations, the most important for global stability, could change from big-power co-existence with a careful combination of competition and cooperation, to outright crisis.

Trump, through a phone call with Taiwan's leader and subsequent remarks, signalled he could withdraw the longstanding US adherence to the One China policy and instead use Taiwan as a bargaining card when negotiating economic policies with China. The Chinese perceive this as an extreme provocation.

He has appointed as head of the new National Trade Council an economist known for his books demonising China, including “Death by China: Confronting the Dragon”.

Trump seems intent on doing an about-turn on US trade and investment policies, starting with ditching the Trans Pacific Partnership Agreement and re-negotiating the North American Free Trade Agreement.

Other measures being considered include a 45% duty on Chinese products, extra duties and taxes on American companies located abroad, and even a 10% tariff on all imports.

Thus 2017 will see a rise in protectionism in the US, the extent still unknown. That is bad news for those developing countries whose economies have grown on the back of exports and international investments.

Europe in 2017 will also be preoccupied with its own regional problems. The Brexit shock of 2016 will continue to reverberate and several European countries facing elections will see challenges to their traditional values and established order from xenophobic and narrow nationalist parties.

As Western societies become less open to the world and more inward looking, developing countries should revise their development strategies and rely more on domestic and regional demand and investments.

As North-South economic relations decline, this should also be the moment for expanding South-South cooperation, spurred as much by necessity as by principles.

2017 may be the year when resource-rich China, with its huge Road and Belt initiative and its immense financing capacity, fills in the economic void created by western trade and investment protectionism.

But this may not be sufficient to prevent a finance shock in many developing countries now beginning to suffer a reversal of capital flowing back to the US, attracted by the prospect of higher interest rates and economic growth.

Several emerging economies which together received many hundreds of billions of dollars of hot money in recent years are now vulnerable to the latest downturn phase of the boom-bust cycle of capital flows.

Some of these countries opened up their capital markets to foreign funds which now own large portions of government bonds denominated in the domestic currency, as well as shares in the equity market.

As the tide turns, foreign investors are expected to sell off and transfer back a significant part of the bonds and shares they bought, and this new vulnerability is in

addition to the traditional external debt contracted by the developing countries in foreign currencies.

Some countries will be hit by a terrible combination of capital outflow, reduced export earnings, currency depreciation and an increased debt servicing burden caused by higher US interest rates.

As the local currency depreciates further, the affected countries' companies will have to pay more for servicing loans contracted in foreign currencies and imported machinery and parts, while consumers suffer from a rapid rise in the prices of imports.

On the positive side, the currency depreciation will make exporters more competitive and make tourism more attractive, but for many countries this will not be enough to offset the negative effects.

Thus 2017 will not be kind to the economy, business and the pockets of the common man and woman. It might even spark a new global financial crisis.

The old year ended with mixed blessings for Palestinians. On one hand they won a significant victory when the outgoing President Obama allowed the adoption of a UN Security Council resolution condemning Israeli settlements in occupied Palestinian territories by not exercising a veto.

The resolution will spur international actions against the expansion of settlements which have become a big obstacle to peace talks.

On the other hand the Israeli leadership, which responded defiantly with plans for more settlements, will find in Trump a much more sympathetic President. He is appointing a pro-Israel hawk who has cheered the expansion of settlements as the new US ambassador to Israel.

With Trump also indicating he will tear up the nuclear power deal with Iran, the Middle East will have an even more tumultuous time in 2017.

In the area of health care, the battle for affordable access to medicines will continue, as public frustration grows over the high and often astronomical prices of patented medicines including for the treatment of HIV AIDS, hepatitis C, tuberculosis and cancers.

There will be more powerful calls for governments to curb the excesses of drug companies, as well as more extensive use of the flexibilities in the patent laws to counter the high cost of medicines.

Momentum will also increase to deal with antibiotic resistance which in 2016 was recognised by political leaders meeting at the United Nations to be perhaps the gravest threat to global health.

All countries pledged to come up with national action plans to counter antibiotic and anti-microbial resistance by May 2017 and the challenge will then be to review the adequacy of these plans and to finance and implement them.

The new year will also see its fair share of natural disasters and a continued decline in the state of the environment. Both will continue to be major issues in 2017, just as the worsening of air pollution and the many earthquakes, big storms and heat-waves which marked the previous few years.

Unfortunately low priority is given to the environment. Hundreds of billions of dollars are allocated for highways, railways and urban buildings but only a trickle for conservation and rehabilitation of hills, watersheds, forests, mangroves, coastal areas, biodiversity or for serious climate change actions.

2017 should be the year when priorities change, that when people talk about infrastructure or development, they put actions to protect and promote the environment as the first items for allocation of funds.

This new year will also be make or break for climate change. The momentum for action painfully built up in recent years will find a roadblock in the US as the new President dismantles Obama-initiated policies and measures.

The Paris agreement, which was adopted in December 2015 and which came into force in record time in October 2016 as a demonstration of international concern over climate change, may face a major test and even an existential challenge in 2017, if Trump fulfils his election promise to pull the US out.

But Trump and his team will face resistance domestically including from state governments and municipalities which have their own climate plans, and from other countries determined to carry on without the US on board.

Indeed if 2017 will bring big changes initiated by the new US administration, it will also generate many counter actions to fill in the void left in the world by a withdrawing US or to counter its new unsettling actions.

Many people around the world, from politicians and policy makers to citizen groups and community organisers are already bracing themselves to come up with responses and actions.

Indeed 2017 will be characterised by the Trump effect but also the consequent counter-effects.

There are opportunities to think through, alternatives to chart and reforms to carry out that are anyway needed on the global and national economies, on the environment, and on geo-politics.

Most of the main levers of power and decision-making are still in the hands of a few countries and a few people, but there has also been the emergence of many

new centres of economic, environmental and intellectual capabilities and community-based organising.

2017 will be a year in which ideas, policies, economies and politics will all clash, thunderously, and we should be prepared to meet the challenges ahead and not only be spectators.

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